



**Ipsos MORI**  
Social Research Institute

Research Report 432

**September 2016**

# **Uses of Cash and Electronic Payments**

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Published by HM Revenue and Customs, September 2016  
[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

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# Executive Summary

Ipsos MORI Social Research Institute was commissioned by Her Majesty's Revenue and Customs (HMRC) to conduct research to understand small business and consumer use of different payment methods – both currently and in the future – and the enablers and barriers to greater adoption of electronic payment methods.

The research focuses specifically on small businesses with fewer than 20 employees, and an annual turnover of less than £10 million, sampled from HMRC data. The research comprises a representative telephone survey of 804 businesses and in-depth qualitative interviews with 30 small businesses (followed-up from the survey) and 30 consumers. Fieldwork took place in January- February 2016.

## Businesses use of, and preferences for, different payment methods

Overall, small businesses offer their customers a wide range of payment options, though this varies by sector. Cash and cheques are most commonly *offered* (71% and 82% respectively) but are not most commonly *used* by customers; 17% of businesses report that cash is most used by their customers and 18% report cheque. Instead, small businesses report that online transfer including PayPal is most used by their customers and is most preferred by small businesses.

Adoption of more novel payment methods such as contactless and mobile phone apps is still rare among small businesses - 12% and 6%. Knowledge about contactless mobile payments is generally low among small businesses and consumers alike.

Cash transactions account for a small proportion of the total transactions undertaken by small businesses as a whole. Among those accepting cash payments, 67% report that less than a quarter of their transactions are in cash. A minority of small businesses - 21% - report that over half of their transactions are in cash. It is significantly more in the Accommodation and Food Service sector (59%).

It is rare for small businesses to accept cash and/or cheques only (13%), and 4% accept cash only. The main reasons for offering cash only are because the fees charged by card providers are too high relative to the value/volume of transactions, and the business and their customers prefer to transact using cash.

Three in ten small businesses (29%) **do not accept cash payments**. This is because there is a sizeable group of small businesses, especially in Construction and Professional and Administrative Support Activities, which offer higher value goods/services, often remotely, rendering use of cash payments impractical.

## Factors influencing business and consumer choice of payment methods

The qualitative research found that **small businesses' choice of payment methods offered to customers were predominantly influenced by the value of the transaction, the nature of the transaction and the characteristics of the customer base:**

- Businesses that sold low value goods, face-to-face, to a local customer base (especially with a high representation of elderly customers and/or people on low income), tended to offer cash payment only. This payment method was preferred by their customers, and importantly, it did not incur a cost or fee to the business.

- Businesses with a high volume of trade, delivered in-person, were more likely to give their customers a range of payment options, including credit, debit and contactless cards in addition to cash and cheques. The larger transaction volume/value had created a demand for payment by card from consumers, and made it financially worthwhile for the business to install a card reader.
- Businesses that had limited or no face-to-face interaction with their customers, and/or sell products/services of high value, typically used online transfers or card payments by phone. These businesses favoured card and online payments over cash and cheques because it is not practical or secure to send cash or cheques by post. By contrast, electronic payments were assured, secure and remove the time and security risks involved in transferring large sums of cash.

#### Consumer use of different payment methods was dictated by:

- The size of the transaction; typically using cash for everyday purchases of less than £10, and cards for larger items such as the weekly shop or large one-off purchases to benefit from the consumer protection.
- Opportunity; consumers reported that some trades people will only accept cash or cheques whilst the opportunity to use contactless was still limited mainly to large vendors/national chains and in urban areas.
- Security; some consumers had security concerns with paying online and in using contactless.
- Personal preferences and ease in managing budget among consumers with a preference for cash transactions.

### Future trends in payment methods

Consumers and businesses in the qualitative research agreed that use of cash and cheque would decline in the future, and many believed that cheques would be extinct within the next five years. All agreed that UK consumers would move towards more electronic payments with contactless and mobile apps becoming more commonplace.

Two in five (43%) small businesses in the survey anticipate a decline in the number of cash transactions with their customers; half (50%) expect the volume to remain the same and 3% expect an increase.

The majority of businesses not currently offering electronic payments are unlikely to change their approach. Four in five of these businesses 'probably' or 'definitely will not' offer debit/credit card or contactless, or mobile payments in the next 2-3 years. The most significant barriers are cost, and that many do not believe that their customers would use these methods if offered. A lack of understanding and trust are also key barriers especially in relation to contactless and mobile payments. The factor that would most persuade these businesses to change their stance is if there is greater consumer demand, though a third would not offer these methods regardless.

To address these barriers and encourage small businesses and consumers towards greater use of electronic payment methods in the future, including emerging and novel methods, this research identifies the following factors to be important:

#### Providing small businesses with information on:

- Mobile phone app payments – how they work, the payment 'limits', and how they differ to contactless payments;

- Card readers for contactless and mobile phone apps including the fees structure, how to get the best deals and timescale for payments to clear; and
- Security measures for these more novel methods so businesses can help reassure their customers.

**Providing consumers with information and advice on:**

- How different electronic payment options work and the benefits of using them;
- How mobile payments work including payment limits and protection against theft and fraud; and
- Assurances against fraud especially for contactless, mobile and online transactions.

# 1 Introduction

This report presents the findings of a research study to understand small business and consumer use of, and preferences for, different payment methods – both currently and in the future. The research was undertaken by Ipsos MORI Social Research Institute on behalf of Her Majesty's Revenue and Customs (HMRC).

## 1.1 Research aims and objectives

There are 5.4 million businesses in the UK. The overwhelming majority are small businesses; 98% have fewer than 20 employees and 76% are self-employed<sup>1</sup>. Small enterprises lie at the heart of the UK economy: they account for a significant proportion of its GDP and employment and are a key source of entrepreneurship<sup>2</sup>.

In 2014, for the first time, use of non-cash payments such as credit and debit card, PayPal, contactless and mobile phone apps overtook cash payments. This trend is expected to continue, with cash use predicted to fall by 30% in the next 10 years<sup>3</sup>. HMRC wants to know how it can support small businesses in meeting consumers' preferences for new payment methods such as contactless and mobile phone apps. The use of electronic payment methods will also make it easier for businesses to transact with HMRC in the future as the Department moves more of its dealings with businesses online, for example, with the introduction of "Your Tax Account", which allows businesses to manage their services via a personalised homepage.

The purpose of this research is to provide insight on small business and consumer use of, and attitudes towards, different payment methods now and in the future and the drivers of, and barriers to, adoption of new payment methods. The specific **objectives** of the research are to explore:

- The circumstances in which small businesses and consumers use cash and non-cash payments and the reasons for their choice;
- Small businesses' and consumers' views on the benefits and drawbacks of cash and non-cash transactions;
- Small businesses' and consumers' views on use of different payment methods in the future including a potential reduction in cash payments and how this may affect them;
- Barriers and enablers to greater use of electronic payments amongst small businesses; and
- The opportunity to segment the small business population according to their receptiveness to new payment methods.

## 1.2 Methodology

The research focuses specifically on small businesses with fewer than 20 employees that transact with individuals only, or both individuals and other businesses, and have an annual turnover of less than £10 million. The survey only included

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<sup>1</sup> SME Statistics 2015, Department for Business, Innovation and Skills

<sup>2</sup> Institute of Directors

<sup>3</sup> The Future of Payments – a View from Consult Hyperion, Payments UK, 2015

small businesses that were trading at the time of fieldwork; it does not include businesses that have ceased trading. This should be borne in mind when interpreting the survey results given that a significant proportion of new businesses do not survive more than five years.

The research comprises two distinct strands of work:

- An initial **telephone survey** with 804 small businesses to obtain a representative view of current and future use of cash and electronic payments. Businesses were selected from HMRC administrative data and the survey data weighted by size of employees to be representative of this population. This took place in January 2016.
- **Qualitative research** comprising:
  - 30 in-depth telephone interviews with small businesses that had participated in the survey to explore their reasons for offering different payment methods, and how they could be motivated to offer a wider choice of electronic methods in the future.
  - 30 in-depth telephone interviews with consumers to understand the factors that drive their choice of payment methods, their perception of future trends in payment methods and how they themselves might behave in response to these changes.

The qualitative fieldwork with small businesses and consumers took place in February 2016. Businesses were purposively recruited from those who took part in the survey, to include use of a range of payment methods across different business sizes and sectors. Consumers were recruited from a list of members of the general public who have agreed to take part in research. Consumers were recruited to include a range of household income and composition, work status, location, gender and age. A full profile breakdown can be found in Appendix B.

### 1.3 Structure of this report

The structure of this report is as follows:

- Chapter 2 explores small businesses' use of, preferences for, and attitudes towards different payment methods and the factors that influence their behaviour.
- Chapter 3 explores the factors influencing consumers' use of payment methods and barriers to use of electronic methods.
- Chapter 4 explores business and consumer views of future trends in payment methods and their behavioural response to anticipated changes.
- Chapter 5 explores how small businesses manage their business and their interactions with HMRC.
- Chapter 6 presents the research conclusions.



## 2 Businesses' use of payment methods

This chapter explores small businesses' use of, and preferences for, different payment methods and the factors that influence their behaviour. The findings are based on a telephone survey and follow up interviews with small businesses. The first section sets out the key characteristics of small businesses to provide context.

### 2.1 The characteristics of small businesses

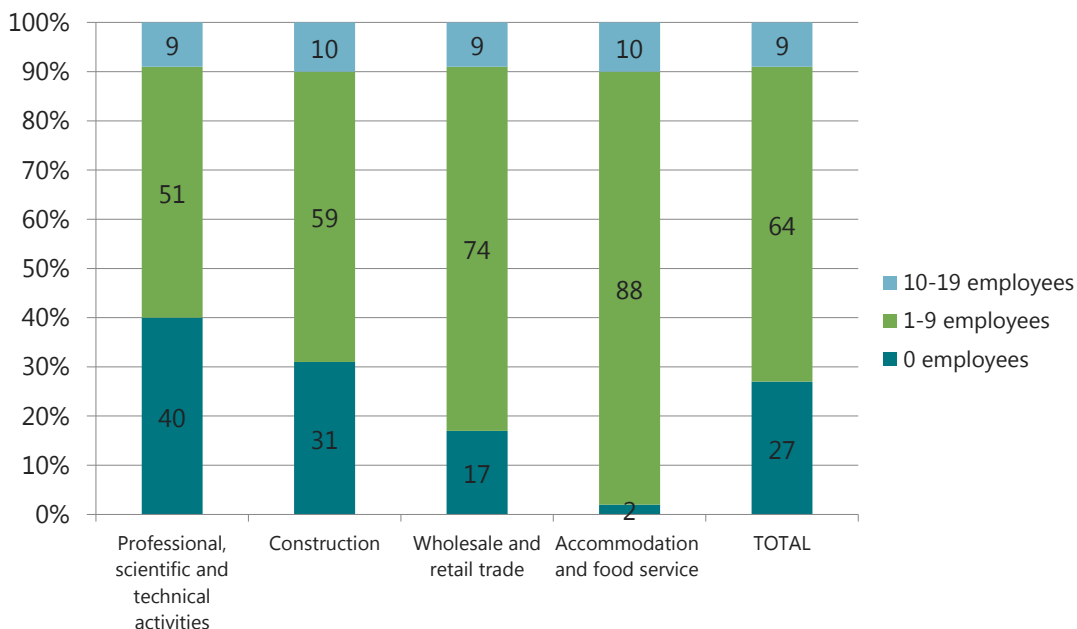
#### Firmographics

The survey comprises businesses with fewer than 20 employees and a turnover of less than £10 million whose customer base includes individuals. Within this population, half (49%) have an annual turnover of less than £100K including 31% with a turnover of less than £50K. The single largest group have a turnover of £100-£499K (34%). A minority (17%) have a turnover of £500K or more.

Half (52%) of small businesses are in four sectors: Wholesale and Retail Trade (17%), Construction (13%), Accommodation and Food Service (11%) and Professional, Scientific and Technical Activities (11%)<sup>4</sup>.

The majority (64%) are micro businesses with 1-9 employees; sector variations are shown in Figure 2.1.1 below. A quarter (27%) are nano businesses with no employees and one in ten (9%) have between 10-19 employees.

