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Measuring the Value of Electronic Payments to Merchants

Mastercard is addressing misconceptions about the costs vs. benefits of electronic payments with quantitative value-driven data.

Electronic payments provide merchants, non-profits, governments and consumers with substantial incremental value, especially when compared to traditional payment methods.

This document provides an overview of the quantitative analysis that measures this value and explains how it can be used as a resource in discussions with multiple stakeholders, including merchants, customers and governments.

The realities – and the opportunities – of today's e-economy

Seismic changes in the way consumers spend mean merchants must understand the value vs. cost of acceptance.

Physical payments at the point of sale (cash, checks) are rapidly being replaced by electronic payments, fundamentally changing where consumers spend, what they buy and how they shop.

Today's consumers are demanding faster and more convenient ways to pay, and merchants need to embrace new payment methods to maintain and grow their business.

Governments, too, are considering ways to reduce the use of physical payments, both as payers and acceptors, in order to create efficiencies and increase recorded economic activity and tax receipts.

However, merchants and government policymakers have voiced concerns about the perceived high cost of accepting electronic payments vs. traditional methods.

The truth is that all forms of payment carry a cost to the acceptor. The cost of electronic payments is identified by merchants as the merchant discount or service fee highlighted in their monthly acquirer statement. Meanwhile, merchants believe that the cost of accepting traditional payments is zero since they exchange at par and there is no one expense line item or bill at the end of the month for cash acceptance. In reality, accepting cash and checks comes with its own set of costs and the total cost of acceptance for electronic payments can be higher or lower than traditional payments – **what is most important is the quantification of the value created** – an analysis that is rarely made by merchants.

All forms of payment carry a cost to the acceptor. Merchants must ask, What value am I receiving in return for the forms of payment I accept?

What is the value created by electronic payments?

A close look at the data demonstrates that the value delivered far outweighs concerns about the cost of acceptance.

However, some merchants avoid acceptance of electronic payments because of the perception that they are more costly than traditional methods.

To combat this misperception, Mastercard has prepared analyses that compare and contrast the costs and benefits of accepting both traditional and electronic payments.

These analyses focus on the value provided to merchants and compare it to their overall cost of acceptance. They recognize that all forms of payment have a cost of acceptance – from point of sale to the depositing of funds in the merchant's bank. Too often the focus is on an oversimplified comparison between merchant discount rates against cash, which most merchants believe costs them nothing to accept.

PERCEPTION

Acceptance of electronic payments is more costly than traditional methods, and delivers no additional value.

REALITY

Globally, acceptors of electronic payments receive value of about 2x the cost of acceptance.

Defining the value of electronic payment acceptance for merchants.

Electronic payments provide all acceptors with new and exciting opportunities to better serve their customers, with increased convenience and safety when compared to traditional cash and check payments.

The value to a merchant is a combination of increased revenue and margin, decreased costs, better customer experience and a positive reputation. Electronic payment acceptance provides merchants and other acceptors with all of these benefits.

The perception that the cost of accepting electronic payments is prohibitively expensive is not substantiated by facts or numbers.

On average, debit and credit transactions are

2-4x

the size of cash transactions at POS.

New acceptors usually see a

10-15%

increase in average transaction size.

This incremental gain is primarily driven by:

- Customers not being limited to cash in hand
- Merchants having access to a global customer base and vice versa
- Electronic acceptance allowing merchants to receive sales that would not be possible using cash or checks

Beyond sales, acceptors can see additional benefits through:

COST EFFICIENCIES AND SECURITY

Electronic payments minimize counting, safeguarding and storing physical currency, and limit losses from lost or stolen cash.

