

# The Future of the Penny in Canada

## Market Study of Implications

---

September 2007

**Prepared for:** Royal Canadian Mint and Department of Finance

**Prepared by:** Altitude Marketing Research (AMR)  
(AMR Project Ref #701)

# Table of Contents

	<b>Page</b>
<b>I. <u>Management Summary</u></b>	
➤ Background and Objectives	2
➤ Research Methodology	3
➤ Summary and Conclusions	4
<b>II. <u>Detailed Findings and Research Commentary</u></b>	
1. Opinion Toward The Penny – For/Against	6
2. Attitudes Toward Using/Not Using the Penny	14
3. Pricing Implications	20
4. Managing the Penny Removal	25

# I. Management Summary

## Background and Objectives

**What is the case for/against removing the penny as a unit of currency?**

### **Background/Issues**

- Declining purchase value
- Cost to the market of keeping it in circulation versus impact of removal
- International trends – Australia, New Zealand vs...  
The Yen equivalent... “no sign of any moves”  
The U.S. cent..... “sacrosanct”

### **Objectives/Need to Know**

- #1:** What is public opinion on the issue...The Canadian Consumer?
- #2:** What is the Business perspective – Small Retail (as most likely affected) vs. Large Retail and Key Stakeholders?
- #3:** What do Consumers/Business think about pennies/using them?
- #4:** What would be the impact if the penny removed (e.g. pricing)?
- #5:** What are the action implications for RCM/Finance if penny removed – notification, lead times, implementation, communication?

# I. Management Summary

## Research Methodology

### Sources of Feedback

#### **Consumers**

- Nationally representative sample of 1,500 Canadians aged 16 plus. (Follow-up sample of 233 Coin Accumulators – see Section 5)

#### **Business**

- Cross section of 250 Small Retailers (Fast Food, Coffee Shops, Restaurants, Grocery, Gas).
- Respondent: Owner/Manager/Franchise Holder

#### **Stakeholders**

- In depth discussions with 28 organisations. Financial Institutions, Large Retail, Armoured Car Companies, Transit, Charities, Associations (Grocery Distributors Retail Council, Convenience Store, Consumers' Association, Federation of Independent Businesses)

### Net:

- Textbook survey research methodology
- Objective, impartial question administration
- Robust design. Large scale sampling
- Extremely reliable results

# I. Management Summary

## Summary and Conclusions

### Overall

→ Most small retailers are slightly in favour of removing the penny while consumers are split on the issue.

### Opinion

→ Small Retailers 3 to 1 in favour – 63% in favour of removal, versus 19% against. Consumers more evenly split – 42% in favour, versus 33% against - but one quarter “neutral”.

### Effect on Consumers

→ Many disregard the value and importance of the penny in everyday life but this is a point of discretion and a choice made by the consumer.

→ This is not the same as being deprived of pennies for those who find them convenient (51%) or who feel they still need them (58%)

### Effect on Business

→ Small Retailers see benefits to removing the penny – easier and more efficient operations, time savings and faster service but the vast majority (86%) need customer approval as a condition of acceptance.

→ Few retailers anticipate any changes to their operations to accommodate the removal of the penny.

# I. Management Summary

## Summary and Conclusions

### Pricing

→ While two thirds of consumers expect retailers to round prices up, only 15% of retailers claim this as their most likely option. However, a balanced rounding (up and down) may be more to do with the competitiveness of market pricing than retailers protecting the consumer.

### Stakeholders

→ The major Financial Institutions are in favour of removing the penny. Armoured Car Companies are both for and against or neither, Charities and Transit Authorities are in favour. Large Retailers and Retail Associations are generally neither for nor against but are apprehensive about the pricing implications. Although Grocery Distributors and Convenience Stores are in favour of removal of the penny, they have reservations about the effects of penny removal and the lack of sophistication among many of the Mom and Pop store owners.

### Removal

→ The process of removal is a considerable undertaking. Timelines need to be managed (one year minimum). Rationales need to be stated and the "in flow" of pennies has to be staged. Communication on all these fronts is fundamental.

## II. Future of the Penny

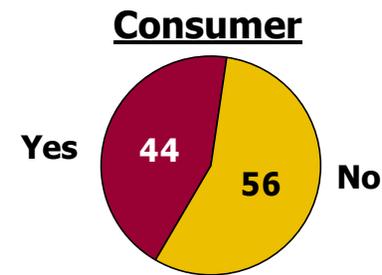
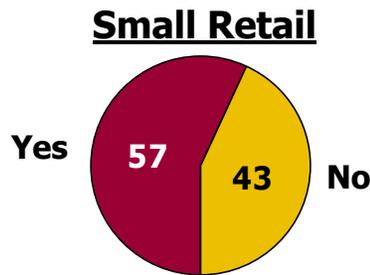
### Detailed Findings

- Decision** → Keep it or scrap it? Why/why not?
- Consumer** → Is a penny worth anything? If so, to who?
- Business** → Is a penny of value? Is it needed operationally?
- If Gone** → What are the concerns?
- Pricing** → What are the challenges? How deep is the thinking?
- Removal** → What is the "process" needed to manage removal?

