

# CASH

By Paco Underhill

The 21st-century economist understands cash on a global market scale. Trillions are sitting in accounts across the world. The largest global technology companies are sitting on piles parked in offshore accounts beyond the reach of tax collectors. It poses questions about technological monopolies that I feel totally unqualified to address. But cash also passes through our economic and retail systems in other ways which deserve our attention. Let's start with a true story.

The fastest growing section of iconic American luxury department stores isn't couture or a hot makeup brand; it is the up-market men's sneaker department. Some call it hip-hop shoe central. In stores populated with women in their late forties and fifties, this department's

clientele could not be more different. The guys are not there for Armani or Zegna; there is almost no crossover to other merchandise sections.

They are there for über-cool sneakers. They are fancy athletic style shoes starting at \$500 price points. And they aren't paying with Black Amex cards or HSBC Premier; their currency of choice is cash. Even in the stuffiest of department stores, the "Kwell Factor" (the new cool) in this department is breathtaking.



## \$ CASH IS KING

When the Escalade became the vehicle of choice for the nightclub set, Cadillac stopped reporting the number of cash sales. Never in human history have we had more cash in circulation than right now. The dollar is the principal currency

in global gray and black economies. The Euro has made inroads, especially thanks to its larger denomination bills, but cool, crisp, unmarked Franklins still rule.

Paris and London department stores, which cater to Middle Eastern and former Soviet Republic customers, are reporting a high number of transactions in cash. The London police have a special detail looking for pickpockets working the streets around Harrods and Harvey Nichols. In Japan and many other parts of Asia, phone and utility bills are often paid in cash. In emerging markets, much of the lower end of the workforce is paid daily in cash, or weekly in check form—and they are escorted to a company's branch bank weekly to cash their paychecks. In the 1990s when my company did our first work in Brazil, we saw banks with 100+ teller windows designed just for that purpose.

## \$ MOVEABLE FOR TUNES

We tend to focus on the idea that cash is connected to corruption, which it certainly is at one end of the spectrum. A million dollars in cash fits nicely into a briefcase. Sure there are vaults stuffed with corrupt greenbacks. Yes, Panama and Cayman Island banks need huge cash-counting machines for money launderers, but the vast majority of cash floats through our world legitimately in the pockets of people whose net worth isn't presented to them in monthly bank statements.

How many countries in the world have families with a secret cash hiding place? Call it refugee memory: many Russian families found out 20 years ago that stashing Rubles was risky—stashing Franklins or Euros was a significantly better idea.







## \$ THE HIDDEN GLOBAL ECONOMY

There is a serious problem with our ability to recognize what is really happening with unemployment numbers. We have first-world nations reporting high unemployment rates: France at 10 percent, Italy at 12 percent, Spain at 23 percent, Greece at 26 percent. Those rates have been consistently high since the start of our economic crisis in 2008. Are all those people really out of work? Or maybe they have simply moved to the phantom economy. Even the U.S. Department of Labor statistics are based on the number of people actively seeking and not finding work, rather than on the total number of potential adults who could be working, but have simply dropped out of the mainstream employment race.

Across Europe, where the legal structure for hiring and firing is rigidly fixed, many small businesses have to find ways to end-run the system. It can cost a year's wages to fire an unproductive worker. It is so much easier to hire on the cash economy and go under the radar.

## \$ GOING GRAY

Globally, many middle-class people are living paycheck to paycheck. We all know that the easiest way to budget your expenditures is limiting the amount of money you have in your pocket in the first place. You can't spend what you don't have. And it's hard to track what people actually have in terms of disposable income. Roughly 20 percent of American households do not have bank accounts. They pay bills in cash, and use MoneyGram and Walmart Financial Services for payment transfers.

There are many markets that operate in the gray economy: farmers' and flea markets, church and craft fairs, tag and garage sales. People who choose to pay in cash aren't just undocumented aliens, farm workers, day construction labor, or domestic help; ask for a bid from almost any small contractor and you are often offered two prices, the cash or the non-cash price. The small independent merchant is also flexible. Layaway is mostly a cash-based proposition. A friend who sells prom dresses does much of her business in layaways. It isn't just teenage girls buying their dresses 20 bucks at a time. Some middle-class mothers use layaway to insure that the purchase floats under daddy's radar.



## \$ CASH TAKEAWAYS

For retailers, what does all this mean? There are four key takeaways about the cash economy that may impact the industry.

1. The measures we use to gauge broader economic and retail activity need to be reinvented. We tend to measure what's easy to measure and ignore the rest. It isn't just about collecting data, but about our ability to process and recognize what's there and what's not there.
2. If we only look at the top 50 U.S. chains as the bellwether for the broader retail economy, we are missing everything that is operating under the radar. The farmers' market movement continues to erode grocery sales. Used is no longer used, it's now vintage.



3. Yes, online sales are growing as aging merchants have lost touch with the millennial shopper, but they also have lost touch with the physical store itself. Places that are fun and interesting to shop have customers; neglected stores that are dull and dirty don't.
4. An independent merchant with a cash income is almost by default forced to be part of the gray economy.

At one end of the business spectrum, we want cash to disappear. It would be so much easier for big merchants and bankers if all transactions were electronic and traceable. Banks would save on the labor of both accepting and dispensing cash. How different would store design be if the cash-wrap disappeared? Armed robbery would be an archaic crime. Our children wouldn't understand what flashing a wad meant, and our wallets would be so much easier to carry.

Me, personally? I'm sort of looking forward to Harriet Tubman joining Ulysses Grant as part of my daily cash life. Cash will disappear, just not in the foreseeable future. **RR**



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*Paco Underhill is the CEO and Founder of Envirosell, a behavioral research and consulting firm with 10 offices globally. Paco and Envirosell's work has been featured in The New York Times, 20/20, National Public Radio, Smithsonian Magazine, Wall Street Journal, and other major news media. Paco is also the author of What Women Want, which examines how women are affecting the future of commercial spaces; Call of the Mall, a walking tour of the American shopping mall; and Why We Buy, the bestselling book about retail in history.*