

ROLE OF PAYMENT OPTIONS IN THE BUSINESS OF MICRO-RETAILERS

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Abstract

Rapid developments have occurred in the payment systems of various countries and hence, it is imperative that businesses accept the acceleration in growth and popularity of various technological innovations in electronic payment systems. The purpose of the study is to understand the payment usage behaviour of customers in micro-retailing outlets in Chennai, which cater to a diverse range of customers. The observations of the micro-retailers and their personal experiences for both forms of payment instruments – cash and digital are being analyzed. It is necessary to understand customer behaviour towards both forms of payment system and analyze the preparedness of the retailers towards revolutionizing their businesses by adopting the digital mode to meet the payment usage needs of the customers.

Keywords Electronic Payment, Micro-retailers, Cashless, Payment Usage Behaviour

1. Introduction

Globalization, technological advancement and the advent and proliferation of smartphones have made it a necessity for users to adapt to a constantly progressing modern world. Rapid developments have occurred in the payment systems of various countries and hence, it is imperative that businesses accept the acceleration in growth and popularity of various technological innovations in electronic payment systems. Cashless economy does not mean absence of cash, rather it is an economic transaction where goods and services are bought and paid through the means of electronic media.

An epochal shift from a cash dominated economy to a less cash and digitalized and electronic economy happened in India due to demonetization. It caused a disruption in the economy due to cash shortage with small and medium businesses being affected the most. This led to a drastic rise in the adoption and usage of cashless instruments. As per data released by RBI, digital transactions crossed the 1 billion mark for the first time in December 2017, increasing by 6.58%, from 998.5 million in November 2017 to 1064.2 million transactions in December 2017. The introduction of GST post demonetization exacerbated the situation and left small businesses struggling. This has forced many merchants to install Point of Sales (PoS) machines and adopt other cashless instruments.

Revolutionary initiatives are being introduced by the government to enable a digital lifestyle and drive financial inclusion across the country, yet there are strong apprehensions on the usage of such electronic forms of payments. The research study proposes to analyze the observations and personal experiences of micro-retailers in Chennai on the usage behaviour of customers on both forms of payment instruments – cash and digital.

2. Literature Review

Digitalization has helped not only in fund transfer but also in buying and selling of products, information and services. Different modes of electronic payments exist in India, adoption & success rate of which depend on a number of factors like customer preferences, security, reliability, convenience etc. Change is something which is constantly happening in the digital world. Bringing about an instant transformation by substituting a cash-driven economy with cashless one is a difficult task and a long process (Angel, 2016). An increasing number of customers are now switching over to digital payments as India slowly moves from a cash-centric to cashless economy (Shendge, Shelar, & Kapase, 2017) with internet playing a significant role in the field of e-payment systems (Kaur & Pathak, 2015). Yet today, even with a boost in cashless payment instruments where customers have a wide option of digital payment instruments in the offering like plastic cards, online transfers, mobile banking, digital wallets etc, cash is

still the king (Bagla & Sancheti, 2018; Arango, Bouhdaoui, Bounie, Eschelbach, & Hernandez, 2018; Dahlberg & Oorni, 2007; Bijapurkar, Shukla & Mridusmita, 2014). People still reach out for the cash in their wallet. Customers still prefer cash as they can monitor their spending (Van der Horst and Matthijsen, 2013). They would deliberately pay cash for small value transactions (Klee, 2008; Jonker, 2007) to avoid the extra charges levied by merchants (Jonker, 2007). Customers also experience the pain of paying for cash payments of large amounts (Van der Horst and Matthijsen, 2013). The traditional payment mode is perceived by some to be risky - risk of encountering counterfeit currencies, risk of loss due to theft and robbery (Kosse, 2013; Van der Horst and Matthijsen, 2013) while others believe that it free from fraud and counterfeiting. In case of digital payments, fears regarding security, privacy and data theft is a barrier to adoption (Sivathanu, 2018). Trust is very critical to ensure acceptance from users (Kumaga, 2010) and to enhance customer loyalty (Bagla & Sancheti, 2018). In addition to this, freebies, cashbacks, and other promotional offers on usage contributed to a positive behavioural impact (Madan & Yadav, 2016). The adoption decision was also based on perceived convenience and financial benefits (Eastin, 2002) accruing to the user on usage. The occurrence of impulse purchases is also common due to its convenience (Guo & Bouwman, 2016).

3. Objectives of the Research

The objective of the research is to analyze the observations and personal experiences of the micro-retailers regarding the payment behaviour of the customers who visit the merchants to purchase various goods from their shops. Thus, the purpose of the research is:

1. To analyze the observations and personal experiences of micro-retailers on the cash payment usage of customers and micro-retailers in Chennai
2. To study the observations and personal experiences of micro-retailers on the digital payment usage of customers and micro-retailers in Chennai

4. Research Design

The primary data for the research topic was collected through a survey using a well-framed questionnaire and convenience sampling was adopted to collect responses from the micro-retailers. The well-structured questionnaire using a five-point Likert scale was prepared to investigate the observations of the micro-retailer towards the payment usage behaviour of customers. A total of 210 questionnaires, circulated among only micro-retailers in Chennai who used both kinds of payment systems were filled in, of which 7 were rejected as they were incomplete. Thus, 203 filled in questionnaires were collected.

5. Data analysis and results

Descriptive as well as inferential statistical tools have been applied in order to analyze the data. The application of parametric t-test was done which disclosed that the t-values of positive significance have the agreeability and strong agreeability of the respondents. The negative t-values lie in the group of disagreement to strong disagreement. The insignificant t-values indicate the overall neutral opinion of the entrepreneurs

5.1 Cash payment usage framework

The Cash Payment Usage Framework seeks to analyze the observations of the merchants when customers use cash for purchasing goods from their shops. Cash has long been the traditional mode of paying for goods and services.