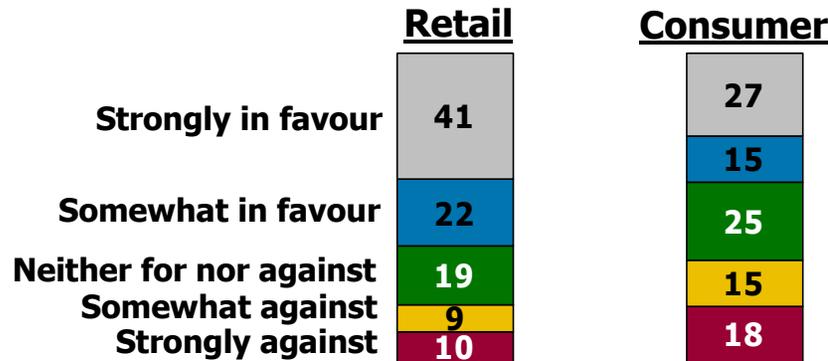
# 1. Opinion Toward The Penny

## 1.1. Small Retail and Consumer

### Ever Thought They Should Get Rid of the Penny?



### How Would You Feel if the Penny Was Removed?



	<b>%</b>	<b>%</b>
<b>Net For</b>	<b>63</b>	<b>42</b>
<b>Net Against</b>	<b>19</b>	<b>33</b>

**3 to 1 in favour of removal**

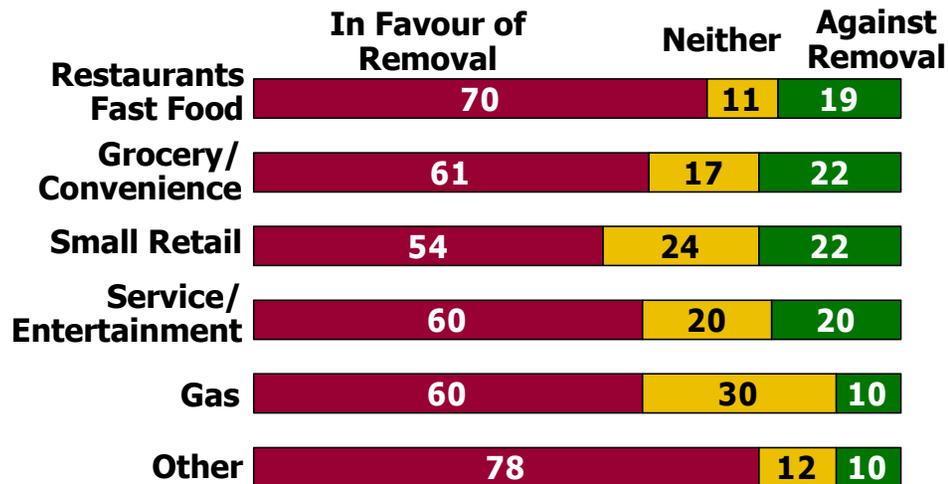
**More even split**

- Net:**
- 1 in 5 small retailers opposed
  - 1 in 3 consumers opposed
- Plus...**
- Depending on pricing issues, could be...
    - ...1 in 3 retailers opposed
    - ...6 in 10 consumers opposed
- **Note:** only asked in official languages (not "ethnic")

# 1. Opinion Toward The Penny

## 1.2. Drill Down – Small Retail

### By Sector

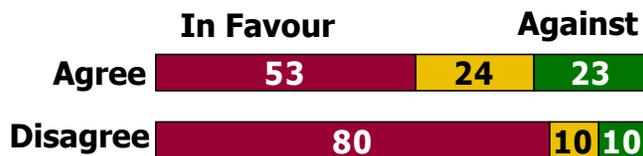


### Net:

- Relatively consistent 1 in 5 against
- But Small Retail has highest proportion of strongly against at 18% (of 22%)
- Retailers more in favour if believe no need to change prices on the shelf