**Figure 2.1.1: Proportion of employees by industry sector**



Base: All businesses (804)

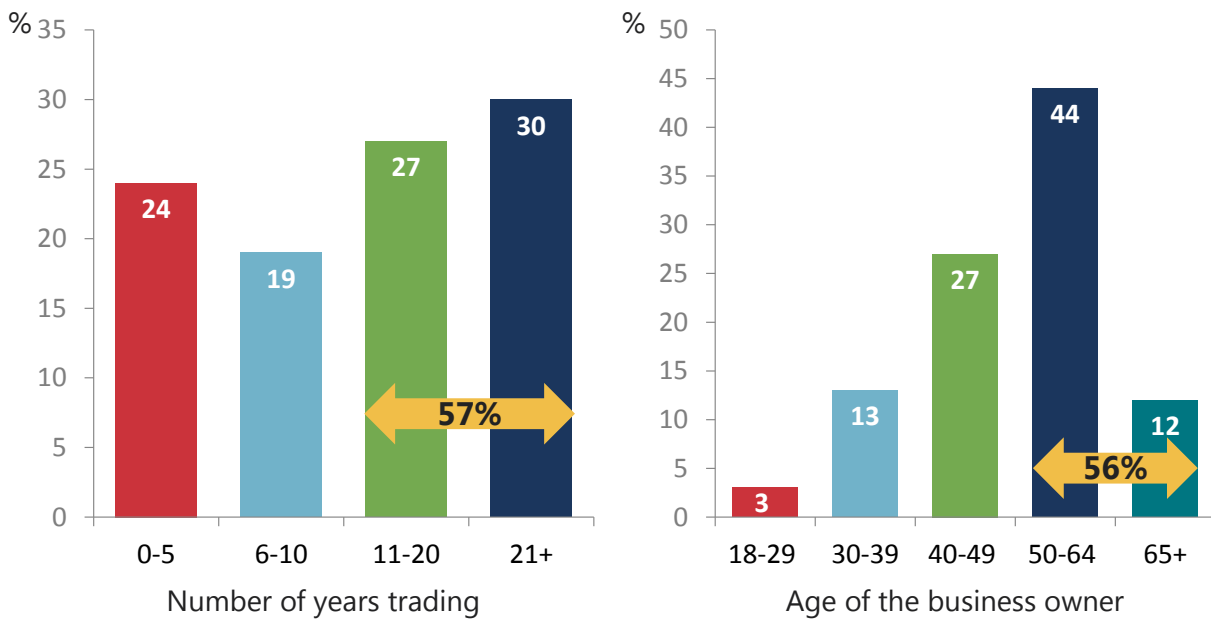
<sup>4</sup> Due to the low proportions of businesses in other sectors, subgroup analysis is focused on these four sectors only.

## Age of the business and the business owners

The majority of small businesses in the survey are well established; 57% have been trading for more than 10 years as shown in Figure 2.1.2.

Consequently, owners of small businesses are generally mature in age: 56% are aged 50 and over. The age profile is broadly consistent across the four main sectors; differences are not statistically significant due to small base sizes.

**Figure 2.1.2: Number of years trading and age of the business owner**



Base: All businesses (804)

## Customer base and growth expectations

Three in five (60%) small businesses transact with both individuals and other businesses; 40% transact with individuals only. Businesses transacting only with other businesses were excluded from the research as the scope of the research was business to customer interactions. Businesses in Construction and Professional, Scientific and Technical Activities have a more mixed customer base (76% and 78% respectively transact with both individuals and other businesses). In contrast, small businesses in Accommodation and Food Service transact mainly with individuals only (74%).

The majority of businesses (83%) trade locally (including 56% who **only** trade locally) rather than nationally (40%). One in eight small businesses have customers in the European Union (14%) and a similar proportion worldwide (12%). Businesses that transact with individuals **only** tend to have a more local customer base.

The volume of transactions is typically low – over half (55%) of small businesses have fewer than 50 transactions *per month* and 11% have between 51-100 transactions. This is equivalent to around 5 transactions per working day for those with 100 transactions per month though this varies considerably by sector, as discussed later in the report. One in five (18%) handles between 101-500 transactions per month and 15% have more than 500 per month.

Businesses selling mainly to individuals, such as in Accommodation and Food Service, have more transactions than those that are also trading with other businesses: 24% of businesses selling to individuals have more than 500 transactions per month compared with 10% of businesses trading with both individuals and other businesses.

Overall considerably more small businesses expect their business to grow than to decline in the next 12 months; 37% expect their business to grow compared with 14% who expect it to decline. A further two percent expect to sell or cease trading. Around half (47%) expect their business to stay the same.

Growth expectations are more likely to be related to the age of the business owner than the sector in which they operate; younger business owners, who are more likely to have been trading for fewer years and still developing their business, are more likely to expect their business to grow whilst more older business owners, especially those aged 65 or older, expect their business to decline as they approach retirement.

## 2.2 Businesses use of, and preferences for, different payment methods

Small businesses offer their customers a wide range of payment options, as shown in Table 2.2.1. This table shows that, whilst cash and cheques are most commonly *offered* by small businesses (71% and 82% respectively) they are not most commonly *used* by customers; 17% of businesses report that cash is most used by their customers and 18% report cheque. Instead, small businesses report that **online transfer (including PayPal)** is most used by their customers. This method is also most preferred by small businesses.

**Table 2.2.1: Comparison of payment methods offered, used and preferred**

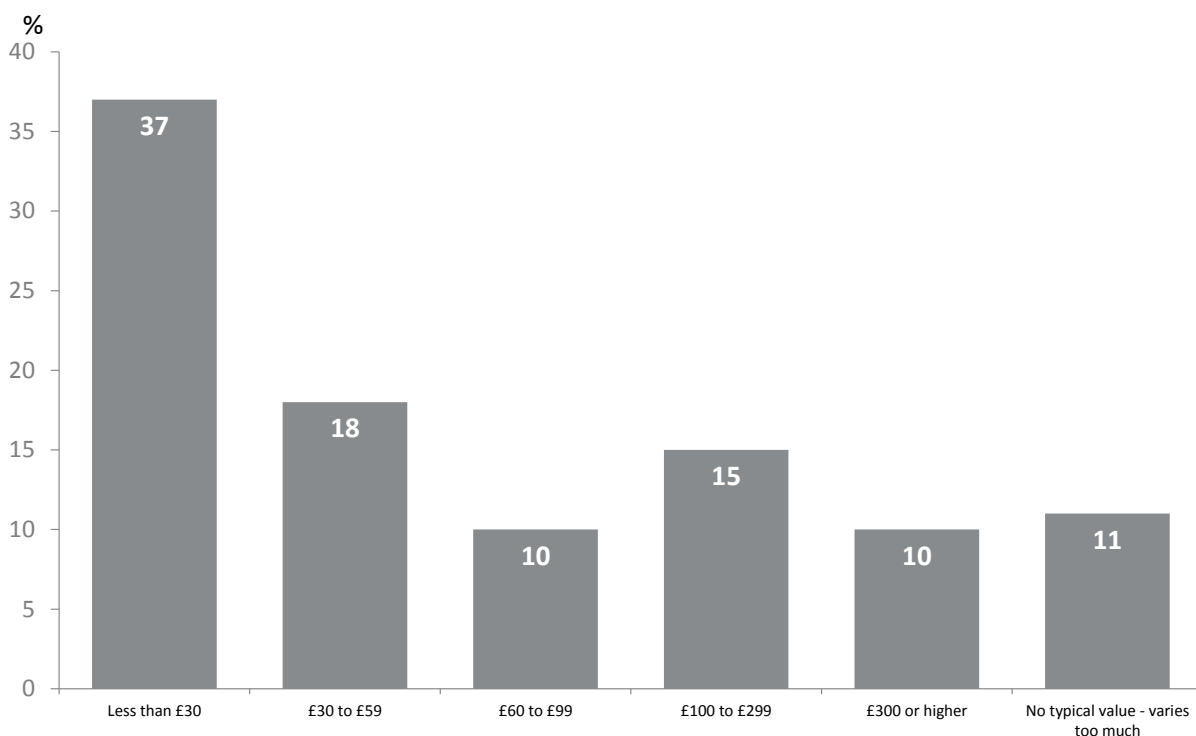
	Methods available to customers by businesses	Most common methods used by customers	Businesses' most preferred method	Businesses' second preferred method
<i>Base:</i>	804	804	804	769
<b>Cheque</b>	82%	18%	9%	37%
<b>Cash</b>	71%	17%	14%	20%
<b>Online transfer/ PayPal</b>	67%	40%	51%	11%
<b>Credit/Debit card</b>	42%	21%	19%	18%
<b>Contactless card</b>	12%	*%	1%	2%
<b>Mobile app</b>	6%	0%	*%	2%
<b>Something else</b>	3%	2%	3%	1%
<b>No preference</b>	N/A	N/A	4%	9%
<b>Don't know/Refusal</b>	0%	2%	1%	1%

\*: less than 0.5%

Adoption of more novel payment methods such as contactless and mobile phone apps is still rare among small businesses - 12% and 6%, respectively, offer these methods. However, the follow up interviews with businesses suggests that incidence of the latter may be inflated; some businesses were confusing contactless mobile payments using an App, for example Apple Pay, with online payments using their mobile phones<sup>5</sup>.

Overall cash transactions account for a small volume of the total transactions undertaken by small businesses. Among those accepting cash payments, two thirds (67%) report that less than a quarter of their transactions are in cash. There is a significant minority though - 21% - reporting that over half of their transactions are in cash, rising to 59% among businesses in Accommodation and Food Service. The amount typically spent by customers is £30 or less (reported by 37%) though a quarter (25%) reported typical cash transaction values of £100 or more, as shown in Figure 2.2.1.

**Figure 2.2.1: Typical value of cash transactions**



*Base: All businesses offering cash payments and provided a value (465)*

The overall trends in Table 2.2.1 mask significant variations by industry sector. Focusing specifically on the four sectors that make-up 52% of small businesses shows a possible link between customers' use of, and businesses' preferences for, different payment methods and the nature of the transactions in these sectors. Overall, businesses in the Construction and Professional, Scientific and Technical Activities share similar transaction and payment patterns, whilst businesses in Retail and Wholesale are akin to those in the Accommodation and Food Service sector.

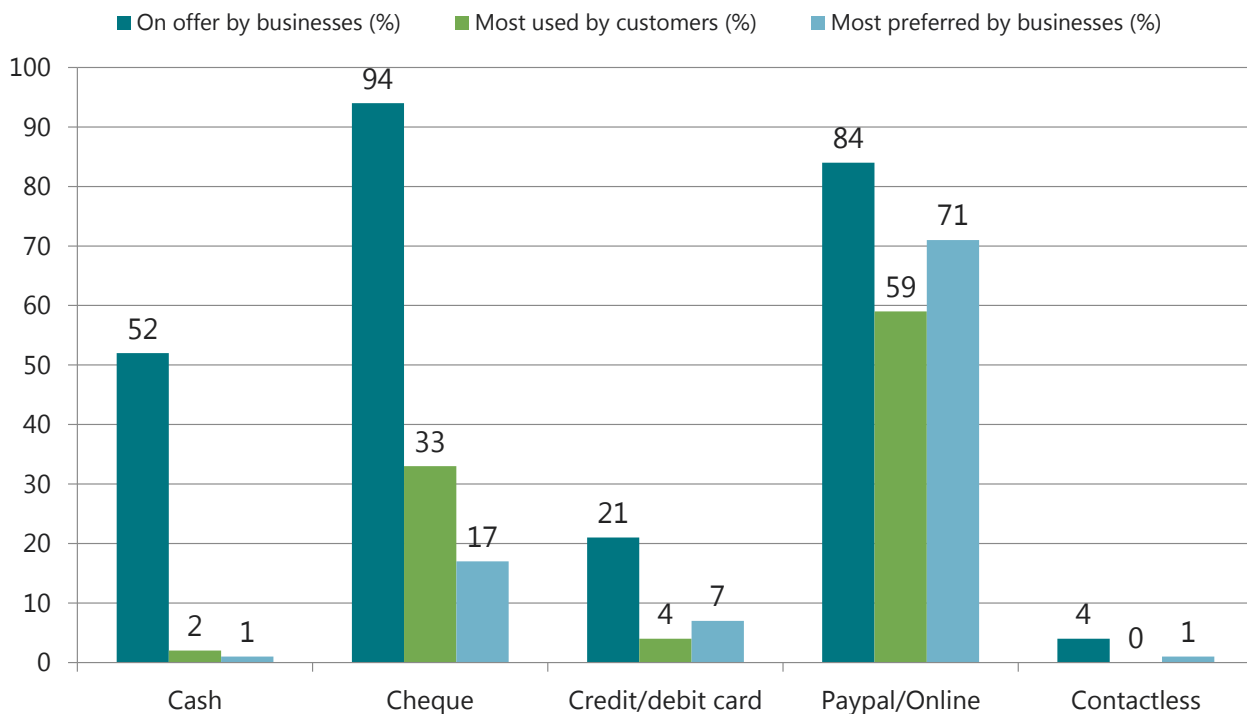
<sup>5</sup> For this reason, the figures for mobile apps are not discussed for the four sectors below.

## Construction sector

The construction sector includes both domestic and commercial/infrastructure building projects. Three quarters (76%) of small businesses serve both consumers and other businesses. The majority have customers who are local or both local and national (67% have local customers only and 31% have local and national customers only).

The large majority of small construction businesses offer their customers the option to pay by cheque (94%) and online transfer (84%), as shown in Figure 2.2.2. Half (52%) accept cash payments and one in five (21%) accept credit/debit card payments. Contactless and mobile payments are rare (4% and 3% respectively).

**Figure 2.2.2: Payments methods offered, used and preferred in Construction**



Base: 105 businesses in Construction

The method most used by customers by far is online transfer including PayPal (59%). This is also the method most preferred by construction businesses, with use of cheque in second place (33% reported that this method is most used by their customers). The high use of online transfer and cheque is partly due to the higher transaction values which make it impractical for customers to pay in cash – for example, among those accepting cash payments, 45% reported that their cash transactions are typically for £100 or more<sup>6</sup>. Furthermore, 76% of construction businesses transact with other businesses which might explain the higher use of online transfer because this is the method most preferred by small businesses in this sector.

Small construction businesses in the follow up interviews expressed a preference for online transfer over cheque because payments were quicker and there was less risk of non-payment (i.e. bounced cheques). Credit and debit payments were

<sup>6</sup> This figure should be treated as indicative due to the small base size – 55 responses.

