

THE PAYMENT PATTERN IN RETAIL SERVICE UNDERTAKINGS

In end-2000 Emor and Eesti Pank concluded a joint study on payment modes used in retail service undertakings¹. The survey covered accommodation and catering establishments, beauty shops and other service companies employing more than five persons. The sample involved 150 companies, including 70% from Tallinn and 30% from Tartu, Pärnu and Narva. The findings can be generalised for 691 companies in operation in the year 2000².

The Use of Banks

According to the study **Hansapank** is the main bank for the majority of accommodation and catering establishments of larger staff and turnover as well as for undertakings operating in Tallinn, **Eesti Ühispank** for smaller companies outside Tallinn. On the average an account is held in 1.28 banks depending on the turnover of the company. Every fourth undertaking has an account

in at least two banks, about half of them justify it with better customer service. Passive account survival from the past and risk diversification was also mentioned among reasons. Customers of Hansapank are better informed about the possibilities and can evaluate the borrowing terms of their main bank whereas customers of Ühispank are more satisfied with the price level.

Modes of Payment in Paying for Services and Collection of Revenue

More than half of the respondents uses electronic mode for **regular payments** (especially customers of Hansapank). Smaller companies make payments in cash in the main office of the bank (see Figure 1). Payment preferences were justified in both cases with convenience and tradition. The larger the company, the more likely is the use of telebanking. The Internet banking is clearly the most preferred one whereas the main mode of payment coincides with the preferred mode of payment in $\frac{3}{4}$ of the retail service companies.

About $\frac{2}{3}$ of retail service companies pays **wages** mostly in cash, justifying it with employee preference. More than half of the undertakings with the monthly turnover of at least 100,000 kroons and with more than 20 employees transfer wages to bank accounts.

The payment modes in paying **state taxes** are similar to those of regular payments – undertakings with lesser staff and lower turnover use rather non-electronic payment channels whereas electronic payment modes are more spread in larger undertakings. The use of electronic channels among the customers of Hansapank is significantly above the average. The use of a mode

different from the preferred one is justified with the lack of technical access.

Paying for the goods purchased, the electronic channels are used slightly more than non-electronic. The cash payment is and will be preferred by undertakings with lesser staff and lower monthly turnover and customers of Eesti Ühispank. In **paying for fixed assets**, electronic and non-electronic modes are used more or less equally. Smaller undertakings use payment orders and cash payment and larger undertakings – the Internet banking services above the average. In about a quarter of undertakings the main mode of payment and the preferred one (Internet banking) do not coincide, mostly due to the lack of technical possibilities. Non-electronic channels prevail in **paying for supplies**. In all groups of the retail service companies the main payment mode is payment in cash (44%).

The main **mode of collection** of revenue is cash payment (see Figure 2). Card payments are more used in accommodation and catering undertakings and among Hansapank's customers. There are more beneficiaries of card payment mode among larger retail service companies.

¹ Eesti Pank was one of the commissioners of the study. The proprietary right and copyright of results belong to Market and Opinion Research Center Emor Ltd. This study is published with the consent of Emor.

² The consolidated database of the Estonian Enterprise Register and Business Register has been used as a sample base.