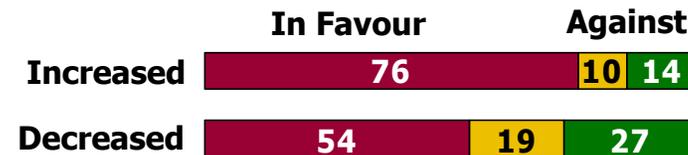
### By Awareness of Pricing

(Agree/Disagree would have to change prices if no pennies)



Net: Less in favour of removing penny if conscious of need to change prices

### By Need For Coin



Net: Retailers more in favour of penny removal if seeing an increase in their need for coins in general

# 1. Opinion Toward The Penny

## 1.3. Reasons for Opinions – Small Retail

Perceived Benefits		Perceived Drawbacks	
	%		%
➤ Less change/coins to count, carry, handle	19	➤ Prices rounded up/down	9
➤ Easier to count change/less counting	12	➤ Prices would have to change	8
➤ Time savings	7	➤ Consumers pay/see higher prices	3
➤ Price rounded off/even	7	➤ How to handle GST/figure out tax	3
➤ Easier, less hassle (unspecified)	6	➤ Couldn't make proper change	3
➤ Faster service/transactions	6	➤ Customers want exact change	2
➤ More room in the till	3	➤ Use pennies a lot, pennies needed for the business	2
➤ No need to roll coins	3	➤ Have to reprogram cash drawer	2
➤ Less trips to the bank	2	➤ Possibly reduce margins/lose revenue	2
➤ Other benefits	13	➤ Disgruntled customers	1
		➤ Other drawbacks	12
<b>Any benefits</b>	<b>61</b>	<b>Any drawbacks</b>	<b>40</b>
<b>No benefits</b>	<b>39</b>	<b>No drawbacks</b>	<b>60</b>

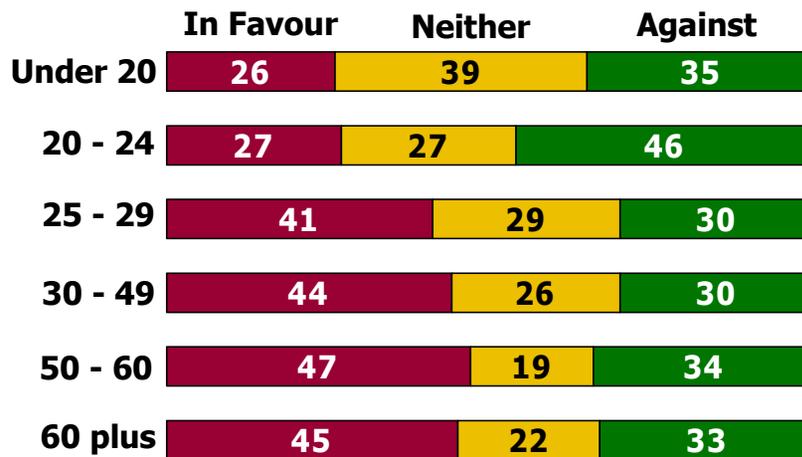
“Process and service efficiencies but penny removal may not affect trips to bank for (other) coins”

“Low feedback of price rounding, tax implications and cash register software”

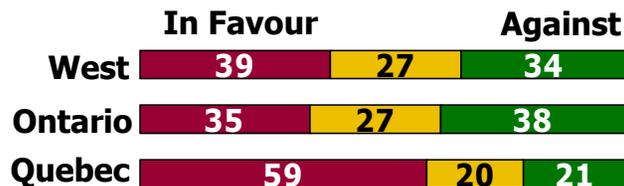
# 1. Opinion Toward The Penny

## 1.4. Drill Down – Consumer

### By Age Group



### By Region

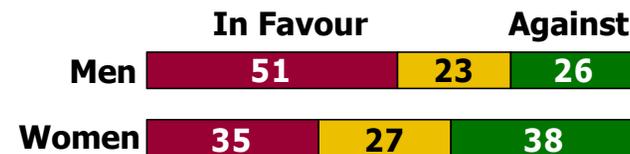


**Net:** More in favour of penny removal in Quebec. Roughly equal split in Ontario and West

### **Net:**

- Younger age groups more opposed to penny removal
- **Potential Reasons...**
  - ... Higher spend on micropayment/low ticket items
  - ... Possibly credit deprived
  - ... Possibly higher need to make change when paying cash

