

# Newsweek

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## Bitcoin Makes the Jump to Brick-and-Mortar in Cleveland

By Joe Kloc / May 29, 2014 3:52 PM EDT

**M**ost of the customers at Mitchell's Fine Chocolates in Cleveland Heights, Ohio, are locals who have been reared from birth on its chocolate-covered marshmallows, pecan turtles and half-dipped apricots. But lately, says Bill Mitchell, the shop's 54-year-old proprietor, there have been some new faces. In early May, he recalls, a "handsome couple" with "hair in the punk-rock style" made the 40-mile drive up from Akron, desperate to purchase something—anything—at his store.

It was in many ways an unremarkable visit. They browsed his small shop and, after a short while, placed a few boxes of chocolate on the counter. "I couldn't even tell you what they bought," the chocolatier confesses. But what he does remember, is how they paid: with about 0.12 bitcoins.

Mitchell is one of a dozen shop owners on Lee Road in Cleveland Heights who have joined together to accept the controversial digital cryptocurrency in the hope of attracting new customers to the struggling region, and as a way to avoid credit card fees. Since May 1, bitcoiners have traveled to the tree-lined street in northeast Ohio from as far away as North Carolina. Here, they trade their bitcoins for ice cream cones,

haircuts and handmade Colombian bracelets, and are sent off with a “buh-bye now,” the local parlance on what bills itself as America’s first Bitcoin Boulevard.

“To a small business,” Mitchell says, “bitcoin could be enormous.”

In the five years since its inception, bitcoin adoption has grown steadily. While there are no clear numbers on how many people actually use the pseudo-anonymous currency, more than 1.3 million bitcoin wallets contain at least \$1. Together, they are responsible for about 2,800 transactions per hour. However, it has yet to gain widespread adoption in brick-and-mortar shops. According to a 2012 study, about two-thirds of bitcoin owners are investors who, after purchasing the currency, have never bought anything with it. And around half of all transactions that do occur are with Chinese gambling sites, which likely explains why the average transaction value for circulating bitcoins is more than \$7,700—a far cry from the price of ice cream and chocolate on Lee Road.

The shop owners aren’t banking on bitcoin to become the dominant form of payment anytime soon. “We don’t expect a windfall,” says Nikhil Chand, founder of the bitcoin consultancy CoinNEO, who conceived of Bitcoin Boulevard late last year. “This is about so much more—about the hurt from the fees through traditional payment.”

Mitchell, like many shop owners, struggles to cope with a shrinking customer base. It wasn’t always that way. When his father opened his chocolate shop in 1939, Cleveland was the sixth-largest city in the nation, a major producer of steel. “We used to have a soda fountain,” he recalls fondly, standing next

to a glass case of chocolates. “You know, *Happy Days*.” But since then, Cleveland has lost much of its industry, and with it more than half of its population.

“The economy is not very strong,” says Adam Fleischer, the owner of the Wine Spot, down the road from Mitchell’s. “It’s very competitive. We have to find ways to stay relevant.” Bitcoin, they hope, will attract a young, tech-savvy crowd to the region.

So far, Mitchell says, bitcoin sales have been modest. In the first week he began accepting it, he made four or five transactions in the digital currency—roughly the amount reported by other shop owners *Newsweek* spoke with. But since then, word has been spreading. “We had a 75-year-old couple come to a bitcoin meet-up,” says Fleischer. “Everybody’s talking about it.”

Mitchell explains that depending on a customer’s credit card, he has to pay a 2.5 percent to 4.5 percent transaction fee on every purchase. “All these expenses over a year add up,” he says. Particularly for a chocolatier. “Chocolate is a luxury good.” One can’t simply ratchet up the price to compensate for bank fees. “Instead of a 14-ounce box, customers will buy a 10-ounce box,” he adds.

In 2012, three-fourths of small businesses in America made less than \$200,000 in revenue. On that revenue, they could pay as much as \$9,000 a year to credit card companies. Because of such fees, 55 percent of small businesses won’t take cards. But as cash transactions continue to make up a smaller and smaller portion of sales—today about 27 percent—card purchases are increasingly difficult to turn away. Bitcoin, Mitchell hopes, will

provide an alternative. It costs shop owners only 1 percent per purchase. And if they were to decide not to convert the digital currency into U.S. dollars, there would be no fee at all.

If you're a small-business owner, Mitchell says, "banks get you coming and going." A few months ago, he explains, a part on his enrobing machine broke. For a chocolatier, this is quite the setback. Without it, he couldn't properly cover his caramel chunks and orange slices in chocolate. So he telephoned the machine's sole parts manufacturer, a small operation in Denmark, and ordered a new part. The part cost him only about \$300; but, to wire the money, it cost him \$35. "If this was a bitcoin transaction," he says, "they would have charged me three bucks."

For Lisa Dunn, the owner of Revive, a world goods store across the street from Mitchell, the problem of wire fees is worse. Dunn purchases jewelry, purses and clothing from local merchants in India, Pakistan, Cambodia, Colombia and elsewhere around the world. The flat fee for each of these wire transfers is around \$50. "It doesn't make sense to me why it costs so much," she says. "It's just data."

The hope, on Lee Road, is that embracing bitcoin will show banks and credit card companies that the digital age has produced alternative forms of payment; and if they want to compete, they need to lower their fees. "It's a proof-of-concept," says Chand, "a social experiment."

According to Steve Millard, the president and executive director of the Council of Smaller Enterprises in Cleveland, "It's really taken folks by surprise over the last few years, our willingness to try new things." However, the Lee Road merchants' embrace of the Internet cash still has many residents in town perplexed. The *Cleveland Plain Dealer* warned its readers that "skeptics"

say the new currency might “not be worth the risk,” a reference to the fact that its value fluctuates wildly. At press time, one bitcoin was worth about \$440, whereas five months ago, it was worth almost \$1,000, and five months before that, about \$90. To critics, this volatility, coupled with the fact that the currency first gained notoriety as the tender of choice on the Silk Road, an online black market selling heroin and murders-for-hire, and that much of it is held by speculators aiming to short each other, suggests bitcoin is a passing trend. In the *Plain Dealer*, a finance professor at nearby Case Western Reserve University likened it to a Pet Rock.

None of this is particularly worrisome to the vendors, who claim that many critics simply aren't educated on the matter. “I remember when I was a kid and credit cards were new,” says Deb O'Brien, an employee at the Wine Spot, which was the first business to get on board with Bitcoin Boulevard. “They were mystifying.”

As a stateless currency, Mitchell says, bitcoin “feeds nicely into my libertarian slant on things. But I don't invest in it. Nor is it my intention to do so.” In actuality, the stores don't assume any of the risks associated with the digital currency. Instead, they use a service that immediately converts bitcoin into U.S. currency at the point of sale. “It's just like a credit card,” Mitchell says. “It goes right into my account as dollars.”

“The reality for us is: Does it bring money through the door?” says Fleischer, “And yes. It does.”

The punk-styled Akronites who visited Mitchell's in early May, for example, were also spotted a block away at the Wine Spot. The Ohio Department of Public Safety won't yet allow Fleischer to sell alcohol with bitcoin—authorities view it as a commodity,

not a currency—but that didn't stop the couple from purchasing corkscrews, cutting boards and T-shirts. In all, they spent about \$160 in bitcoins. "They were jazzed," Fleischer recalls.

Upon leaving for the hour-long drive home, the Akron couple turned to him. "When you can sell alcohol with bitcoin," they said, "we're coming back."

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