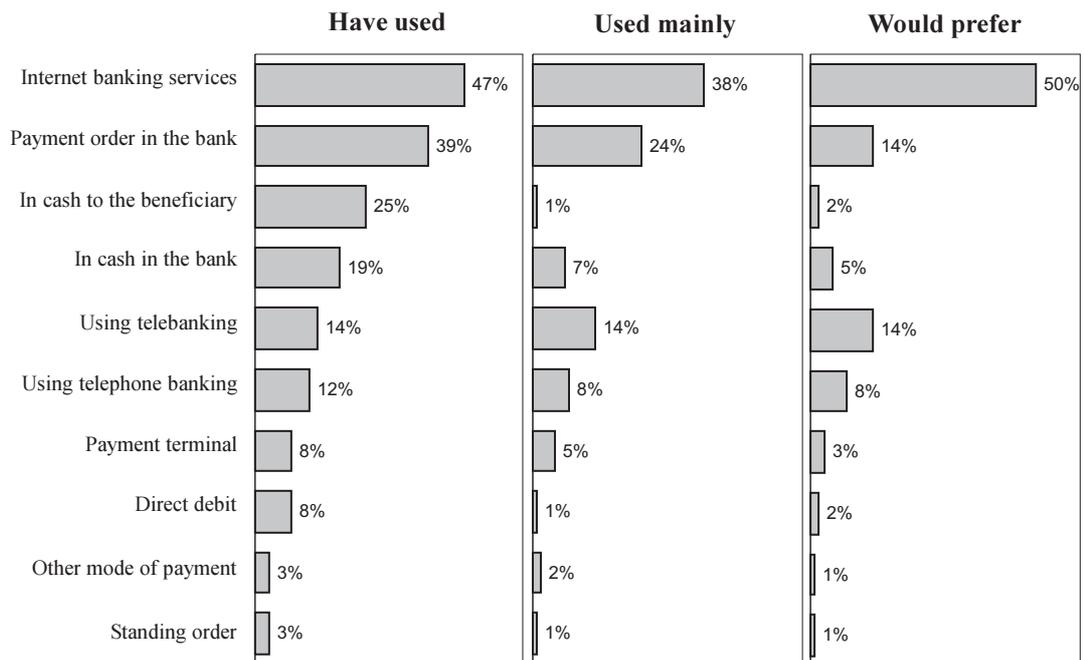


Figure 1. The use of payment modes by undertakings in making regular payments in 2000 (% of all respondents)

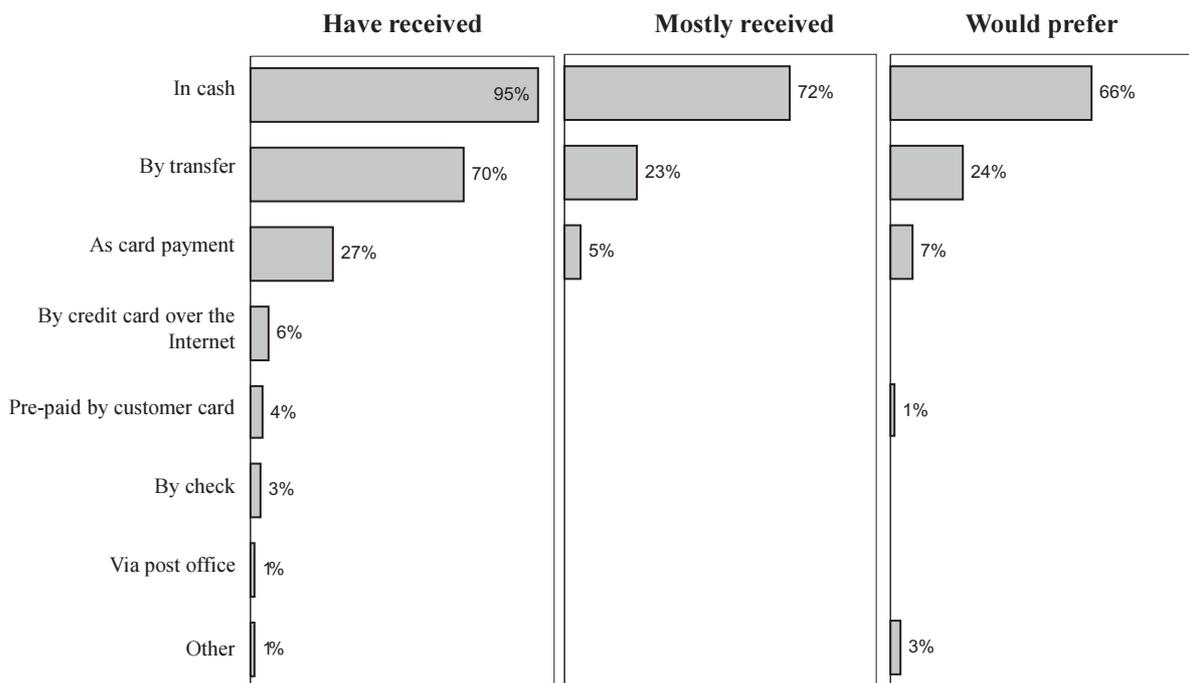


Figure 2. The use of payment modes by customers paying for goods/services in 2000 (% of all respondents)

Changes in Payment Modes in 2000

A quarter of the retail service undertakings states that nothing has changed for them in the modes of payment as regards **paying expenses** since 1999. The overall trend is an increasing use of electronic channels, the share of

cash payments to the beneficiary have decreased most (63%). There are no changes by company size, profile or region in the growing use of the Internet banking services while among the customers of Hansapank

Internet banking has become more popular (used by 43% of customers; 27% of Eesti Ühispank's customers).

Nothing has changed in the **collection of revenue** for 46% of respondents. The share of card payments has

grown most. The customers of Hansapank and retail service undertakings with larger staff and higher turnover as well accommodation and catering establishments have better chances to be paid by card. Figures 3 and 3a display the payment mode dynamics.