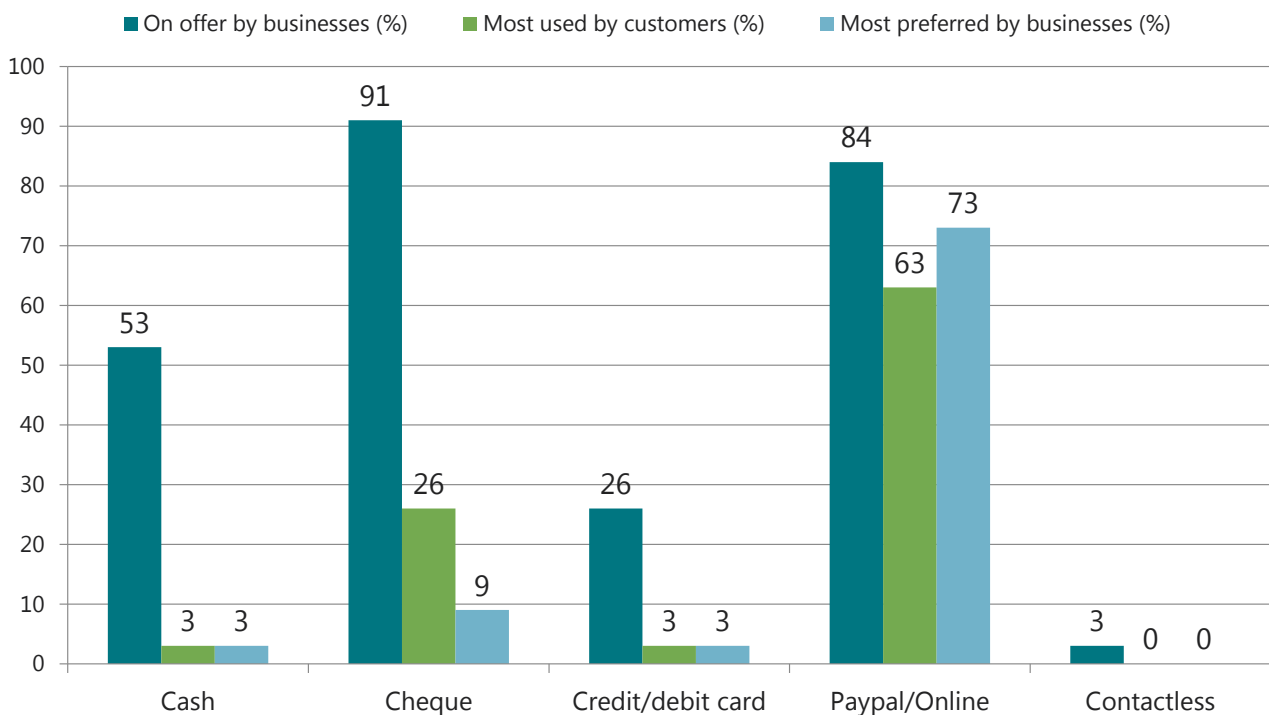
rarely offered because of the set-up fees involved; the volume of trade was reported to be too low to make investment in these methods financially worthwhile or necessary.

### Professional, Scientific and Technical Activities

**The Professional, Scientific and Technical Activities sector includes IT consultants and accountants. Four in five (78%) small businesses serve both consumers and other businesses. The majority have customers who are local (53% have local customers only) or national (23% have local and national customers only). A significant minority also trade internationally (23%).**

Cheque and online transfer are widely offered by small businesses in Professional, Scientific and Technical Activities (91% and 84% respectively), as shown in Figure 2.2.3. Half (53%) offer cash payments and a quarter (26%) offer payments by credit/debit cards. Contactless is rare – offered by 3% of businesses.

**Figure 2.2.3: Payments methods offered, used and preferred in Professional, Scientific & Technical Services**



Base: 88 businesses in Professional, Scientific and Technical Activities

The method most used by customers is online transfer (63%) and this is also the method most preferred by three-quarters (73%) of businesses in this sector. A quarter (26%) report that their customers use cheque the most though, as with construction businesses, only a small minority of businesses in Professional, Scientific and Technical Activities (9%) actually prefer this payment method. The majority (78%) of businesses in Professional, Scientific and Technical Activities transact with other businesses which explains the higher use of online transfers relative to cheques.

The patterns of payment methods in Professional, Scientific and Technical Activities are very similar to those in the Construction sector reflecting similarities in the nature of the transactions: mostly small volumes but high in value which

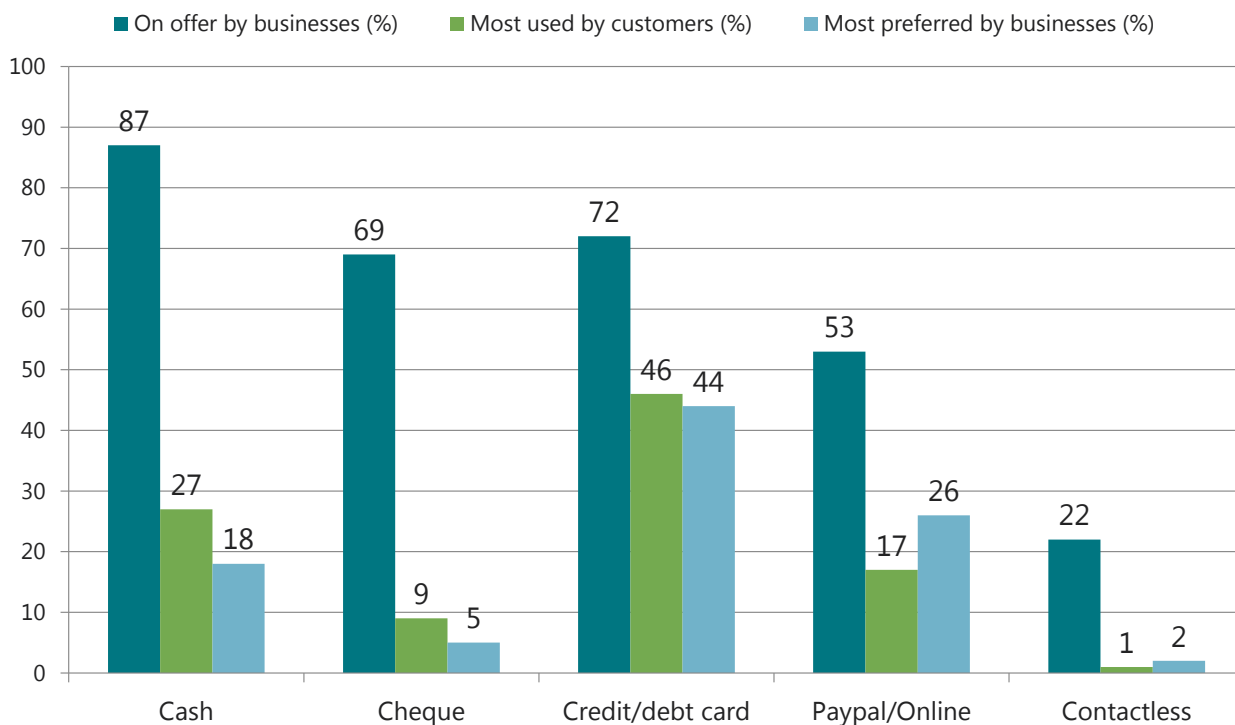
makes the use of cash less practical and the use of credit/debit cards costly. Moreover, businesses in this sector often do not have face-to-face contact with their customers so there is less scope for customers to pay in cash.

### Wholesale and Retail sector

**The Wholesale and Retail sector includes newsagents and wholesalers. Around half of businesses in this sector trade with consumers only and half with both businesses and consumers (47% and 53% respectively). The majority have customers who are local (54% have local customers only) or national (24% have local and national customers only). One in five (22%) also trade internationally.**

Small businesses in the Wholesale and Retail sector offer their customers a more diverse range of payment methods as shown in Figure 2.2.4. In particular, credit/debit cards are much more commonly offered than in Construction and Professional, Scientific and Technical Activities (72%). The higher volume of transactions handled by businesses in Wholesale and Retail have made it necessary and financially worthwhile for these businesses to offer credit/debit payments (34% of businesses do 101-500 transactions per month and 27% do more than 500). Overall small businesses in this sector report that credit/debit payment is most used by their customers and most preferred by the business owners too.

**Figure 2.2.4: Payments methods offered, used and preferred in Wholesale and Retail Trade**



Base: 132 businesses in Wholesale and Retail Trade

Use of cash is higher than in Construction and Professional, Scientific and Technical Activities, whilst use of cheque is rare; these findings are consistent with the higher incidence of face-to-face transactions involving low value purchases (49% of cash transactions are for less than £30).

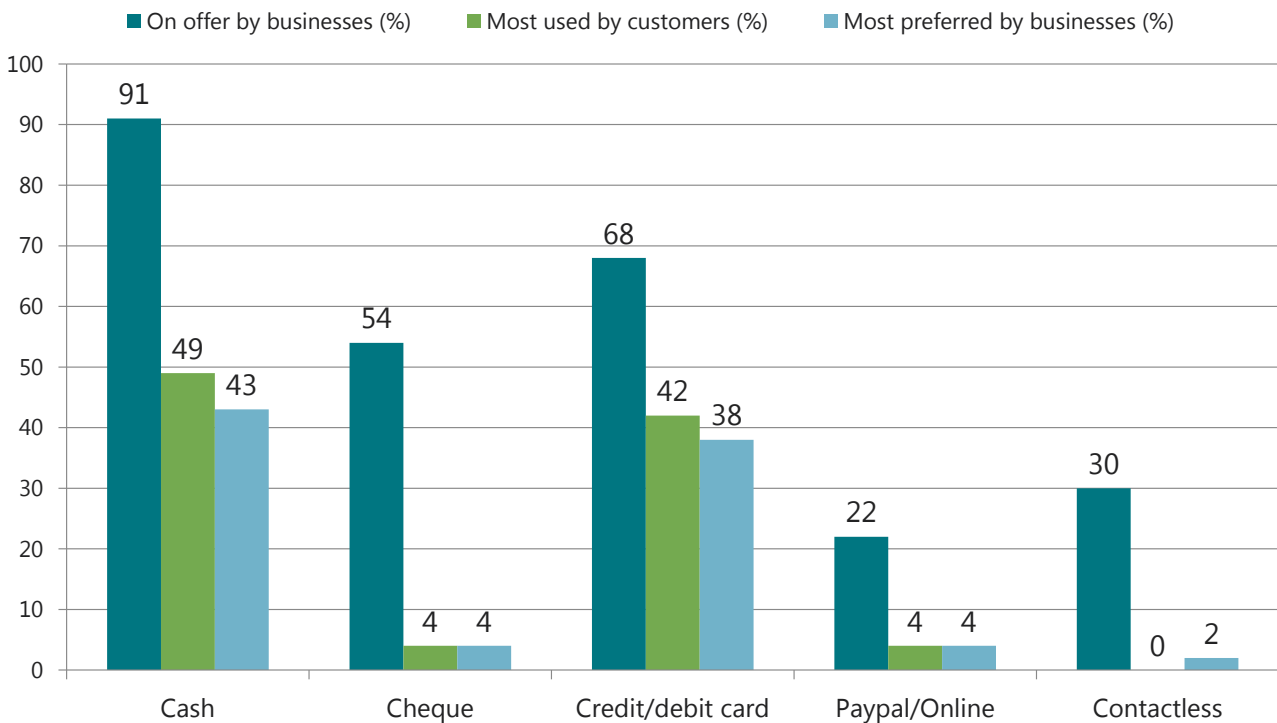
Online transfer is less commonly offered by businesses or used by customers, because many of the transactions in this sector are face-to-face at the point of sale. Contactless payment, on the other hand, is most widespread in this sector with twice as many businesses offering it than nationally (22% compared with 12% overall). However, actual consumer use of contactless is reported to be negligible. This is consistent with findings from the follow up interviews with businesses which show that the opportunity to use contactless payment is still limited to large retailers and in urban areas.

### Accommodation and Food Service

**The Accommodation and Food Service sector includes businesses such as cafés and guesthouses. Three-quarters (74%) of these businesses trade with individuals only. The majority have customers who are local (56% have local customers only) or national (20% have local and national customers only), however a quarter (23%) also have international trade.**

Small businesses in Accommodation and Food Service also offer their customers a wide range of payment options including, credit/debit card (offered by 68%), as shown in Figure 2.2.5. Reported use of cash is highest in this sector, followed by credit/debit payments. These payment methods are also most preferred by businesses in this sector.

**Figure 2.2.5: Payments methods offered, used and preferred in Accommodation and Food Service**



Base: 90 businesses in Accommodation and Food Service

The diversity of choice in payment methods offered by businesses in Accommodation and Food Service reflects the high transaction volume - 40% have more than 1,000 transactions per month which is considerably higher than average (11%). Similar to Wholesale and Retail Trade, the high transaction volume has made it necessary and cost effective for these



businesses to offer credit/debit payments. Cash transactions are typically low in value: 72% report that their cash transactions are typically for less than £30<sup>7</sup>.

### 2.3 Factors influencing businesses' choice of payment methods

The follow up interviews found that small businesses' choice of payment methods to customers were predominantly influenced by the **value of the transaction**, the **nature of the transaction** and the **characteristics of the customer base**.