### By Gender



**Net:** Men more in favour of penny withdrawal. Women more evenly split

# 1. Opinion Toward The Penny

## 1.5. Reasons for Opinions – Consumers

### Note – Unprompted Feedback

Reasons in Favour of Removal		Reasons Against Removal	
	%		%
➤ Wouldn't have to carry so much change	27	➤ Prices will go up/things cost more	32
➤ Pennies useless/worthless	22	➤ Part of our heritage, sentimental	13
➤ Pennies an annoyance/inconvenience	17	➤ Need pennies to make exact change	12
➤ Costs more to make them than they're worth	11	➤ Part of the currency/all coins of value	10
➤ Pennies don't buy anything/worthless denomination	9	➤ Like the penny	9
➤ People discard them, don't want them	7	➤ Good way to save	3
➤ People save them and don't return into circulation	7	➤ No reason to discontinue	2
➤ Prices rounded to exclude pennies	5	➤ Would lead to inflation	4
➤ Pennies dirty, smelly, germ ridden	4	➤ Children like them/learn to count	2
➤ Pennies heavy as rolled coin when cashing in at the bank	2	➤ Penny is the base unit/not everything divisible by 5	2
➤ Other	7	➤ Other	12

**"Inconvenient, uneconomic, not wanted, no unit purchase value"**

**"Increased prices, inflation, sentimental. Pennies needed. Why discontinue...?"**

# 1. Opinion Toward The Penny

## 1.6. Key Stakeholders ~ Synopsis

- FI's** → On side with removal but little impact on internal operations 
- Armr'd Car Co's** → Neutral. Neither for or against. Or both 
- Charities** → In favour. Moving away from low denomination coin donations 
- Transit** → In favour of removal. Cost savings to coin handling 
- Bus/Com Assocs** → In favour of removal. Bite the bullet and go 
- Large Retail** → Opposed to removal. Limit pricing. "Tax in" pricing issues. More strongly opposed, subject to (tax) rounding legislation 
- Retail Assoc** → Strongly opposed for key retail sectors – Convenience Stores, Grocery Distributors, Retail Council. Not underestimating complexity of the pricing challenge 

# 1. Opinion Toward The Penny - Synopsis

## Overall

- Many have already asked the question themselves about removing the penny. On balance...
  - 3 to 1 in favour of removal among Small Retail
  - Versus more even split among Consumers (42/33)

## Trend

- Compared to earlier takes on the consumer pulse...
  - No major change from 1994 (MARC) study
    - ... i.e. against penny removal 37% vs. in favour 41%

## Vs. Stake Holders

- Reflection of similar themes. Namely...
  - Scope for increased efficiencies
  - Pennies a nuisance, albeit "lovable" to some
  - Inflation concerns from price increases
  - Questions being asked about the mechanics of removal and life beyond, without pennies

## Net

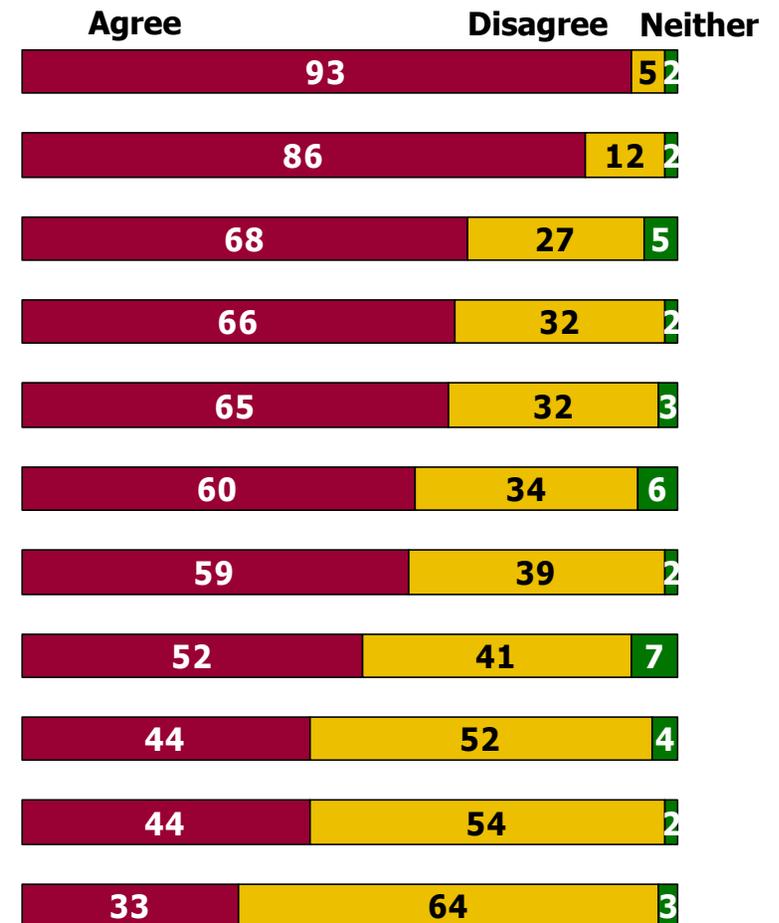
- Arguments for and against but public opinion reflects healthy "No" contingent. Plus only the more astute large retailers and retail bodies may be fully aware of the implications to their business operations.

