The Downside of Convenience

Unpacking the threats inherent in buy online, pickup in store

by LIZ PARKS

Consumers love the convenience of buying products online and picking up their purchases at a nearby store. At a time when retail sales are softening, buy online, pickup in store — BOPIS — is a proven way to generate incremental sales as consumers come into stores to get their items and then impulsively shop.

But there is a downside. For one top five omnichannel retailer, purchases made online and picked up in-store are three times riskier than general e-commerce transactions, according to Tom Donlea, vice president of marketing for Whitepages Pro, a provider of consumer identity data.

Michael Graff, risk analytics manager at omnichannel technology firm Radial, says chip-and-signature credit cards, which can help reduce in-store fraud but provide no protection when the card is not present, have contributed to an increase in online credit card fraud. Fraud attacks doubled from the first quarter of 2016 to the first quarter of 2017, he says.

Nadav Lobel, director of account management for Riskified and its omnichannel fraud prevention system, attributes some of the growth in BOPIS fraud to fraudsters who have noted its dramatic growth in popularity and simply followed the trends and new opportunities.

Last year, "we saw BOPIS become twice as popular as it was in 2015, and projections for 2017 show that trend is going to continue to grow," Lobel says. "That's because customers want everything as soon as possible. Everybody wants everything now."

REDUCING EXPOSURE

Many fraudsters are taking organized retail crime to a more technologically sophisticated level, automating attacks and increasing their frequency and sophistication, typically beyond the capacity of most omnichannel retailers to keep up.

Multichannel retailers have turned to third-party providers of payment fraud prevention platforms to augment their internal fraud programs. These platforms, which include Whitepages Pro's Identity Check, Sift Science's payment fraud prevention platform, Radial's omnichannel technology, ACI Worldwide's ACI ReD Shield and Riskified's omnichannel system, offer sophisticated machine learning automated processes that help retailers

determine the legitimate identity of online purchasers and whether the payment method they are trying to use is linked to them and has the funds available for payment.

"When someone shops online," Donlea says, "the credit card information doesn't tie back to a name and address. It might tie back to a ZIP code for the card, but that, and whether a particular card has funds available, is really all the retailer gets."

Without having to make further deep investments in their own fraud prevention platforms, retailers using third-party fraud detection programs can significantly reduce their exposure to fraud and, at the same time, reduce costs and enhance sales and customer satisfaction rates, says Kevin Lee, trust and safety architect for Sift Science.

These platforms also make it easier for retailers to focus on and invest in other key priority areas such as marketing and operations. "It becomes increasingly expensive to develop the expertise to build out, maintain and grow a risk mediation program," Lee says, "and companies don't always have the resources needed to dedicate to this."

Lobel points out that third parties have such comprehensive databases that they can look at many more transactions than a retailer can and "make comparisons that include looking at the changing types of fraud that are emerging among retailers across our network." He says transaction decline rates for retailers using Riskified drop an average of 66 percent.

According to a TechValidate third-party case study of one of ACI's ReD Shield retail customers, the review program reduced a $4 million annual fraud loss to less than $250,000.

REAL-TIME REVIEW

Most automated platforms can detect key data in almost real time, such as reviewing email addresses — those under 90 days old trigger a risk signal; if an email address is just a few days old, it triggers a very high risk signal.

Platforms can also conduct reverse phone lookups to determine whether a phone number is connected to the name of the person making the online purchase and determine if an IP proxy is associated with the transaction. An IP proxy conceals the location of the shopper and is typically not used by good customers.

In addition, the platforms can verify that a name connected with an address is the same as the name of the person trying to initiate the transaction, and if a non-fixed VOIP phone or a prepaid phone is being used to make the transaction. Non-fixed VOIP services do not need to be associated with an address and are easily obtainable by individuals that are outside the country.

Platforms can determine if emails have been auto-generated, if a single computer is associated with multiple accounts with different names or if a synthetic card holder personality is being used to initiate a transaction. A synthetic identity is one cobbled together from legitimate data such as shipping and email addresses and online buying histories of good customers to create a false persona of a new online customer.

Buying behavior patterns of honest shoppers versus fraudsters can also be identified: Platforms can determine if customers are actually shopping for an item online — particularly a high-ticket item — reading reviews, comparing prices, etc. versus simply going directly to that item and buying it.

Manual reviews to verify high-risk transactions before products ship drop significantly as a result of using these tools. With some companies, retailers have zero fraud because the third party does the manual reviews and take responsibility for any losses.

Some third-party vendors reduce not just chargebacks, but chargeback rates, lowering the fees that retailers must pay to banks and credit card companies if their chargebacks reach or exceed 1 percent.

Fulfillment rates can also increase, for some customers to as much as 99.7 percent.

MEASURABLE RESULTS

The icing on the cake is that the platforms integrate easily with existing systems and can be configured to meet customer needs.

Retailers can also reduce the decline rate of transactions mistakenly labeled high-risk. As decline rates drop and orders are accepted more quickly, customer expectations are met, resulting in a better customer experience.

Pick n Pay, a South Africa-based grocery chain and a ReD client, reports a 30 percent increase in online sales last year with an upturn in BOPIS sales. Sift client Harry's, a men's grooming brand based in New York City, reports an 85 percent reduction in chargebacks.

Park City, Utah-based Backcountry.com says that fulfillment rates have increased from 97 to 99 percent in the almost three years that they have been a Whitepages customer; Shoe Carnival, a Radial customer based in Evansville, Ind., reports that more than 99 percent of its online orders are automatically accepted. **STORES**

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