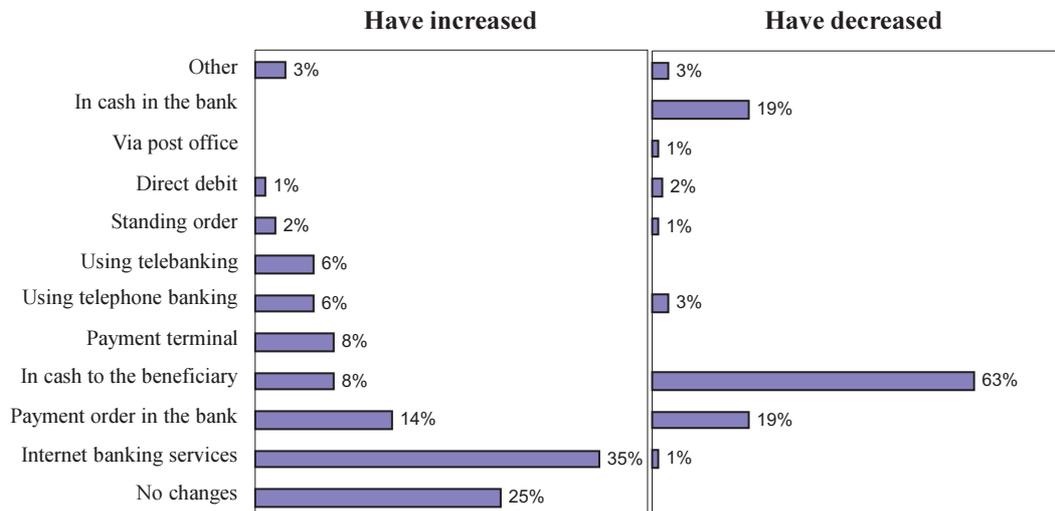


Figure 3. The modes of payment that undertakings have used more/less in 2000 against 1999 (% of all respondents)

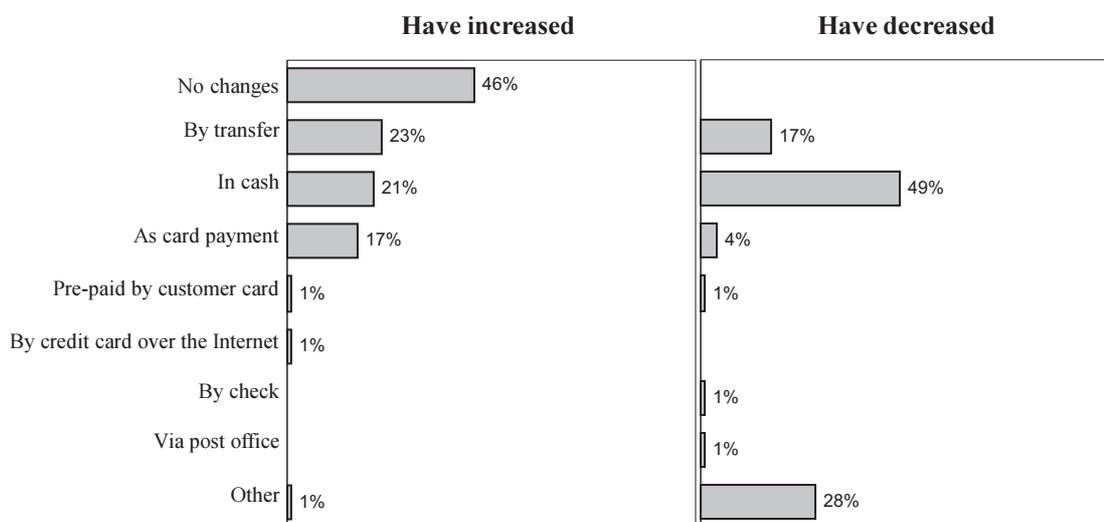


Figure 3a. The modes of payment that customers have used more/less in 2000 against 1999 (% of all respondents)

Card Payment Outlooks

Apart from currently available possibilities to pay by card (see Figure 4), the intention to introduce the access in near future was also studied. In end-2000 card payment was possible in 31% of retail service undertakings, a 14% increase is expected within a year. The customers of Hansapank and accommodation and catering establishments intend to open the access more

than the average. By the end of 2001 more than 60% of accommodation and catering establishments should be ready to accept payments by card. Major problems focus around POS maintenance costs, communication speed and collection speed (see Figure 5). Client satisfaction (45%) and safety (31%) are considered as the main advantages of card payments.