PROMPT, GUARANTEED PAYMENTS

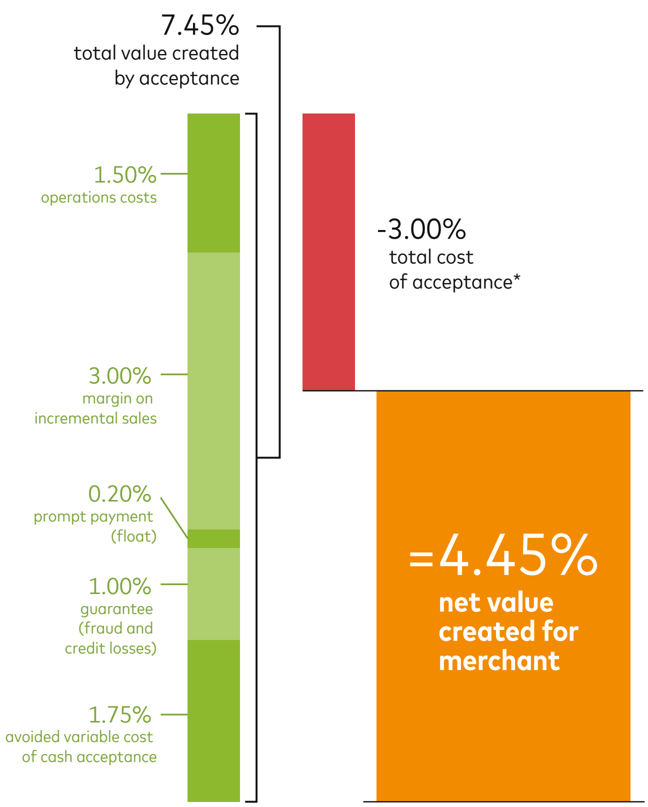
Electronic payments are expedited directly into the acceptor's account – bank issuers take responsibility for losses if the consumer fails to pay.

INCREASED CUSTOMER LOYALTY

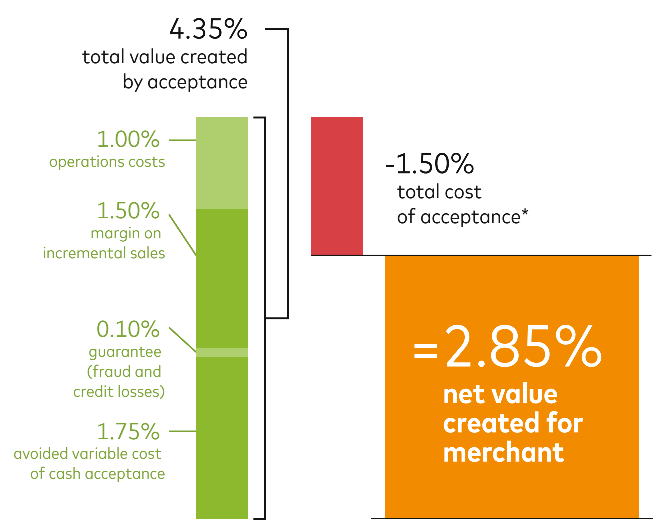
A positive digital experience creates return customers. Data capture allows expanded consumer touchpoints and enhanced consumer-centric loyalty programs.

These benefits accrue to merchants of all sizes and are consistent around the world. The charts below illustrate how these benefits from electronic payments create value that greatly exceeds the cost to merchants.

Credit acceptance



Debit acceptance



*The analyses consider the "Total Cost of Acceptance" for each payment type. Total Cost of Acceptance includes costs incurred by the merchant from the point of sale through to the receipt of good funds in its bank account. Specific costs (which vary by product) include labor and equipment at the point of sale; communications; labor and security to process cash, prepare the deposit, and deliver it to the bank; bank fees, including, but not limited to, the merchant discount fee; and other miscellaneous costs.

Data-based discussions drive a deeper understanding of electronic payment acceptance.

Quantitative analysis can assist you with your discussions with merchants, customers and industry stakeholders that are accepting or contemplating acceptance or are in need of a deeper understanding of the value that electronic payments deliver.

Mastercard has reviewed the value of acceptance in more than 40 markets according to country, retail and merchant categories and, in some cases, even at the specific merchant level.

These analyses show that **acceptance of electronic payments creates tremendous value** and that the incremental costs of accepting electronic payments are more than offset by increases in related sales and margins.

We can assist you in discussing the value and benefits of electronic payment acceptance, supported by highly quantifiable data:

- Quantification of value from 40+ countries
- Examples across retail categories
- Specific data for individual merchant categories
- Examples and discussion points exploring ticket lift for electronic payments and premium card products

For further information, or to discuss specific findings and valuations for your market, please contact Chris Harrall at chris.harrall@mastercard.com.