Study finds we spend more with cashless payments

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A study by researchers from the University of Adelaide has found that when using cashless methods of payment, individuals tend to spend more when purchasing.

University of Adelaide Ph.D. Student Lachlan Schomburgk, who led the study, says the research found support for the existence of a positive "cashless effect," which is when consumers spend more when using cashless payment methods in comparison to cash.

The study suggests the cashless effect leads people to spend more when purchasing products that are typically used to signal status, such as jewelry. However, the effect was not observed when donating or tipping.

"Against our expectations, we found that cashless payments do not necessarily lead to greater tips or donations, in comparison to cash," says Schomburgk, who conducted the study with the University of Adelaide's Professor Arvid Hoffmann and Dr. Alex Belli from the University of Melbourne.

"This indicates that traditional cash-based ways of collecting money, such as tipping jars and spiral wishing wells, are just as effective as cashless point-of-sale terminals to collect tips or donations."

Schomburgk says consumers should be mindful of the payment method they use to pay for goods or services, as this could help them spend less—especially important in the current cost-of-living crisis.

"To prevent spending more than planned, we recommend consumers carry cash instead of cards whenever they can, as it acts as a self-control method," Schomburgk says.

"When using cash, people physically count and hand over notes and coins, making the act of spending more salient. If nothing is physically handed over, it's easy to lose track of how much is spent.

"The transition towards a cashless society seems almost inevitable. I believe this research is crucial because it shines a light on an overlooked aspect of this transition: how payment methods influence our spending behavior. This understanding can help empower us to make more informed purchasing decisions."

The study, which was published in the *Journal of Retailing*, also provides useful insights for businesses and policymakers.

"Businesses should be aware that if they fail to embrace the cashless revolution, they might be unintentionally jeopardizing their revenue potential," Schomburgk says.

"And policymakers should communicate to individuals unfamiliar with cashless transactions, such as people who don't have bank accounts, about the potential of cashless methods to lead to overspending."

Schomburgk says further research is important, with technological advancements giving rise to newer payment methods.

"Both buy-now-pay-later services and cryptocurrency payments have some unique features that are likely to have an interesting influence on payment behavior," Schomburgk says.

"Given their novelty, there is currently limited academic research on both, which is where I believe future research is needed."

This research was conducted by analyzing 71 published and unpublished research papers from 17 countries, including data from more than 11,000 unique participants.

"Through this meta-analysis, we identified key factors that make the cashless effect stronger or weaker, which individual studies could not find. By doing this, we uncovered new insights that had often been overlooked by other researchers in individual studies," Schomburgk says.

More information: Lachlan Schomburgk et al, Less cash, more splash? A meta-analysis on the cashless effect, *Journal of Retailing* (2024). DOI: 10.1016/j.jretai.2024.05.003

Provided by University of Adelaide

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