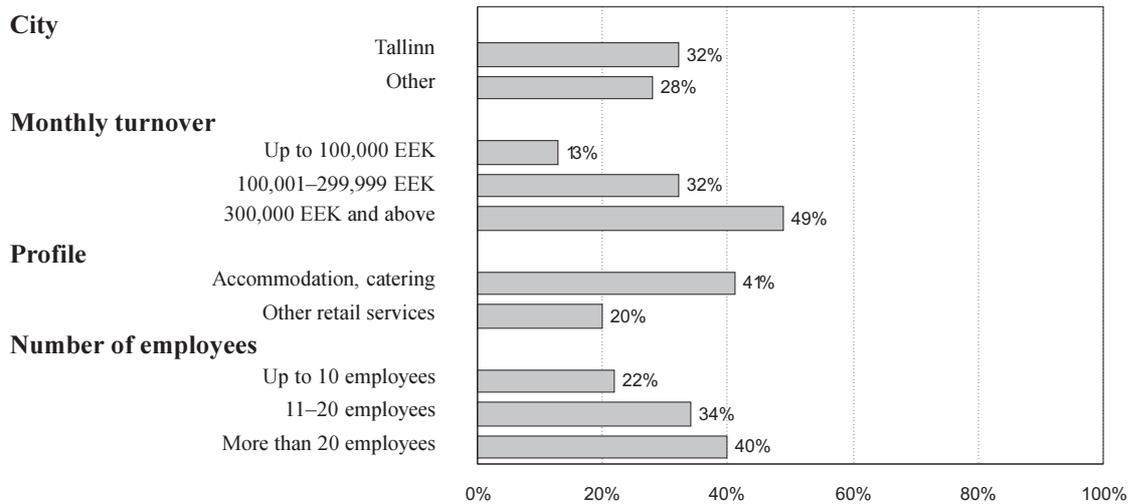


Figure 4. Retail service undertakings/companies accepting card payments (% of the undertakings of the target group)

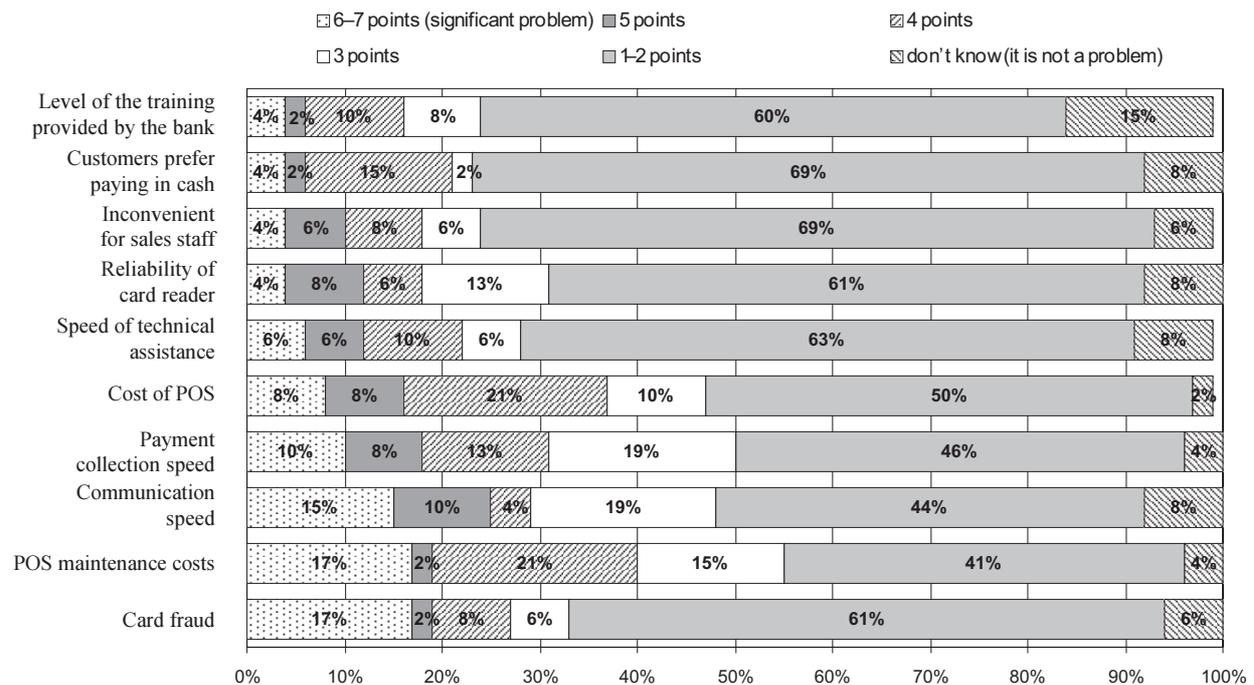


Figure 5. Factors preventing a wider application of card payments (% of undertakings/companies accepting card payments, n=48)

Summary

Paying for the expenses under survey a slightly larger number of undertakings uses electronic channels, with the exception of paying wages and paying for the supplies. In general the Internet bank is the most used and preferred payment channel, except in paying wages and paying for the supplies. As regards the collection of

revenue, cash payment is most important, being also the most preferred mode of collection. Respondents confirm the growth of the share of electronic payments at the expense of non-electronic channels. The high price and low collection speed are considered as the main disadvantages and obstacles in the payment by card.