#### Cash and cheques

The survey found that **cash and cheques are most widely offered by small businesses** - 71% and 82% respectively. There was almost universal agreement among the small businesses interviewed in the follow up interviews that offering cash was 'a given' for face-to-face transactions since not offering it could result in a loss of business. Cheque was also widely offered for a similar reason; whilst fewer consumers actually used cheques, many businesses were unwilling to forgo this payment option altogether since it would mean a potential loss of sale.

***There's a lot of business you can lose if you don't take cash - 50% of my payments are card and 50% cash so you don't want to lose the money and you don't want to lose the business.***

Business offering both cash/cheques and electronic payments, Wholesale & retail trade

**It is rare for small businesses to accept cash and/or cheques only** -13% of businesses in the survey only accepted cash and/or cheque, with 4% accepting cash only and 2% accepting cheques only. The main reason why these businesses will only accept cash and/or cheques is because the fees charged by card providers are deemed too high relative to the value and/or volume of transactions (cited by 30%). A quarter (24%) simply prefers to deal in cash, one in five (19%) cites a lack of demand from customers and 7% a lack knowledge on how to set up electronic payment methods.

Follow up interviews found that **businesses that sold low value goods, face-to-face, to a local customer base** (especially with a high representation of elderly customers and/or people on low income), **tended to offer cash payment only**. These businesses argued that this was what their customers preferred and were accustomed to, and importantly, it did not incur a cost or fee to the business. This was especially important for small business owners since any additional costs could have a disproportionate impact on the profitability and viability of the business.

The businesses that only accepted cash from customers were typically well established meaning that their customers knew what to expect, as demonstrated in the following quote. The impact on the business from not offering a choice of payment methods was, therefore, reported to be negligible.

***One or two people ask for card but it's very rare so it's no drawback to me at all. Everyone that comes in knows that it's cash only so they always bring it with them. There's an ATM just up the road anyway. My business has expanded over the six years that I've had it, and I've only ever took cash and it's not affected it.***

Business offering cash/cheque payments only, Accommodation & food service sector

In line with the survey findings, cheque was also widely offered by the businesses interviewed as part of the qualitative follow ups; it was seen as an option for those customers (mainly elderly individuals) who did not have access to the internet and wanted to pay for something that was slightly too high for cash. Actual use of cheque by customers was

<sup>7</sup> This figure should be treated as indicative due to the small base size - 81 responses.

reported to be rare but some businesses had regular customers who were accustomed to paying in this way so removing it would mean a loss of business.

***We take cheques just to make sure we're not losing any clients because we do get some that are stuck on cheque. That's what they always have done and always will stick to, so I don't want to lose those customers and until those customers have moved on then I think we will have to accept those payments just to make sure we don't lose our custom.***

Business offering cash/cheques and electronic payments, Wholesale & retail trade

However, cheques were unpopular with small businesses overall; many regarded them as an insecure and inefficient method of payment: payment is not guaranteed, they have to physically take time out of running their business to deposit the cheque, and the business is charged a processing fee as well as a fee for bounced payments. A few businesses noted that they would not offer cheque as a payment option to everybody - only to their regular customers and people they knew well and trusted.

There was only one business which explicitly preferred cheque payment. They felt that having a cheque in-hand gave them greater certainty and avoided having to rely on customers to make an online payment on time.

## Electronic payments

Among small businesses offering electronic payments, online transfer is more commonplace than credit/debit card payments (67% compared with 42%) reflecting small businesses' high sensitivity to methods that incur fees. This is because overall many small businesses undertake a relatively small number of transactions (55% do fewer than 50 transactions per month and 66% do 100 transactions or fewer), though there are sector differences as set out in section 2.2.

Follow up interviews found that businesses with a high volume of trade, and/or both low and high value products/services, which were delivered in-person, were more likely to give their customers a range of payment options, including credit, debit and contactless cards in addition to cash and cheques. The slightly larger transactions had created a demand for payment by card, and made it financially worthwhile for the business to install a card reader. Businesses that offered contactless had not proactively asked for the facility to be set up though they have welcomed having it; some reported that they were not given a choice by their provider.

Businesses that had limited or no face-to-face interaction with their customers, and/or sell products/services of high value, typically used online transfers or card payments by phone. On the whole, these businesses favoured card and online payments over cash and cheques because electronic payments were assured, secure and remove the time and security risks involved in transferring large sums of cash. It is also not practical to use cash since many transactions are conducted remotely rather than face-to-face.

There was some evidence that these businesses try to 'nudge' customers towards electronic payment methods, in particular towards online transfers and debit card payments because they were more cost efficient for the business.

***I say to them 'Obviously it's a lot quicker and easier online. I can send out your goods a lot quicker'. So usually that's enough of an incentive for them to go down that route.***

Business offering cash/cheques and electronic payments, Administrative & support services

***We'd encourage them to pay by BACS or debit card because it's cheaper for us. The banks don't charge so much for BACS and for debit cards, whereas they do for credit cards and PayPal, and things like cheques and cash are difficult to handle. We've discouraged that where possible.***

Business offering cash/cheques and electronic payments, Professional, scientific & technical activities

The survey revealed that **three in ten small businesses (29%) do not accept cash**. This pattern reflects the make-up of the small business population which comprises a sizeable proportion offering higher value goods/services, often remotely, rendering use of cash payments impractical (for example, in Construction and Professional and Administrative Support Activities).

***I don't actually meet probably about 99.9% of my customers. Not all of our customers necessarily have internet access, but are happy to pay for something with a card.***

Business offering electronic payments, Administrative & support services

Whilst cheques were generally offered by these businesses, they were not widely used by customers nor widely encouraged by small businesses; many businesses considered them both insecure and inefficient. Additionally, one of the biggest inconveniences for many small businesses was the time required to physically take cheques to the bank.

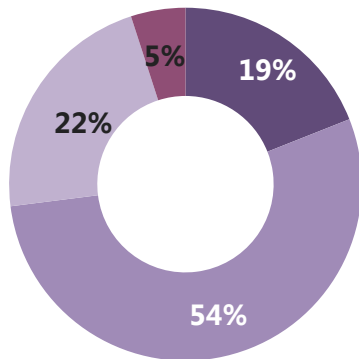
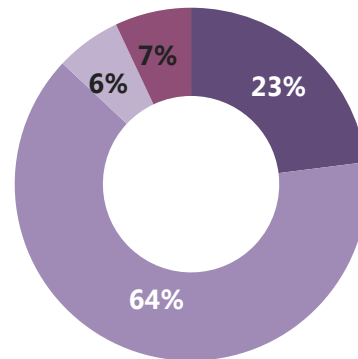
***It can then take five working days for the cheque to clear into my account. The chances are delivery will be made before the monies have actually hit my account so I do have to say to them that upon cleared funds then I can release the goods. So it's very, very long winded. They do get lost in the post. It's certainly not my preferred method of payment.***

Business offering cash/cheques and electronic payments, Administrative & support services

## 2.4 Payment methods used with suppliers and employees

The majority of small businesses pay their employees and suppliers electronically, as shown in Figure 2.4.1. However, a sizeable minority also use **cash/cheque only** (41% pay their suppliers using cash/cheques and 29% use these methods for employees).

Overall use of cash/cheque is more common with suppliers than employees. The picture is broadly consistent across industry sectors; a notable difference is the higher than average use of cash/cheque for both suppliers and employees among businesses in Accommodation and Food Service. This is consistent with the relative high use of cash with customers among businesses in this sector (section 2.2).

**Figure 2.4.1: Payment methods use with suppliers and employees****How they pay suppliers****How they pay employees**

- Cash/cheques only
- Electronics only
- Both
- Don't know

Base: All businesses (804) / All businesses with employees (586)

## 2.5 Impact of different payment methods on business operation

The follow up interviews found that businesses offering **cash payments only** often preferred this arrangement because of the simplicity of 'balancing the books'. At any point in time, they 'knew exactly where they were at' in terms of their in- and out-goings and reconciling payments was easy and quick because there was only one payment method. These businesses believed that accepting electronic payment methods would make it more complicated to run their business and incur additional time and cost.

***It's a lot easier [taking cash only]. I've got it there. When I cash up at the end of every week to do my banking, what I've got is what I've got. There's no sort of waiting for any payments to come through.***

Business offering cash/cheque payments only, Accommodation & food service

***Well I haven't got the carry-on of trying to balance cash, credit card bills. I just count the cash and you get the total and that's it!***

Business offering cash/cheque payments only, Accommodation & food service sector

In contrast, businesses that offered a mix of payment methods found it easier to manage card and online payments. They had an overall preference for electronic payments because there was a record for every transaction which made it easier for them to prepare their accounts, and in the case of online transfers there was no cost to the business for using this method. For these businesses (which tended to handle higher value transactions), the drawbacks of cash payments were bank charges for making cash deposits and security; they did not want to keep large sums of cash on their premises or have to take it to the bank.

***I like the idea of the traceability, the accountability of card payments. Everything's online now, banking-wise for me. I've got all the mobile apps and I can keep an eye on things, and it's very easy to account for so it's very easy to produce the accounts at the end of the year if you can have everything electronically logged.***

Business offering cash/cheques and electronic payments, Manufacturing

*I don't get hardly any people that pay by cash, but then like I say, a lot of our things are very expensive. I don't want a briefcase that's got £5,000 or £10,000 worth of cash in that I have to take to the bank. That's not the way I do my business.*

Business offering cash/cheques and electronic payments, Administrative & support services

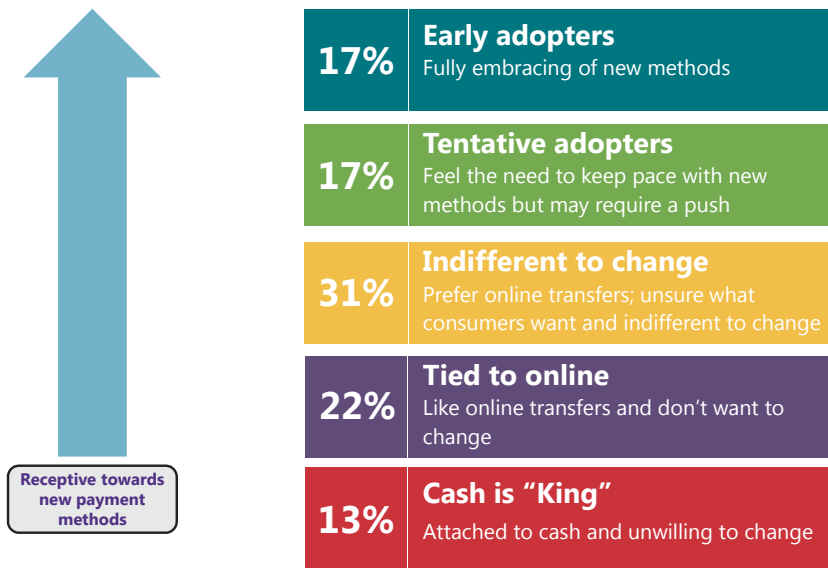
## 2.6 Business attitudes towards payment methods

This section explores small businesses' attitudes towards giving consumers choice in payment methods and willingness to adopt novel payment methods such as mobile phone apps and contactless. A total of 11 attitudinal questions were asked in the survey, and a cluster analysis was undertaken to segment small businesses according to their receptiveness to greater consumer choice and use of novel payment methods. The analysis reveals five distinct types of businesses which are summarised in Figure 2.6.1 alongside their prevalence in the small business population.

- **Early adopters:** Businesses in this segment are most receptive to giving their customers a range of payment options. They believe that their business needs to keep pace with new payment methods and are willing to pay a small fee to give their customers greater choice. These businesses believe that it is easier for them to manage their taxes if their customers pay electronically and they intend to offer contactless payment to their customers.
- **Tentative adopters:** Businesses in this segment share similar views to early adopters, albeit less strongly, in terms of wanting to give their customers a range of payment options and feeling the need to keep pace with new payment methods. However, they are more neutral on whether their customers are interested in new ways of paying and on whether they themselves would be willing to pay a small fee to use a payment method.
- **Indifferent to change:** Businesses in this segment prefer online transfers. They find it easier to manage their tax when customers pay electronically but do not intend to offer contactless. They are neutral on whether they want to offer a range of payment methods and on whether they would be willing to pay to use a payment method.
- **Tied to online:** Businesses in this segment also prefer online transfers; they do not have a preference for cash transactions. They are happy with the status quo and are uninterested in offering their customers new payment options. They are cost conscious which explains their preference for online transfers rather than card payments which incur fees.
- **Cash is King:** Businesses in this segment are very attached to using cash. They are uninterested in offering their customers a range of payment methods and they don't think their customers would be interested in alternatives to cash anyway. They are highly cost conscious and will not use payment methods that incur fees.

The rest of this section focuses on the overall findings, highlighting key subgroup differences where relevant.