## 2. Attitudes Toward Using/Not Using The Penny

### 2.1. Small Retail

#### Penny Usage Statements

- We sometimes hand over what the customer is buying even if they're one or two pennies short
- I'd be fine getting rid of pennies as long as my customers were ok with it.
- It would take less time to count up takings at the end of the day if we didn't have pennies
- I would have more space in my cash drawer for other coins
- I would have to change all my prices if there were no pennies
- Removing the penny would make my life easier
- We wouldn't be able to make correct change without pennies
- It's time consuming to reconcile the pennies when balancing the cash with the printed receipts at the end of the day
- Having to receive and make change in pennies slows up the line for customers
- We don't really deal a lot in pennies for what we sell
- We wouldn't have to go to the Bank as often to get coins if the penny was no longer in circulation

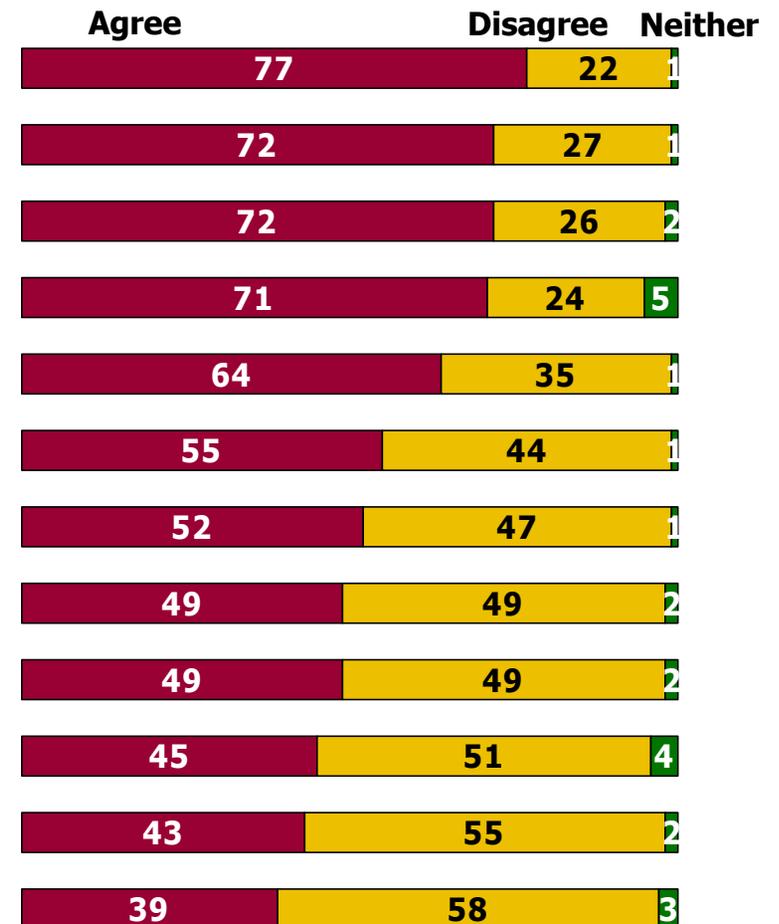


# 2. Attitudes Toward Using/Not Using The Penny

## 2.2. Consumers

### Penny Usage Statements

- When buying a cup of coffee I sometimes throw the pennies in change into the coin jar on the counter
- I try to get rid of my pennies by making sure I hand over the exact amount when paying cash for something
- Retailers can't make correct change without pennies
- The penny is part of Canada's heritage
- I wouldn't go down the back of the sofa if I dropped a penny while watching TV
- I dump the pennies out of my pocket at the end of the day because I don't want to keep carrying them around
- A penny isn't really worth anything any more
- Pennies are just a nuisance to carry around
- It's annoying when people hold up the express line because they're counting up the exact amount to give to the checkout staff
- The penny is convenient
- If I saw a penny on the street, I wouldn't stop to pick it up
- I need pennies

