Retail Cash Management – Introduction

Good day and thank you for reading. This paper is the first in a series of topics on cash management. Throughout the series we will discuss several types of businesses that are affected by cash, both retail and non-retail. It is my goal to help readers gain a better understanding of cash management and how it affects their business and everyday lives. After reading, please feel free to leave comments below, so we can all learn and grow together.

Cash as a share of overall spending

Before delving deeply into the topic of cash management, it is important to level-set as to the share that cash represents in overall spending. Some interesting facts to consider:

- According to this published article, 1 in 9 US households do not have a checking account
- According to these published statistics, 28% of US residents do not own a credit card
- 1 out of every 4 US households are "unbanked" or "underbanked," and growing, according to this article.
- According to Javelin Research group, 27% of all point of sale purchases were made with cash

In addition to the above statistics, several publications have referenced the overall percentage of cash payments is shrinking relative to other forms of payment, including ACH, credit cards, debit cards, prepaid debit cards, checks, and mobile payments. While not discrediting these findings, it is important to comprehend that, in the US, the overall retail market is growing, which means the usage of cash is growing right along with it, and it's not going away anytime soon.

Let's quickly look at this from a global perspective. Across the globe, cash accounts for 85% of the total volume (2.6 Trillion) of payment transactions. [1] In addition, cash has the lowest cost per transaction vs. any other payment method. For example, credit cards represent up to 17 times the cost per transaction than of cash. This is a key reason that several retailers, including restaurants, simply don't accept credit cards as a form of payment. This is even more pervasive across different countries of the world.

The effect of cash in the retail marketplace

So now that we've determined that cash is a substantial component of overall retail payments, it is pertinent to outline the effects of cash in the retail sector. But before we dive into these topics, let's quickly analyze a key performance indicator that retailers face daily – net profit margin. According to this article, the net profit margin for retailers is in the single figures, and many retail segments don't approach 2%. This necessitates an ongoing, stringent review of their overhead and inventory turns, while driving to continually improve operational efficiencies. Cash plays a critical role in how a store manages such efficiencies. When managed correctly, cash can have a positive and measurable impact on a store's bottom line.

[1]Thomas, Hugh. "Measuring progress toward a cashless society" *Master Card Advisors* 13 Sept 2012. Web. 08 Aug 2014.

Costs of Cash

Handling and managing cash certainly comes at a cost for a retail organization or a franchise owner. We will spend more time discussing these topics in future articles; however for now let's highlight a few of these costs:

1. **Costs of safeguarding cash**

   Cash losses can occur from internal constituents (employee theft, acceptance of counterfeit bills) and outside factors (robberies). Retail organizations are always looking for ways to safeguard their cash and promote employee safety.

2. **Costs of reconciling cash**

   Cash turned in by a cashier at the end of her shift must be reconciled against the sales report generated by the store's point of sale system. This reconciliation usually involves the store manager and takes a fair amount of time, particularly when discrepancies occur. The time spent by the store manager reconciling cash at end of the shift can have a measurable impact on store overhead, and can have a negative effect on store efficiencies.

3. **Cost of delivering cash**

   To minimize liability to the store and to safeguard its employees, retail organizations limit the amount of cash it has on hand at any given time. To facilitate this, stores have to set up a way for cash to be delivered to their bank safely and securely. Whether this is done by an assigned person at the store (usually the store manager) or outsourced to a third party – such as a cash-in-transit (armored car) operator – transporting cash comes at a cost.

4. **Banking Fees**

   Banks levy fees to a retail store to cover the following:

   a. Bank account fees
   b. Deposit fees
   c. Change fund fees
   d. Sweep fees
   e. Non-sufficient fund fees
   f. Reconciliation costs

The costs of cash can be substantial and can have a direct effect on a retail organization's operations and bottom line. In future articles we will review these costs in more detail and ways retail organizations are addressing them. Thank you for reading and we look forward to your comments.