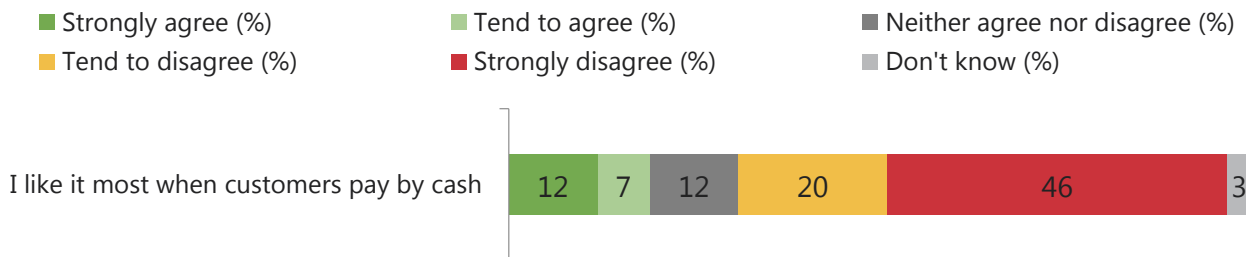
**Figure 2.6.1: Segmentation groups**



**Attachment to cash**

The majority of businesses are not attached to using cash with their customers, as shown in Figure 2.6.2. One in five (19%) agree they *like it most when customers pay by cash*. This finding is broadly in line with the 14% of small businesses citing cash as their most preferred payment method (section 2.2). Again we find that businesses selling low value goods (less than £30) are more likely to agree with this statement (30% compared with 19% overall) as are those in the Accommodation and Food sector (46%), though the two are obviously related with low value transactions being more common in this sector.

**Figure 2.6.2: Attitude towards cash payments**

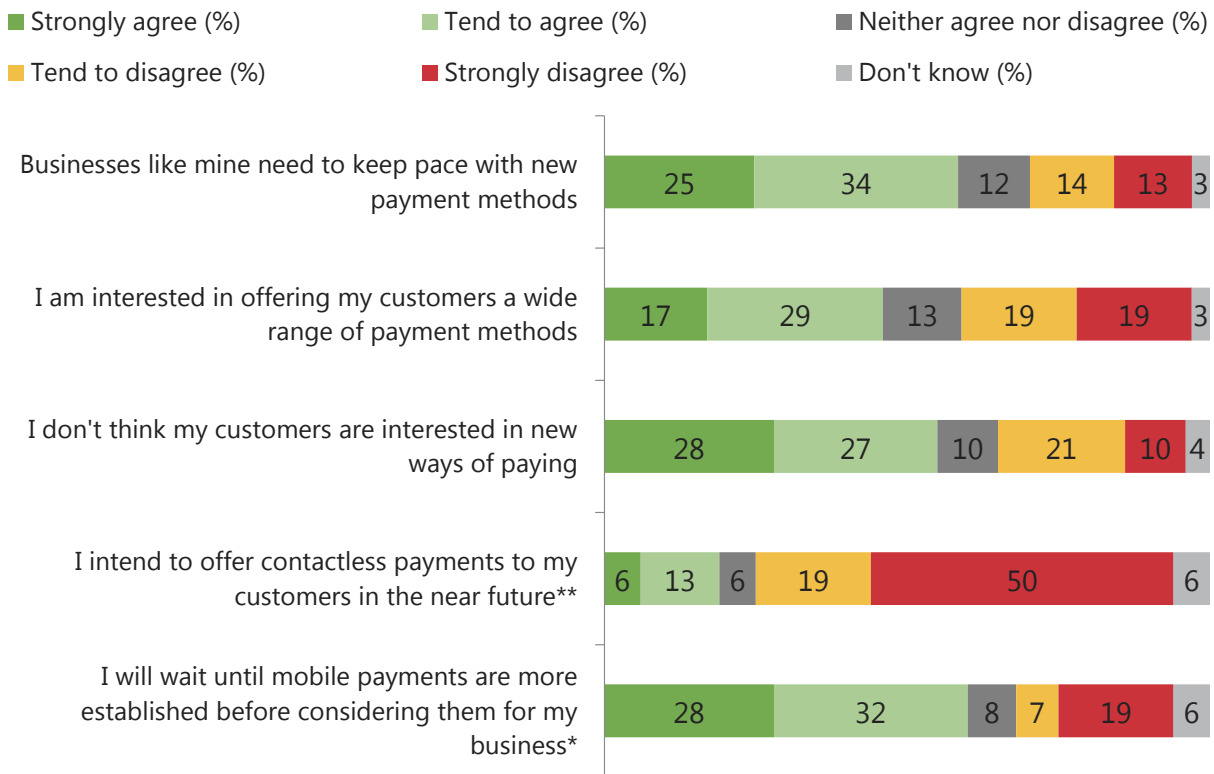


Base: All businesses (804)

**Customer choice and new payment methods**

The majority of businesses (58%) agree that they *need to keep pace with new payment methods*, 27% disagree, as shown in Figure 2.6.3. However, fewer - 46% - are *interested in offering their customers a wide range of payment methods* and 55% *do not think their customers are interested in new ways of paying*.

**Figure 2.6.3: Attitudes to customer choice and new payment methods**



Base: All businesses (804). \*\* Do not offer contactless payments (707), \* Do not offer mobile payments (751)

Small business are cautious about mobile payments; 61% of businesses not currently offering mobile payments agree that they will *wait until mobile phone payments are more established before considering it for their business*<sup>8</sup>. This is consistent with the low levels of knowledge about mobile phone payments expressed by businesses (and consumers too) in the qualitative research. One in five (19%) non-users *intends to offer contactless in the near future*; 69% disagree and some of this will be because the payment limit for contactless is too low for their typical transactions.

Businesses in the Wholesale and Retail Trade are more open to giving their customers greater choice and to consider new payment methods for their business. The majority (72%) agree they need to keep pace with new payment methods, and are interested in offering a wide range of payments (67%). A third (33%) of non-users intend to offer their customers contactless payments in the next 2-3 years (this sector has the highest proportion of small businesses already offering contactless – section 2.2).

Contactless payments are more appealing to businesses in Accommodation and Food Service because of the prevalence of low value transactions in this sector which are ideal for contactless payments. The use of contactless gives consumers greater choice which is good for business; 42% intend to offer it in the near future. Contactless payments are also popular among younger business owners (32% of 18-39 year olds intend to offer it compared with 18% aged 40+).

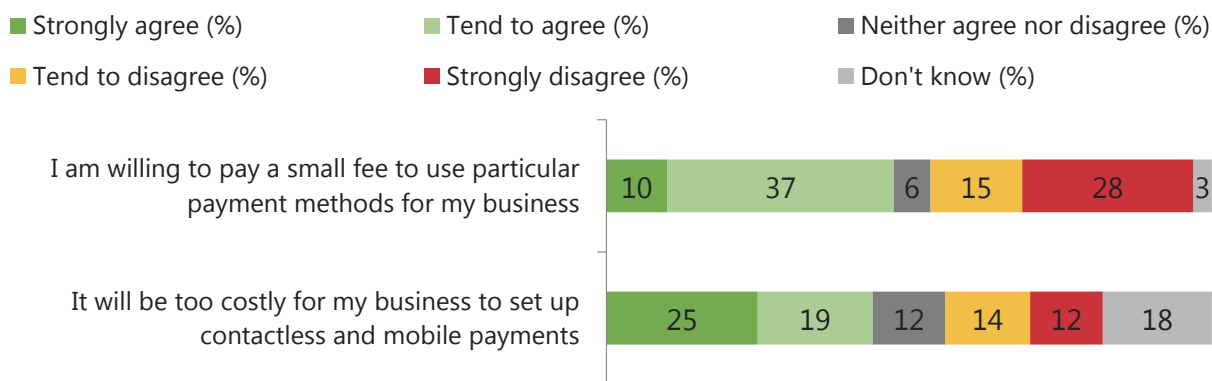
<sup>8</sup> Six percent of businesses claimed to offer mobile phone payments though the actual incidence is likely to be lower due to some businesses confusing this with online payments using mobile phones – see section 2.2.

Businesses in Professional, Scientific and Technical Activities feel less need to keep pace with new payment methods (43% agree compared with 59% overall) or to offer a wide range of payment methods (32% agree compared with 46% overall). This is because the nature of their business transactions - mostly small volumes but high in value and limited face-to-face contact with customers – means that the method that they currently use – mostly online transfers - is the most practical and cost effective.

### Attitudes to fees for using new methods

Over two in five small businesses are sensitive to paying a fee to offer new payment methods to their customers, as shown in Figure 2.6.4. Whilst 47% would be willing to pay a small fee to use a particular payment method, 43% would not. Similarly, 44% believe it will be too costly for their business to set up contactless and mobile payments.

**Figure 2.6.4: Attitudes to payment method costs and fees**



Base: All businesses (804)

Cost is a particular issue for the smallest businesses: 61% of nano businesses and those with one employee agree that it will be too costly for them to set up contactless and mobile payments compared with 47% of larger businesses. In contrast, it is less of a concern for businesses in Wholesale and Retail Trade, possibly due to the high volume of transactions undertaken by them (42% agree compared with 54% overall).

Mature business owners (aged 65+) are more sensitive to cost than their younger counterparts: 34% would be willing to pay a small fee to use a particular payment method compared with 60% of 18-39 year olds. This is maybe because older business owners are more likely to expect their business to decline in the next 12 months (section 2.1).

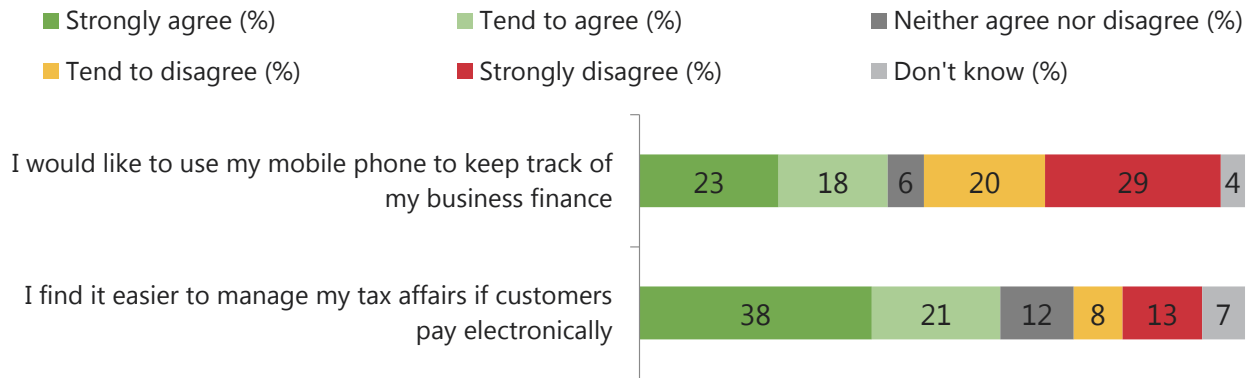
### Managing finances electronically

Three in five small businesses (59%) find it easier to manage their tax affairs if customers pay electronically; 21% disagree, as shown in Figure 2.6.5. However, when it comes to using their mobile phone to keep track of their business finance, views are divided – 41% agree they would like to do this and 49% disagree. Younger business owners and those in Construction are more receptive to using their mobile phone for this purpose (66% and 73% respectively); the latter may be because they are not usually office-based. In contrast, small businesses in the Accommodation and Food Service sector are less receptive (39%).

Older business owners (aged 65+) are more likely to disagree that *managing their tax affairs would be easier if their customers paid electronically* (35% disagree compared with 21% overall).



**Figure 2.6.5: Attitudes towards managing business finances electronically**



Base: All businesses (804)

## 3 Consumers' use of payment methods

This chapter explores the factors influencing consumers' choice of payment methods and barriers to use of electronic methods. Findings are based purely on the 30 qualitative interviews which were undertaken with a diverse group of consumers in terms of demographics, household income and geography (including urban and rural residents). Consumers were purposively selected to include users of both cash and electronic methods in order to understand the circumstances under which one method is preferred over others.

### 3.1 Factors influencing choice of payment methods

Consumers in the research had at their disposal a range of payment methods including cash and electronic methods, and in some cases, cheques. **The way in which they chose to use these methods was influenced primarily by the size of the transaction:**

- For **smaller everyday purchases** of less than £10 such as milk, bread, and newspapers, cash or contactless card were the preferred methods of payment. Some consumers would also use cash if the business charged a fee for paying by card below a certain amount – usually £10.
- For **slightly larger, regular, transactions** such as the weekly shopping, debit/credit cards were used with debit cards being more common because more consumers have them than credit cards.

***If I'm doing my big, weekly shop, it would come off the card. If I'm just popping round to the local shops to pick up a couple of bits, it would just be cash.***

Consumer, aged 25-44, household income <£20K, Urban, London & South

***I'd probably pay cash because I think there's a limit on it. You've got to spend more than £10 I think in the small shops, but if I'm only getting bread and milk, it's only a couple of pound.***

Consumer, aged 45-54, household income <£20k, Urban, North & Scotland

- For **regular bills** such as mobile phone, utilities and council tax, most consumers used direct debits or standing orders. It was noted that paying by direct debit was usually a pre-condition for accessing the best deals with utility companies and, in some cases, a condition for accessing these services at all.
- For **larger one-off transactions** such as holidays or large appliances, credit card was most commonly used for two reasons: the consumer lacked disposable funds to pay for the purchase; and to benefit from the consumer protection provided by credit cards.

**Opportunity was another factor influencing consumer choice of payment method.** Some consumers expressed a preference for contactless payments but the opportunity to use this was reported to be rare, especially for those living in rural and suburban areas. Similarly payments by cash and cheque were more often made to tradespersons; this was reported as being their preferred method and/or the only method they would accept. Use of cheques was very rare though – many of the consumers interviewed did not have a cheque book viewing it as an archaic method more commonly used by elderly people.