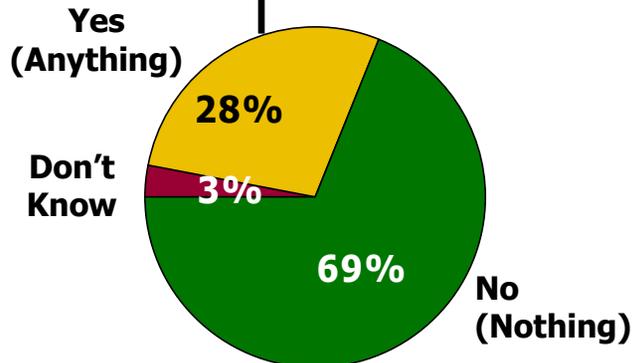


## 2. Attitudes Toward Using/Not Using The Penny

### 2.3. NOT Using the Penny (i.e. if removed)

#### SMALL RETAIL

**Would There Be Anything Different to Running the Business if no Pennies?**



**Unprompted Feedback from Retailers needing to do something different:**

	%
➤ Prices rounded up/down	3
➤ Prices would go up	2
➤ Less work/less time consuming counting pennies	2
➤ Simpler/easier	1
➤ No more penny candies	1
➤ No more take a penny/leave a penny coin jar	1
➤ Other - various	14

- The large majority of Small Retail (69%) say there would be nothing different to the way they run the business if no pennies
- Implies that many retailers may not have thought through what is at stake (cash register software, staff practices, price adjustments etc.)

## 2. Attitudes Toward Using/Not Using The Penny

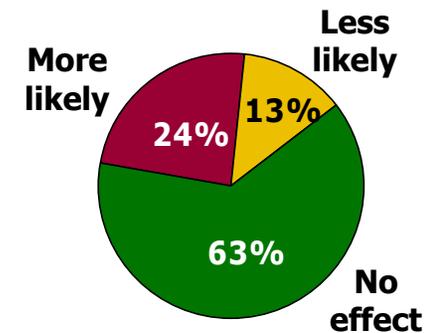
### 2.3. NOT Using the Penny (i.e. if removed)

#### **CONSUMERS – Effect on Change Needed to Pay For Things**

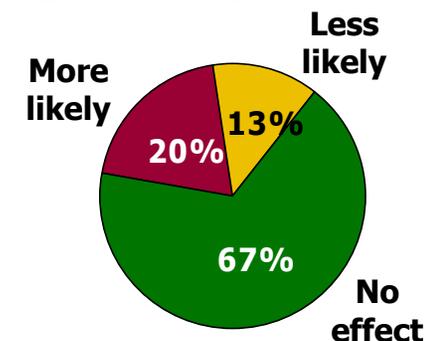
<b>Unprompted Feedback</b>		<b>%</b>	
<b>Positive impact</b>	➤ Retailers round up or down – even out	8	
	➤ Less change – easier/convenient	5	
	➤ Using even amounts (5/10¢)	4	
<b>Any</b>	➤ Faster check out	6	
	➤ Other positive	4	
<b>Any</b>		<b>28%</b>	
<b>Negative Impact</b>		<b>%</b>	
<b>Negative Impact</b>	➤ Consumers pay more/prices rounded up	24	
	➤ Harder to make (exact) change	7	
	➤ Have to change tax system	3	
	➤ Use less cash/more debit	3	
	➤ Wouldn't get exact change back	3	
	➤ Would be awful problems	2	
	➤ Nickel would become new penny	2	
	➤ Penny still has value	2	
	➤ Work/confusing for retailer	2	
	➤ Hate to lose the penny	2	
	➤ Other negative comments	11	
	<b>Any</b>		<b>50%</b>

#### **Prompted**

##### **Handing Over Exact Change**



##### **Using Up Change Every Day**



## 2. Attitudes Toward Using/Not Using The Penny

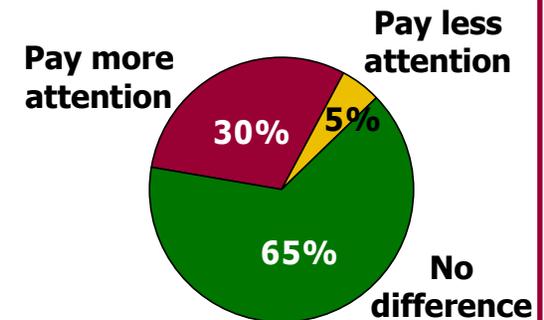
### 2.3. NOT Using the Penny (i.e. if removed)