The entrepreneurs frankly disclosed their opinion in Likert's 5-point scale on the cash usage details of their customers, the effect of introduction of government policies such as demonetization and Goods and Services Tax (GST) on the usage of cash, and the degree of difficulties faced by retailers when dealing in cash. The researcher intended to understand the exact viewpoint and observations of the entrepreneurs through mean comparison and t-test approach.

It can be concluded from the analysis that the entrepreneurs strongly agree on the following:

- (i) Higher cash usage was seen among people with low incomes or low literacy levels.
- (ii) Cash is commonly used as a medium of exchange (Kosse, 2013; Greene & Stavins, 2018).
- (iii) Customers found cash to be faster, more convenient and easier to use which is why it was commonly used for small value transactions (Kosse, 2017; World Bank, 2016).

- (iv) Cash continued to be robustly used (Dahlberg & Oorni, 2007) even though there has been increase in the adoption of digital payment instruments, as per data released by RBI.
- (v) During the post demonetization period there was a huge decrease in the usage of cash (Sivathanu, 2018).

The entrepreneurs moderately agreed on the following:

- (i) Customers used digital payment options, only when they had insufficient cash in hand. Thus, usage of digital payments was in most cases subject to the availability of cash in the hands of customers (Jonker, 2007).
- (ii) Customers considered cash to be more reliable and safer compared to digital payments (World Bank, 2016).
- (iii) The introduction of GST led to lesser usage of cash.

The entrepreneurs gave a neutral opinion for the need to keep more coins and currencies in different denominations as change. Hence, they managed to procure the necessary denominations from their banks or other known sources and did not consider the issue of having to stock adequate quantity of change, as a major problem.

The entrepreneurs disagreed that lot of time is consumed counting and checking the currencies. Change in the colour and size of the notes did not create too much confusion among the retailers.

The merchants strongly disagreed on the point that they encountered problems of counterfeit currencies. Interactions with the retailers showed that majority of them have not come across fake currencies in the last three years i.e. post demonetization.

5.2 Digital Payment Usage Framework

The researcher seeks to analyze the observations and views of the merchant or retailer when customers use digital payments for purchasing goods from his shop. The advent of the banking system and digitalization has caused a rise in the usage and popularity of cashless instruments as per data released by RBI, and customers are being familiarized with different digital payment options that differ in features. Various initiatives and incentives of the Government of India seek to transform India into digitalized economy.

The entrepreneurs shared their observations on the cashless payment usage details of their customers in Likert's 5-point scale. The researcher intended to understand the exact viewpoint and observations of the entrepreneurs through mean comparison and t-test approach.

The application of parametric t-test concluded that the entrepreneurs strongly agree that the customers using cashless payments felt them to be safe and secure. They did not find customers experiencing any kind of fear or reluctance when using a digital payment mode at their micro-retail shop. This was opposite of a study by Abrahão, Moriguchi, & Andrade (2016) which found that disclosure of personal information, data theft, safety and malfunctioning of the payment system created fears.

The micro-retailers moderately agreed on the following:

- (i) Cashbacks, rewards and points offered by the digital payment service provider encouraged customers to adopt and use digital payment options (Bagla & Sancheti, 2018; Madan & Yadav, 2018).
- (ii) Digital payments are used by customers when bill amounts are high (World Bank, 2016). Conversely it can be concluded that for small amounts, cash is used by the customer.
- (iii) Levy of extra charges on the customers on account of Merchant Discount Rate, or fixation of a minimum purchase requirement in order to use a digital payment mode leads to change in the payment preference of the customer. Thus, such charges or minimum purchase requirements compel the customer to pay cash or adopt a digital payment mode which is free of charge to the retailer.

The entrepreneurs gave a neutral opinion on customers making impulse purchases due to usage of digital payments. In other words, digital payment usage was not a factor triggering impulse purchases which would lead to an increase in their sales. This was contrary to studies by Lai & Chuah (2010) and Van der Horst and Matthijsen (2013). The research also showed that post demonetization customers have become careful spenders, buying only necessary items and avoiding indulging themselves in impulse purchases.

The micro-retailers disagreed to the fact that payments using digital mode were faster than cash. The research showed that customers experienced extra time when a digital payment instrument was being used. Network problems, technical failures, checks to ensure that money is received cause delays (Mallat, 2007).

Cash was considered faster as settlement of transactions would happen instantly (Van der Horst and Matthijsen, 2013; Bijapurkar, Shukla & Mridusmita, 2014).

There was strong disagreement among the micro-retailers regarding the following:

- (i) Purchasing power of customers increasing post demonetization. They felt that the amount of goods that the customer now buys has drastically decreased post demonetization, which has affected their sales.
- (ii) Encouraging customers to pay using digital mode due to GST introduction. Thus, they never asked customers to go cashless and it was purely the choice of the customer to decide which payment method to adopt.

6. Discussion and Conclusion

The result of the research study shows that inspite of the popularization of digital payment instruments, the retail market in Chennai remains cash intensive due to its convenience and speed. Lack of awareness among the customers was one of the reasons for the high usage of cash. Cash has been the traditional mode of payment for many years and this has made the customers and retailers habituated to use cash in retail financial transactions. The merchant discount rate levied by banks burdened the micro-retailer, as it cut into their margins.

The findings of the study reveal that gaps still exist in the adoption process and they need to be addressed at the earliest if effective transition from cash to cashless is expected to happen. Demonetization brought about a big change in the buying habits of customers. Prior to the disruption in the economy in 2016, merchants feel that customers did not think twice before spending but now they witness changes in their customers' buying habits, where they indulge in buying only those goods which satisfy their immediate needs. Unnecessary spending has come down and customers are more careful spenders.

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