[I use cheque] ***If I've got to send money to somebody or if I have a tradesman do some work for me, so that sorts of things. Yeah, plumber, decorator or if I'm sending money for a birthday present or something like that, I'll send a cheque. It's convenient to give them a cheque rather than go to the bank and get the cash.***

Consumer, aged 45-54, household income <£20K, Rural, North & Scotland

Security was another factor influencing use of payment method. Some consumers had security concerns with paying online; these fears were often triggered either by personal experience or by media reports. More nervous users feared making mistakes as they believed there would be no course for redress.

***I've stopped buying stuff online. I've been stung a few times. I've ordered stuff, I'd paid for it and it never turned up.***

Consumer, aged 25-44, household income <£20K, Urban, Midland & Wales

***You could put in a wrong figure, wrong amount, and not realise you've done it, and then when it comes to finish and you just say accept, and then you've paid too much for something, and I don't know how you would get it back.***

Consumer, aged 55-65, household income <£20K, Rural, North & Scotland

## Cash payments

Some consumers simply preferred paying by cash; this was more common among those with less disposable income. Paying in cash made it easier for them to keep track of their in- and out-goings; they were able to keep track of their balance using the ATMs. These consumers used cash for everyday expenses and were comfortable with this method of paying. They would shop elsewhere if they were not able to pay for goods or services using cash.

***I feel more comfortable paying cash, I just feel more comfortable knowing that it's paid. When I get paid I have to put so much away each fortnight to make sure I cover my bills and everything.***

Consumer, aged 45-54, household income <£20K, Rural, Midland & Wales

However, there were certain situations where consumers – regardless of income - would feel less comfortable paying by cash for high value goods or services; for example if a trader asked for cash up-front before a service was provided, or if the retailer was small and/or independent. The main reason for not feeling comfortable was not having a 'proper trail' of the purchase and, therefore, a source of recourse if there was a problem with the purchase.

***If I was buying something from a place where I wasn't receiving the goods immediately, say from a more independent store and you weren't sure of the integrity of that store, I might want to pay on credit card in order to get the protection because obviously if you pay cash then they could just run off with it, but with a credit card you'd be able to get it back if the company folds and what have you.***

Consumer, aged 25-44, household income £35k+, Urban, North & Scotland

## Card payments

Others preferred to pay using cards wherever possible because of the convenience it affords. Card payments are taken in most places and many consumers reported that they will use cards, regardless of whether or not they have cash on them. These consumers found it easier to keep track of their finances using cards. They also cited security benefits; there was an audit trail of all transactions and, moreover, they welcomed not having to carry large amounts of cash.

***The main reason is ease in use and it's accepted everywhere. I don't need to carry around cash for everything and I can use it in emergencies as well. I have a monthly expense of nearly £500, £600 and if I were to pay everything by cash I'd need to carry a significant amount of cash around and depending on the location you live, it's always possible you run the risk of getting mugged and your cash will get stolen. A credit card is in that sense protected, you won't lose any of your money.***

Consumer, aged 25-44, household income £20-35K, Urban, London & South

### 3.2 Use of contactless cards

Awareness of contactless card payments was high among consumers interviewed though many users were unaware they had the facility until prompted to use it by vendors. A number of consumers had embraced the new contactless technology and found it easy and convenient to use. Users were more likely to be on higher income (these consumers were more likely to have contactless cards) and living in urban areas where there were greater opportunities to use contactless and, consequently, many had become comfortable using it. Age was not a factor with many older respondents happy using contactless too; there was some mention that this was preferable since it meant not having to remember a PIN.

***It's the easiest, especially now that they've raised the limit up to £30. I use it mainly for food. It's very rare that my food shop will come to more than £30 at a time, so I just automatically use one of the contactless cards. I know it sounds silly because it's only four little digits but it actually is just so much easier to just tap it and go.***

Consumer, aged 55-65, household income £20-35K, Urban, London & South

However, users of contactless were mindful of its lack of security feature (besides the limit of £30). Reassurance on security was usually through experience of using it or seeing others using it, or through research on banks' policy on fraud. Views were divided on whether the payment limit should be raised for this very reason.

***There was the thing with the security aspect, because I think it's up to £30, but it may go up to £50 and I think that's probably about where it should be for day-to-day transactions. Chip and PIN is obviously the more secure method.***

Consumer, aged 55-65, household income £35k+, London & South

A small number of consumers were not using their contactless card for a range of reasons - they preferred to use cash for small items because of the convenience; they lived in rural or suburban areas where the opportunity to use contactless was low; or they feared losing their card. Younger consumers were more likely to cite a range of risks (both legitimate and unsubstantiated) which they had become aware of through friends and social media.

***The stories you read on social media, like the one about you're accidentally paying for someone's purchase, or there was another one in the Metro where someone had a card reader and they were just walking past and tapping your pocket and that was taking money out of your account!***

Consumer, aged 18-24, household income £35k+, Urban, North & Scotland

***If I lost a contactless card, someone might make a few small purchases and there might not be a guarantee that I'd be able to get those ones back. With the bank it'd probably be quite difficult to contest those sorts of charges, I would imagine.***

Consumer, aged 25-44, household income £35k+, Urban, North & Scotland

### 3.3 Use of mobile phone apps

Many consumers were aware that the facility to pay for goods and services using mobile phone apps exist though some were confusing it with online payments using mobile phones. Appetite for this method was currently low. The main concerns were around the potential to make erroneous payments and fraud if their phone was lost or stolen. Again younger consumers tended to cite a greater number of potential risks around this technology. Older consumers generally felt that mobile phone apps would have greater appeal for younger consumers because it replaces the need to carry a wallet.

***I think it's similar to the contactless process. I'm not entirely comfortable using it because there are possible security risks involved, and there is also the risk that your mobile phone is misused. You need to have the credit virus protection and other things so that you don't get double charged. And sometimes when I'm working in the office my mobile is always lying on my desk, and if I have to go for a meeting it is possible someone may misuse it. So I don't want to take that risk at the moment.***

Consumer, aged 25-44, household income £20-35K, Urban, London & South

Only one consumer interviewed had used mobile phone apps to make payments with mixed success and, on a number of occasions, have had to resort to using their cards instead.

***I've found the technology not quite as reliable. It's definitely a bit slower in every case than using a card and I find it's not 100% consistent. You've got to hold the phone in the right place in relation to the reader and have your finger at the right place for it to register your finger print and sometimes, I don't know whether it's me or it, but I can't always get it to work as quickly as I would want it to. Well if I'm in a queue I start to flap so that makes it less likely for it to work. So it's easier to get the card out.***

Consumer, aged 55-65, household income £35k+, Urban, London & South

## 4 Future use of payment methods

This chapter explores business and consumer views of future trends in payment methods and their behavioural response to anticipated changes, including enablers and barriers to greater use of electronic methods. The findings are based on the business survey as well as qualitative interviews with both businesses and consumers.

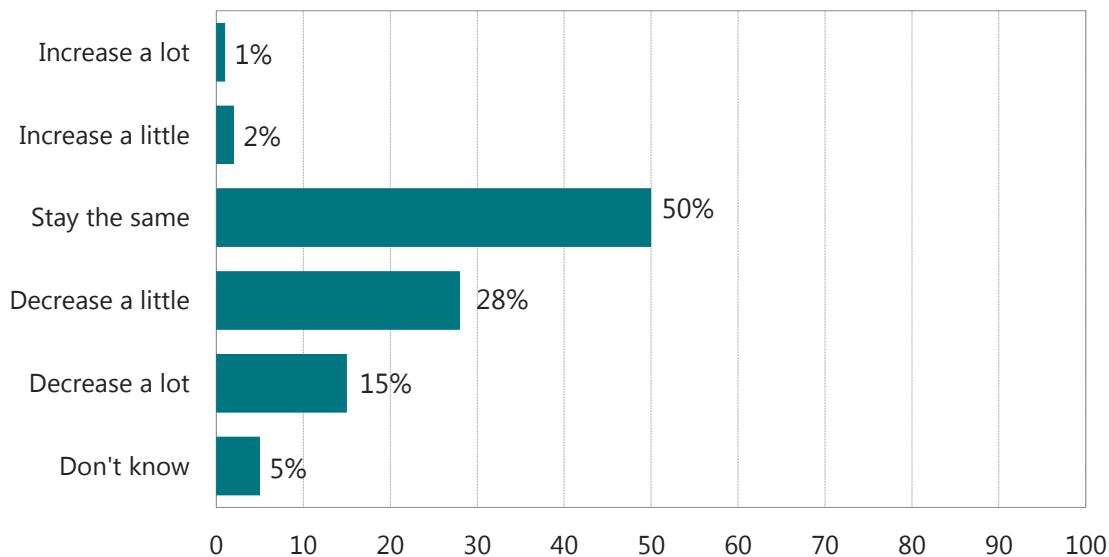
### 4.1 Future use of cash and cheques

Both consumers and businesses in the qualitative research agreed that use of cash and cheque would decline in the future, and many believed that cheques will be extinct within the next five years. All agreed that UK consumers would move towards more electronic payments with contactless and mobile apps becoming more commonplace and the limit for contactless payments increased. A small number of consumers anticipated the emergence of more sophisticated methods using finger prints, voice and face recognition to authorise payments.

There was concern expressed by a small number of consumers that the move towards greater use of electronic methods would create big data on people's spending habits and compromise people's right to privacy.

These findings are supported by the survey results which show 43% of small businesses anticipate a decline in the number of cash transactions with their customers and 50% expect it to remain the same, as shown in Figure 4.1.1.

Figure 4.1.1: Small businesses' expectation on the number of cash transactions with their customers in the future



Base: All businesses (804)

There are some sector variations; more businesses in Wholesale and Retail expect a decrease in cash transactions with customers compared to Accommodation and Food Service (56% compared with 38%). This is probably due to the higher use of cash by consumers in the Accommodation and Food Service sector (49% of businesses report that cash is most used by their customers compared with 27% in Wholesale and Retail). Consumer use of contactless is currently low in both sectors, though businesses Wholesale and Retail are currently leading the way (22% offer contactless compared with 12% overall).

A handful of the consumers interviewed envisaged an eventual future without cash – though possibly not within their lifetime. However, none of the businesses interviewed said they would get rid of cash, including those businesses which offered a mix of payment methods. The predominant reason is the ‘accessibility’ and ‘convenience’ of cash for consumers, in particular for older clientele who would otherwise be placed at a disadvantage.

***Cash I can never see disappearing. I have an older client base who still carry a lot of cash with them.***

Business offering cash/cheque payments only, Accommodation & food service sector

***I don't think cheques will be around for much longer really because people seem to prefer paying directly into your bank rather than sending cheques, and use the more electronic means like mobile phones. It will move in that direction.***

Business offering cash/cheques and electronic methods, Construction

***I think the focus in the next few years will be on using card payments but I can see other methods like contactless, and there'll be more of a push to maybe use your phone to make things a little bit easier or quicker.***

Consumer, aged 18-24, household income £20-£35K, Urban, Midland & Wales

Consumers who only use cash will be most impacted by an increase in electronic means of payment. These consumers asserted that if a vendor was unwilling to accept cash, they would either find an alternative vendor willing to do so and, as a last resort, explore alternative means of payment. Certainly these consumers accepted that they would have to embrace ‘the inevitable’ at some point.

***I would go elsewhere unless it comes to the point where I had no choice. Then I would do it, deal with it.***

Consumer, aged 25-44, household income <£20K, Urban, Midland & Wales

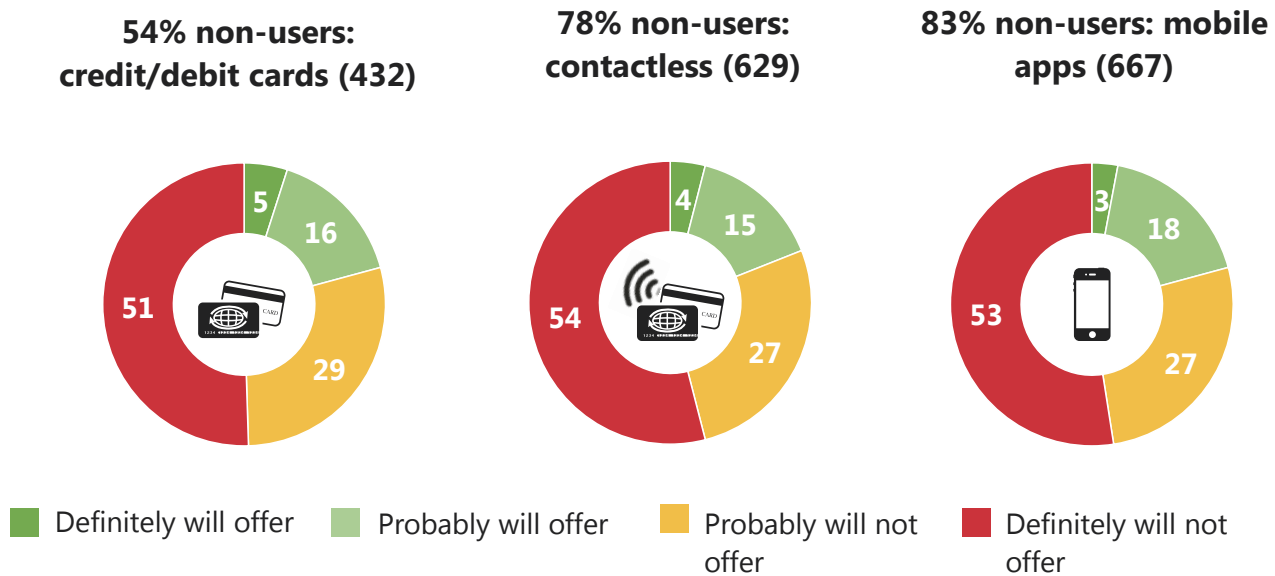
What was clear though was that those consumers who were wedded to cash payments will need more information and support to move towards considering electronic means.