#### CONSUMERS – Effect on Change Received

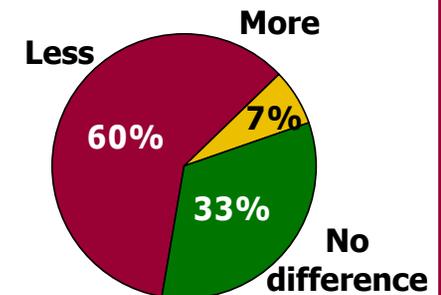
<b>Unprompted Feedback</b>	<b>%</b>
➤ Less change to carry around	25
➤ No impact	17
<hr style="border-top: 1px dashed black;"/>	
➤ Be short changed/down a cent or two	6
➤ Prices rounded up/down to get to even number	6
➤ Would have more dimes, nickels other coins	5
➤ Products would cost more	5
➤ No pennies	4
➤ Future price changes in units of 5/10 cents	3
➤ More change to carry	2
➤ Simpler to make change	2
➤ Other comments	12
➤ Not sure of effect on change received	17

#### **Prompted**

##### Making Sure Get Back Right Amount in Change



##### Amount of Change in Coins To Carry Around



## 2. Attitudes Toward Using/Not Using The Penny

### 2.4. NOT Using the Penny (i.e. if removed)

#### CONSUMERS

##### Synopsis

**#1** → **The big expectation (60%) is less coins back in change from retailers to carry around during the day.**

**Note:** Highlights the idea of “change” (cash as coins) as a way to get through the day – i.e. speaks to micropayments but raises the issue of what “no pennies” might do to cash usage in this area (more debit?)

**#2** → **Around one third see other “developments” (vs. two thirds “life goes on”)**

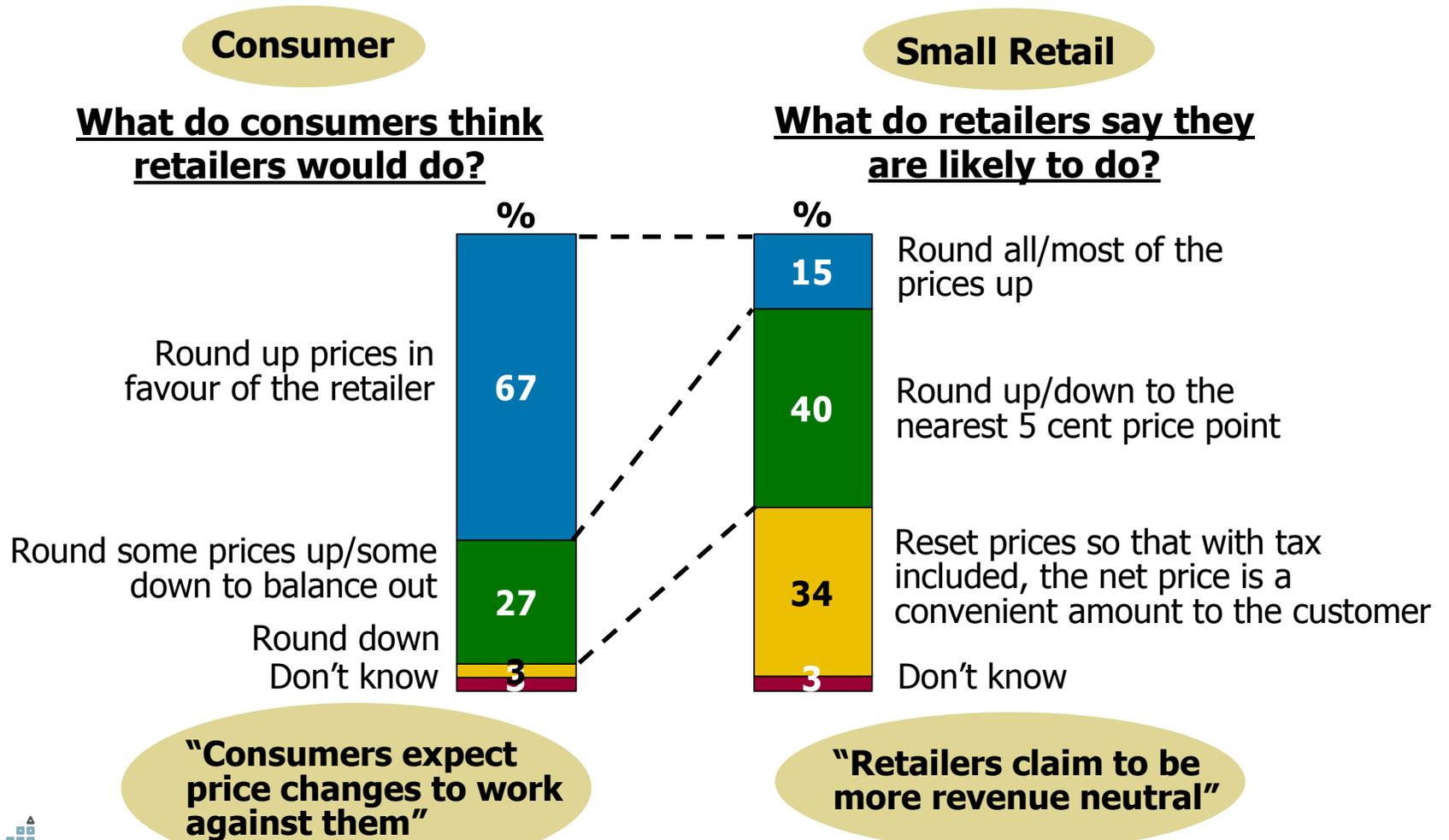
- Paying more attention to change received
- Minor net differences on handing over exact amount (11%) or using up change every day (7%)