***It's going so fast! I find it very difficult to keep up with, actually. I would need some support, and I think that's my biggest issue, I hate not knowing how to do things so I'd rather not do it at all.***

Consumer, aged 55-65, household income £35k+, Urban, London & South

## 4.2 Barriers to adoption of electronic payments

The majority of businesses not currently offering electronic payments are unlikely to change their approach. As shown in Figure 4.2.1, four in five of these businesses ‘probably or ‘definitely will not’ offer debit/credit card (79%), or contactless (81%), or mobile payments (79%) in the next 2-3 years.

**Figure 4.2.1: Future use of credit/debit card, contactless and mobile payments**

Base: As shown on chart). Excludes 'Don't know' and 'No answer'

As seen elsewhere, more businesses in the Wholesale and Retail Trade and Accommodation and Food Service sectors **will** offer contactless and mobile payments in the future, as will younger business owners aged 18-39; this group is also the most optimistic about their business growth in the next 12 months.

Follow up interviews found that businesses wanting to grow or expand in the future were already considering offering their customers a wider choice of payment options. In particular, keeping pace with younger and more technology savvy consumers was considered important to these businesses because this group was seen as the key consumers of the future.

**Obviously people tend to like new technologies and if we're able to offer it then it just ticks another box for them. We're going with the trends if you like and that will continue in future.**

Business offering cash/cheques and electronic methods, Wholesale & retail trade

All businesses that took part in follow up interviews would consider offering more electronic payment options if there was a demand for it, even those who were wedded to cash. They would not want to lose business if other businesses were following suit. Furthermore, if the demand was there, then the revenue would outweigh the cost. However, some consumers who were wedded to using cash were unwilling to change unless more businesses stopped accepting cash altogether.

**[If people wanted to pay in different ways] Then I would have to move with that. I would have to go and get it, for people to be able to have a choice of how they pay. I would have to move with the times or they will go elsewhere, and that's when we will definitely die.**

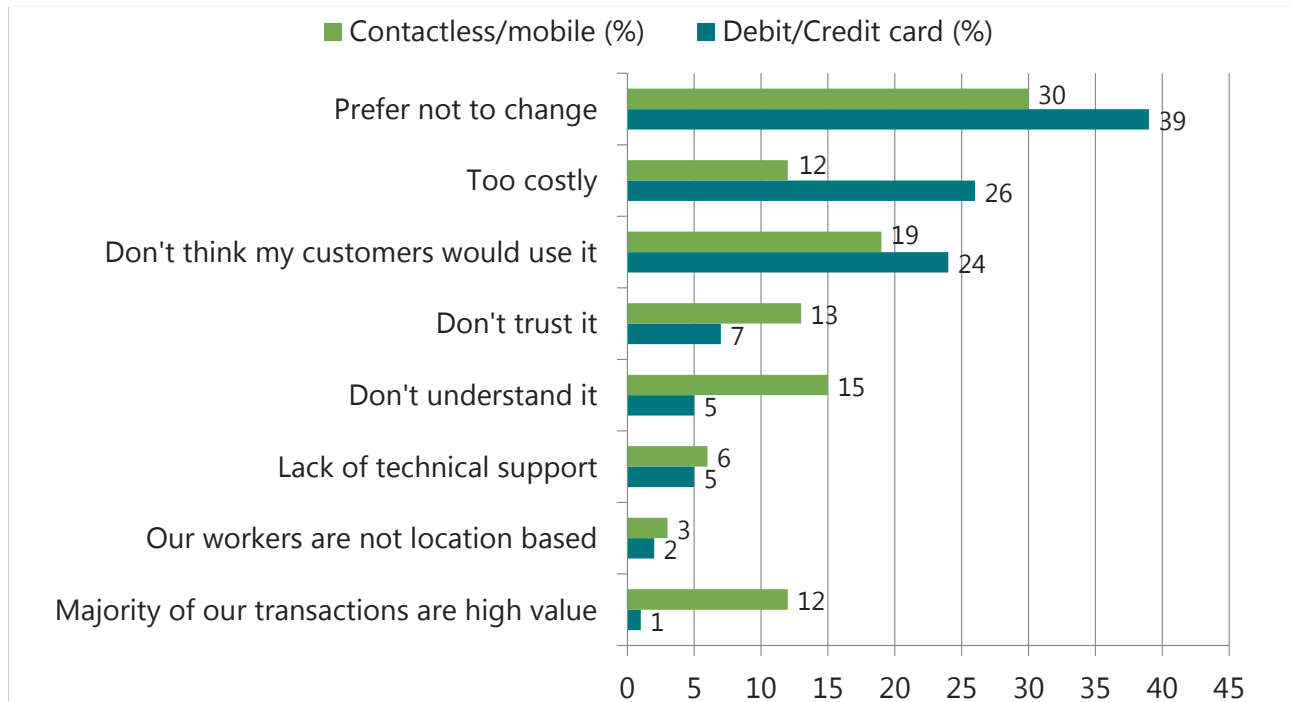
Business offering cash/cheques only, Accommodation & food service

The survey also found cost to be a significant barrier, more so in relation to credit/debit card payments than contactless/mobile, especially as many businesses do not believe that their customers would use these methods if offered, as shown in Figure 4.2.2. The follow up interviews identified the costs to include both set-up cost for the card terminal as well as the transactional costs; only some small businesses knew what the actual costs were.



A lack of trust and knowledge about the payment method are more commonly associated with contactless and mobile payments. However, overall the primary reason for not offering electronic payments is because the business prefers their current arrangements which is attuned to how their customers want to transact and does not incur additional costs for the business.

**Figure 4.2.2: Barriers to offering electronic payments in the future**



Base: All businesses that will definitely/probably **not** offer contactless/mobile (594) or credit/debit card payments (343) in the future

More than one in ten (12%) would not offer contactless because the transaction limit is set too low to be suitable for their business. The follow up interviews also found that among businesses selling high value goods/services, there was a perception that mobile phone payments would not be relevant to their business because the upper transaction limit would be similar to contactless payments. Actual detailed knowledge was, however, generally low. Many businesses did not know how much it would cost to offer mobile phone payments or how it would work in practice, though there was a perception that it would be costly to introduce. Many were adopting a ‘wait and see’ position since there was currently not a demand for it from their customers.

***We're happy to move forward as things change, but it's something that we'd do slowly, and we would require more information about having new mobile phone apps, that sort of thing, the thing we would look forward to in the future.***

Business offering cash/cheques and electronic payments, Administrative & support services

There was limited appetite for card transactions among cash-only businesses that sold low value goods; this stance extended to contactless payments too. The primary reason was cost; the set-up and transaction costs were perceived to be too high to be financially viable, taking into account the likely low demand for card payments and the modest profit margins on low value goods.

***It's the set-up costs. I would probably end up paying more than what our people would use.***

Business offering cash/cheques only, Accommodation & food service

***The profit on a sliced ham is about 10p, and to do a transaction [using CHIP and PIN] I think it's about 8p, I couldn't stand in the shop for 2p. Most people would only want a small amount of items under a fiver maybe, under £3, and the profit margin on those items would be very small, and we'd have to pay for those machines every month. Maybe in the summer time you'd be alright, but from September to March you'd be nearly losing out.***

Business offering cash/cheques only, Wholesale & retail trade

A key driver for change amongst these businesses would be if their clientele changed (i.e. more younger customers) or if their offering changed which would create a higher demand for card payment. Certainly diversification and growth into new products/services was one of the reasons why some businesses were already offering a range of payment methods or were considering introducing new methods.

An issue (and potentially a barrier) to the take up of more traditional electronic means, such as card payment, was security and reliability of the technology. Both these issues were raised by businesses which currently offered a range of payment methods.

***The only downfall with having the credit card machine sometimes is when we've had power cuts and things like that, and we can't use them. We've had quite a few incidences here where the PDQ machine's gone down.***

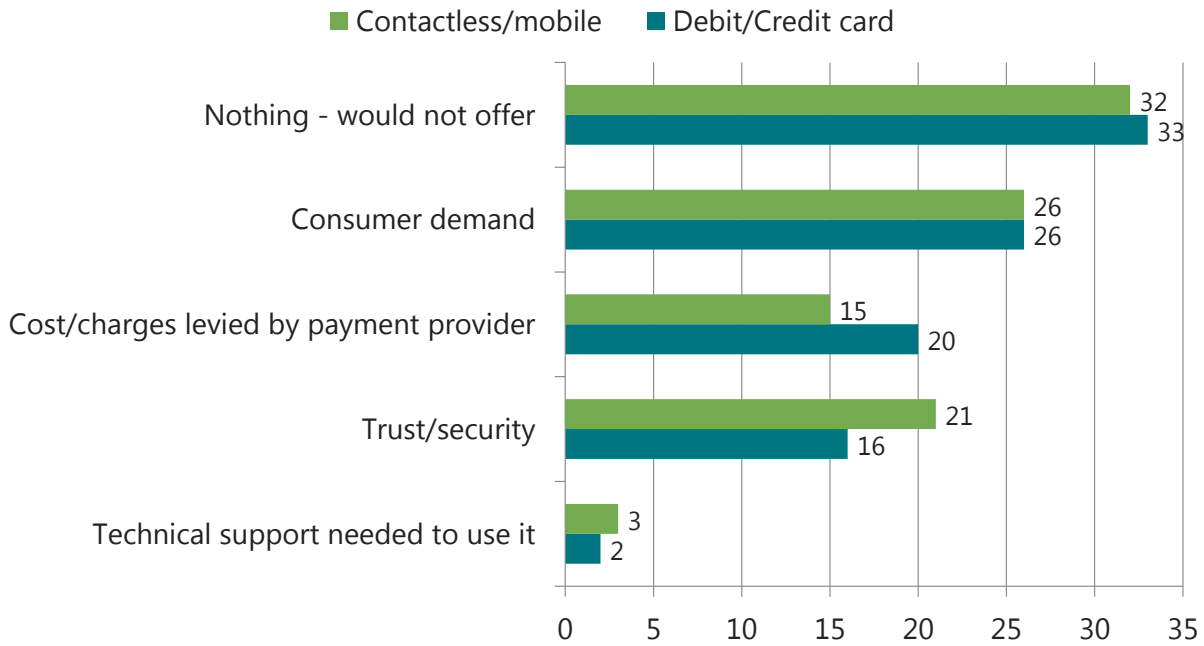
Business offering cash/cheques and electronic payments, Accommodation & food service

***With contactless, I think a lot of people are concerned if someone loses their card how easy it is for people to spend the money, so I think the thing that will hold it back will be the security side of things and people's perceptions of fraud.***

Business offering cash/cheques and electronic payments, Manufacturing

### 4.3 Motivations for adoption of electronic payments

Findings from the follow up interviews are consistent with the survey results which show that the factor that would **most persuade** businesses to change their view and adopt contactless/mobile and credit/debit card payments is if there is **consumer demand** – this factor is selected by a quarter of non-users. Slightly fewer would be persuaded if **cost** and **security** concerns are addressed. Technical support is a minor consideration for these businesses. However, a third would not offer these methods regardless.

**Figure 4.3.1: Factors which would persuade businesses to offer electronic payments**

Base: Businesses that will definitely/probably **not** offer contactless/mobile (594) or credit/debit card (343) in the future

## 5 Business interactions with HMRC

This chapter explores how small business owners manage their business and their interactions with HMRC – specifically businesses' use of accountants/tax agents and software to meet HMRC's information requirements, and appetite for using smartphones for business transactions. Also explored in this chapter is businesses' use of electronic cash registers and sources of business advice.

### 5.1 Business use of accountants and tax agents

The vast majority of small businesses (91%) use an accountant/tax agent to calculate all or some of their taxes. This was seen to save valuable time more productively spent on running the business and, most importantly, minimising the risk and complications of submitting erroneous tax returns. Accountants/tax agents were used by a wide range of businesses – covering those offering cash/cheques only to those offering a diverse range of payment options.

***They [the accountant] do every single thing, VAT, wages, tax, everything. If I did try to do it myself and I overlooked something or anything, I might end up in deep trouble if you know what I mean. Then you'd end up with a massive bill. I'd rather somebody professional do it and keep us right that way.***

Business offering cash/cheque payments only, Accommodation & food service

None of the businesses in the follow up interviews had heard of HMRC's "Your Tax Account" – a personal online tax account for businesses. Some mentioned that it was something that their accountant would be aware of since they had delegated the calculation of their business taxes to them.

### 5.2 Use of software for information required by HMRC

The overwhelming majority of businesses submit their tax returns online (93%); only seven per cent submit paper tax returns. Over half (55%) of businesses use software to prepare or file information for HMRC.

Most of the businesses who took part in follow up interviews also submitted their taxes online themselves or have an accountant calculate their taxes and submit it online for them. The majority of businesses were happy to make tax submissions online and found this easy to do. The perceived ease of making submissions online meant that some businesses were thinking about taking over the submission process from their accountant to minimise costs.