**Net:** Consumers don’t expect penny removal to impact their life in a big way. Yes, they have difficulty envisaging the “new world”. Yes, they expect prices to go up but perhaps not to the “full extent” (e.g. every item in the shopping basket) Yes, they see less change to carry around.

**BUT the reality is dissenters NEED pennies and DON’T see the need to remove them.**

# 3. Pricing Implications

## 3.1. Consumer Expectations vs. Business Intent



# 3. Pricing Implications

## 3.2. Review of Issues

- #1 → Rounding of price points in the event of penny removal could be potentially complex.
- #2 → Small Retailers surveyed could be as altruistic as they claim. Alternatively, the fact that this is not always in line with their Representative Bodies could imply a different understanding of the challenges.
- #3 → There is a need to consult with industry players to gain a more informed picture of the work involved.
- #4 → There is a need to issue an easy to follow, clear set of rules regarding pricing.
- #5 → For the Retail Industry, the issue is less about removing the penny than how to price without it. In particular, what are the full work implications involved in the change.

# 3. Pricing Implications

## 3.3. Questions To Be Considered Going Forward

(Derived from but not necessarily based directly on Stakeholder discussions)

- Question:** *Can retailers round up the final amount after tax included to the nearest 5 cent multiple? (Possibly not, if this throws off the GST amount?)*
- Question:** *Can retailers show tax included prices (as per LCBO)?*
- Question:** *Will retailers have to calculate and show a shelf price in odd penny amounts to make the price including tax come out to a 5 cent multiple?*
- Question:** *How will this work for retailers with a single (pre tax) national pricing policy?*
- Question:** *Do retailers round up individual items in the basket or only on the total? If on the total, how do they guarantee any combination of purchases comes out to a round number?*
- Question:** *How does the Convenience Store handle a typical sale such as a zero rated snack item plus a pack of cigarettes?*
- Question:** *What happens to items sold in bulk (e.g. hardware items) priced on a per unit basis?*

# 4. Managing The Penny Removal (Stakeholders)

## 4.1. Key Action Points To Address

### #1: Mechanics of the Removal Process

- Generally understood that the Mint will “shut off the tap” – i.e. stop producing pennies.
- Question is not about the outflow but the inflow. E.g...

... *“What would happen to all the pennies? Would RCM buy back everyone’s stock? Are people going to turn up en masse at the bank? Will they remain legal tender...”*

Financial Institution

- Suggested approach from Armoured Car Companies...
  - ➔ Keep it legal tender forever
  - ➔ Stop shipping them out
  - ➔ Swap 5 pennies for every nickel
  - ➔ Send pennies back to the Mint to be melted down
  - ➔ As pennies come in, Armoured Car Companies ship them back to wherever the Mint wants

### Net

- **Calls for RCM to release guidelines and best practices to inform everyone about the phase out and over what time period.**

# 4. Managing The Penny Removal (Stakeholders)

## 4.2. Key Action Points To Address ~ Continued

### #2: Setting Timelines for Removal

- Preferably as much time as possible but 1 year minimum
- Calls from the Retail Sector for a 2 -3 year advance notice, planning cycle. Reasons...
  - ➔ Time to think about it
  - ➔ Time to listen to what retailers have to say
  - ➔ Time to understand the impact for both retailers and consumers
- Key issues for study during the period

**#1** Consumer expectations

**#2** Business process implications – needs thought on the I.T. side, plus tools for Retail on how to handle the tax

**#3** Inflationary impact

## 4. Managing The Penny Removal (Stakeholders)

### 4.3. Key Points to Address ~ Continued

#### **#3: Explain the rationale and the implications**

- Calls for the Mint to explain why removing the penny is a good idea for the country.
- Calls for Information Pieces to explain the implications, that talk to co-operation with retailers and make the case to consumers about dealing with their concerns.

**Net: Clear, concise, benefits supported, comprehensively thought through communication.**