***I've been self-employed for years and I've always used an accountant but I've found the costs creeping up and I was doing some subcontracting for a friend of mine so I was actually only, probably producing two or three invoices a month, and I was being charged probably £300 for a VAT return for two, three invoices. More and more of my friends were submitting their returns, doing their VAT returns online, it made sense for me to do it so I made the change. Yeah, it's all through the Government Gateway.***

Business offering cash/cheques and electronic payments, Manufacturing

Two businesses raised concerns about the push by HMRC to make online tax submissions. They felt there was an over estimation by HMRC of small business owners' IT capabilities and a lack of awareness of internet capacity in rural areas. It was emphasised that business owners in rural communities tended to be older and, therefore, more likely to lack the skills to complete online submissions or to have access to a computer.

***They assume that everybody's got everything at hand and some people haven't. I get in a panic when I'm doing it online. For a kick off it's not clear. They change it, they update things so every time you go into it it's 'Oh my God, what do I do now?'. And you've got somebody saying, you have two seconds before the deadline and you might get the £100 fine!***

Business offering cash/cheque payments only, Accommodation & food service

***I've had examples of local fisherman who've had to give up their businesses because they had to do their fisheries returns online and they didn't have computers and they didn't know how to use them, and it is actually making small businesses having to close because they don't have the training and the technology.***

Business offering cash/cheque and electronic payments, Accommodation & food service

### 5.3 Use of online banking for personal and business transactions

The large majority of small businesses have access to the internet at home (95%) or work (88%). Four in five (78%) use online banking for personal transactions and 35% use a smartphone for online banking.

One in ten (11%) small businesses would probably or definitely use a smartphone for business transactions such as to file their self-assessment or VAT return; 23% would not and the remaining 66% do not use a smartphone for online banking or do not have a smartphone. The findings are broadly consistent across small businesses with no obvious significant differences.

There was also reluctance to use smartphones for HMRC online interactions amongst all types of businesses that took part in the follow up interviews. This was mainly for pragmatic reasons; it would take longer to do on a mobile phone, there would be greater scope for making errors and it would not be possible to print a record of the submission. Overall, many did not see a need to do something via a smartphone when most businesses have a PC readily available.

***I would want to do it on a PC, I can see it all a lot clearer, it's just a lot easier, and I can print out all of the details when I've finished as well, whereas if it was on my mobile phone I wouldn't have all that information necessarily straight to hand. I've got all the paperwork, everything that I need is to hand, so I wouldn't do it on a tablet or my mobile phone. I think it's easier with a mobile phone to make a mistake, maybe pay the wrong person or take it from the wrong account or something.***

Business offering cash/cheques and electronic payments, Administrative & support services

Some businesses also expressed concerns about the general security of using a smartphone for financial transactions. There was a perception that mobile phone transactions were not yet as secure as PCs, and there was also fear over loss of information if the phone was lost or stolen.

***I just wouldn't be keen on transferring money over a mobile phone signal, or having that amount of information on my phone, in case my phone was lost or stolen. Somebody might then be able to access things that would enable them to transfer all of my money out, or all of the company money out, it's a security thing.***

Business offering cash/cheques and electronic payments, Real estate activities

***My wife's got the laptop which we do all our banking on. You have the antivirus and the Norton, and the bank has Rapport which is a very good system for security. If you're just doing it on your mobile phone and walking around, the security wouldn't be quite so good.***

Business offering cash/cheques and electronic payments, Wholesale & retail trade

One business noted that they would use a smartphone for business transactions with HMRC if an app was available for HMRC submissions.

***If it was a proper app that worked as a proper app, as opposed to just like an internet page, then yeah, definitely. I use my phone for banking and stuff because of the apps make it a lot easier, so if there was an app for it that would be brilliant, actually.***

Business offering cash/cheques payments only, Accommodation & food service

## 5.4 Payments to and from HMRC

Most of the businesses that who took part in follow up interviews expressed a preference for using online payment to settle taxes due to, and tax refunds due from, HMRC. Where refunds had been received from HMRC, in most instances they had been received online; only one business mentioned they had received a tax refund by cheque in the post. Businesses submitting tax returns online (either themselves or through an accountant) expected that the same method would be used for a refund.

***They asked to pay us in that way [online], because they give you their bank details, so it's up to us to decide which way is convenient for us, and because we do online transfers now, I prefer online payments.***

Business offering cash/cheque and electronic payments, Construction

***Well, cheques are not convenient. I'd be quite happy for them to pay it directly into the bank.***

Business offering cash/cheque payments only, Accommodation & food service

## 5.5 Use of cash registers

One in five (19%) small businesses currently uses a cash register, and a further five per cent plan to in the future. The remaining three quarters (76%) have no plans to use one, mainly because they have few cash transactions and/or direct face-to-face dealings with customers.

Cash registers are most commonly used by businesses in Accommodation and Food Service and Wholesale and Retail Trade (51% and 35% respectively). Follow up interviews found that businesses that transact face-to-face with customers and accepted **large amounts of cash** viewed cash registers as essential for running their business. In contrast, those with relatively few cash transactions did not use, nor saw a need to use, a till of any kind.

Businesses dealing **purely in cash** mainly used basic non-electronic tills because they were functional for what they needed; their transactions tended to be simple in as much as they were cash payments and there was not a requirement to perform complicated stock control. Furthermore, the cost of an electronic till was seen as prohibitive.

***Any business that transacts a lot of cash payments is going to use a till. The till gives us the ability to trace through all the payments that have been made on a particular day, which department they've been made to, and what they were for.***

Business offering cash/cheques and electronic payments, Accommodation & food service

***You're looking at £1,500 to £2,000 for an electronic till. That's the only reason that I haven't got one.***

Business offering cash/cheque payments only, Accommodation & food service

High volume businesses with more complex transactions, for example, a large range of products and payment methods, or businesses that were part of a national chain, were more likely to have state-of-the-art electronic tills. The use of electronic tills had made it easier for these more complex businesses to manage their transactions, stock and promotions.

***EPOS [Electronic Point of Sale] is much easier; we can update the price file every day. It's easier than normal tills because the normal tills we have to keep a book and we have to keep it properly. If we make a mistake either we lose the money or we cheat the customer. And we can see what will be the top sellers and what is the slow seller and the margins.***

Business offering both cash/cheques and electronic payments, Wholesale & retail trade

## 5.6 Business advice and support

The large majority (91%) of small businesses use an accountant/tax agent and this is reflected in where businesses go for advice and support. The most common source of business advice and support by far is accountant/tax agent (58%), followed by the HMRC website (14%). Around one in ten sought business advice from a bank (11%), other small business owners (9%), small business representative organisations (9%), trade organisations (8%) and friends or relatives (8%).

Around one in five (18%) have **not** sought business advice or support; these are significantly more likely to be older business owners (25% of owners aged 65+) who are more experienced and also less likely to expect their business to grow so there would be less need to seek advice. Owners of very small businesses are also more likely than larger businesses **not** to have sought advice or support (26% of 0-1 employees compared with 7% with 10-19 employees).

## 6 Conclusions

Small businesses already offer their customers a diverse range of payment methods. Sole use of cash/cheque is low and current use of electronic payments is high, albeit predominantly online transfers because many small businesses are acutely sensitive to methods that incur fees. For these businesses to widen their offer, the additional revenues that they would accrue must be sufficient to offset the fees that would be charged by card providers. In sectors such as Accommodation and Food Service and Retail and Wholesale Trade, the economic benefits are evident and there is high use of debit/credit payments and a greater momentum to adopt contactless.

For businesses not currently using credit/debit cards or contactless/mobile payment methods, the economic benefits of providing these payment options do not outweigh the perceived costs. Many of these businesses have low volume and/or low value transactions and do not foresee sufficient demand from their customers to make offering these electronic methods financially worthwhile.

However, there are other barriers besides cost. The research has also identified a lack of understanding and trust in electronic methods, especially in relation to more novel methods, among both small businesses and consumers. To address this, the research recommends the following:

### Providing small businesses with more information on:

- Mobile phone app payments – how they work, the payment 'limits', and how they differ to contactless payments;
- Card readers for contactless and mobile phone apps including the fees structure, how to get the best deals and timescale for payments to clear; and
- Security measures for these more novel methods so businesses can help reassure their customers.

**Consumers that are wedded to cash** tended to have less disposable income and, as a consequence, were more attached to methods that allowed them to monitor their spending. These consumers require information and advice on:

- How different electronic payment options work and the benefits of using them;
- Assurances against fraud especially for contactless and online transactions;
- Money management when using multiple payment methods; and
- Steps to take to correct erroneous online payments.

**Consumers who were already competent in using credit/debit cards and online payments** could be persuaded to adopt more novel methods, if they were provided with more information on how the new technologies work, including:

- How mobile payments work including payment limits and protection against theft and fraud;
- The benefits of using mobile phone apps vis-à-vis contactless card payments; and
- Increased limit for contactless to accommodate slightly larger purchases and greater opportunity to pay using contactless and mobile phone apps.



## Appendix A: Survey design

A telephone survey was undertaken with 804 small businesses with fewer than 20 employees and less than £10 million turnover. The sample was provided by HMRC. The sample was disproportionately stratified by size (number of employees) to enable separate analysis.

Prior to fieldwork, an advance letter was sent to all businesses selected for interview, providing them with information about the survey and an opportunity to opt-out. Telephone matching was also undertaken for leads without a valid telephone number. The survey was conducted in January 2016. The questionnaire was piloted with 20 businesses in December 2015. The average survey interview length was 15 minutes. The adjusted response rate was 46%, as shown in Table A1.

At the start of the survey screening questions were administered to identify and exclude out-of-scope businesses: those *only* transacting with other businesses; have 20 or more employees; and a turnover of £10 million or higher.

The data has been weighted to be representative of the small business population using profile data provided by HMRC.

Table A.1 – Breakdown of sample used and response rates

	All same		Valid same	
	N	%	N	%
Complete interviews	804	26	804	46
Refusals	432	14	289	17
Screened out (>19 employees; >£10 million turnover; transact with businesses only)	403	13		0
Live sample, still trying to establish contact	952	30	638	37
Bad numbers	535	17		0
<b>Total sample</b>	<b>3,126</b>	<b>100</b>	<b>1,731</b>	<b>100</b>
Ineligible (screen out/complete +screen-out)		33%		
<b>Co-operation rate (complete/(complete + refusal)</b>		<b>66%</b>		
<b>Unadjusted response rate (complete/all sample)</b>		<b>26%</b>		
<b>Adjusted response rate (complete/valid sample)</b>				<b>46%</b>

## Appendix B: Qualitative research design

Thirty interviews were conducted with businesses who took part in the survey. During recruitment they were placed into one of three groups based on the payments they offer. Within each group there were additional quotas on size, sector, use of cash registers and smartphone and their offer of electronic payments in the future.

Consumers were recruited from a list of members of the general public who have agreed to take part in research. They were recruited to include a range of household income and composition, work status, location, gender and age.

A full breakdown of the business and consumer quotas is shown below.

### Business interview quotas

Group 1: 10 interviews with businesses offering cash/cheques only

	Complete
<b>Total</b>	<b>10</b>
<b>Likely to offer electronic payments in the future</b>	
Yes	3
No	7

Group 2: 10 interviews with businesses offering a range of payment methods including mobile and/or contactless payments

	Complete
<b>Total</b>	<b>10</b>
<b>Size (number of employees)</b>	
0 employee	2
1 employee	2
2-9 employees	3
10-19 employees	3
<b>Industry sector</b>	
Construction	1
Wholesale/Retail	3
Accommodation/food	3
Other	3

<b>Customers</b>	
Individuals only	5
Both	5
<b>Use of cash register</b>	
Currently use / plan to	4
Do not plan to/ unsure	6
<b>Use smartphone</b>	
Definitely/probably would use	5
Definitely/probably would NOT use	4
Unsure	1

Group 3: businesses offering debit/credit card/paypal and likely/unlikely to offer contactless/mobile

	<b>Complete</b>
<b>Total</b>	<b>10</b>
<b>Likely to offer electronic payments in the future</b>	
Yes	4
No	6
<b>Size (number of employees)</b>	
0 employee	2
1 employee	1
2-9 employees	5
10-19 employees	2
<b>Industry sector</b>	
Construction	2
Wholesale/Retail	2
Accommodation/food	2
Other	4
<b>Customers</b>	

Individuals only	5
Both	5
<b>Use of cash register</b>	
Currently use / plan to	4
Do not plan to	6
<b>Use smartphone</b>	
Definitely/probably would use	5
Definitely/probably would NOT use	4
Unsure	1

## Consumer quotas

	Completes
<b>Total</b>	<b>30</b>
<b>Payment methods use by consumers</b>	
Group 1: Cash and/or cheques and Debit and/or credit card and/or Paypal	12
Group 2: Group 1 and uses contactless payments	12
Group 3: Group 1 and uses mobile payments	6
<b>Gender</b>	
Male	16
Female	14
<b>Age</b>	
18-24	5
25-44	10
45-54	8
55-65	7
<b>Gross household income</b>	
<£20K	7

£20K - £34,999	12
£35K +	11
<b>Work status</b>	
Employed (full- or part-time) or self-employed	15
Unemployed	5
Other (e.g. looking after home, retired, students)	10
<b>Household composition</b>	
Single	2
Couple	8
Young families (children under 16)	7
Older families (children aged 16+)	13
<b>Geography</b>	
London	6
South	3
Midlands & Wales	11
North & Scotland	10

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