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BLACK FRIDAY – GOLDEN PAYDAY OR POISONED CHALICE?

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Black Friday could bring about **the first £1 billion day** in UK sales history. But how does the new phenomenon balance profit versus risk for online retailers?

INTRODUCTION

Black Friday is a retail phenomenon. Over the last decade it has become known as the busiest shopping day of the year – initially in the United States but more recently in Canada, India and the United Kingdom.

Traditionally a date reserved for US retailers to offer significant discounts to their customers the day after the Thanksgiving holiday, Black Friday has capitalised on the astonishing growth of global ecommerce to become one of the most significant and potentially profitable days in the retail calendar.

In the UK, devoid of the Thanksgiving national holiday, the busiest shopping day has traditionally been the day after Christmas, Boxing Day, 26th December. However, 2014 was a watershed year in British retail, with Black Friday sales topping £810m according to IMRG (Interactive Media in Retail Group), the UK's industry association for e-retail – a record for UK sales.

Cyber Monday, which as the name suggests is focused online, is often linked with Black Friday sales, falling on the following Monday and seen as the best date for consumers to order online goods that are guaranteed to arrive in time for Christmas. Black Friday 2015 falls on November 27th and is predicted to see the first ever £1,000,000,000 day in UK online shopping history.

£1 billion may be a staggering figure for a single day of retail, but behind the media hype, is this phenomenon really a genuine opportunity for a golden payday, or an insecure, unsustainable activity that sees merchants drinking from a poisoned chalice? Put simply, does the potential for profit outweigh the risk of expensive fraud losses?

This whitepaper will examine how Black Friday has changed the buying habits of UK consumers; what effect this has had on sales and fraud rates; the issues faced by merchants since the emergence of this phenomenon; and how these issues can be tackled to enjoy a safe and profitable Black Friday in 2015 and beyond.

HOW HAS BLACK FRIDAY CHANGED THE BUYING HABITS OF THE UK?

Hailed as the unofficial countdown to Christmas, Black Friday has become the first major catalyst of consumer spending in the UK ahead of the festive season – traditionally the busiest time of the year for retailers.

Amazon is generally credited with bringing the Black Friday phenomenon to the UK in 2010, with week-long deals offered to UK customers in late November. The sales proved so popular with UK shoppers that many reported problems with the website freezing and deals selling out within seconds.

GOLDEN PAYDAY FOR MERCHANTS?

Demand has rocketed since 2010, and in 2014, 65% of shoppers even claimed that retailers were not prepared enough to cope with online Black Friday activity.[1] Amid reports of websites struggling to meet demand, an estimated £810 million was nonetheless spent on UK retail sites during Black Friday 2014 with over 180,000,000 online visits logged.[2] Mere days later, 161,000,000 visits were made on Cyber Monday, which saw a further £720 million generated in online retail sales.

These two days contributed to a huge seasonal peak that saw UK retail sales rise at their fastest annual rate in over 10 years in November 2014.[3] The reason? A clear shift in spending patterns in the final quarter of the year.

According to the IMRG, the eight week festive shopping period (November 2nd – December 27th) saw UK shoppers spend a colossal £21.6bn on gifts and bargains in 2014, up 13% on the same period in 2013.

However, the huge Black Friday discounts masked the lowest ever in the retail index for this period, with year-on-year growth for December recorded at just 5%. Brick and mortar department stores saw sales volumes sink by 4.5% over December.

So while Black Friday undoubtedly entices the customers for at least one day each year, its overall impact on retail may not be entirely positive. Spending is typically brought forward a month earlier than normal and at much lower margins for retailers as they desperately compete for the attention of discount-hungry customers.[4]

2014 signalled the moment that Black Friday well and truly became mainstream in the UK and estimates suggest that 83% of the public are now aware of the phenomenon, which points to a record-breaking day in November 2015.[5]

Compared to 2013, Black Friday 2014 saw average visitor numbers increase by a staggering 46% on the previous year, while the number of sales doubled by up to 204%.[6]

1 Retail Gazette, 28 August 2015
2 Econsultancy, 3 December 2014
3 BBC News, 18 December 2014
4 IMRG, 14 January 2015
5 City AM, 25 November 2014
6 ScreenPages, DATE???

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WHAT QUESTIONS DO MERCHANTS NEED TO ASK THEMSELVES THIS BLACK FRIDAY?

It is not all good news for online retailers, however. What initially seems like a golden payday could in fact turn into a poisoned chalice for merchants. The problem comes in the volume of traffic and transactions they receive in an extremely short timeframe. This can present a number of issues that online retailers need to be prepared for in order to succeed on Black Friday:

INTERNET BANDWIDTH

Can your website survive surges in concentrated traffic at one time or will the number of visitors cause the website to crash and drive customers to competitors?

CHARGEBACK MANAGEMENT

Long after the dust has settled on Black Friday (typically 60-90 days afterwards in fact), merchants get hit by expensive chargebacks, which can threaten to decimate seasonal profits. This happens when the customer goes direct to their bank to reclaim money on an unauthorised transaction.

Do you know the source of your chargebacks? Do you know genuine claims from fraudulent ones? How can you dispute these successfully?

A cardholder must file a chargeback within 120 days of the original transaction (if the purchase was made domestically), while international transactions have a 180 day timeframe.

LOGISTICS

Can your delivery network cope with the number of deliveries that will need to be made in the short timeframe? Do you obtain signed delivery receipts from customers? If not, they could be costing you hundreds and thousands in friendly fraud.

Friendly fraud is one of the most common types of fraud. Also known as “chargeback fraud”, friendly fraud involves a consumer making an online purchase and then contacting their bank, stating that the transaction was not their doing or claiming (under false pretence) there was an issue related to the merchant, resulting in a chargeback. The customer gets their money and the retailer gets the hassle of dealing with banks and paying fines, as well as losing a valuable item of stock in many cases.

FRAUD PREVENTION

Can your systems intelligently detect suspicious devices, locations, orders and transactions? Customers’ traditional buying patterns become obliterated by Black Friday and Cyber Monday – the value, addresses and volume of orders is hugely abnormal – can you spot the genuine orders from the fraudulent ones?

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CHRISTMAS COMES EARLY FOR FRAUDSTERS

Why is Black Friday like Christmas for fraudsters? It's because spotting them is like a needle in a cattle shed (and manger) full of hay. In November 2014 for example, the average transaction value (ATV) on all payment cards was £46.75.[7] A YouGov survey last year revealed that the average British household would be spending over £600 on gifts and while this may necessarily not come in a single transaction,[8] the Black Friday discounts are increasingly encouraging consumers to spend big and save big on one day in the year.

Merchants have to try to balance security with convenience, or risk losing customers. Too secure and a stuttering shopping experience prompts card abandonment; too lax and customers may feel insecure shopping with you in the first place.

The sheer volume of payment card details being registered and processed inevitably attracts cybercriminals who know they can hide in plain sight. Retailers must have processes in place to mitigate against this potential risk. It really does pay to know your customer as this makes it easier to identify suspicious activity.

We know the organised fraudsters take advantage of this, looking for any weaknesses or loopholes in either the merchant's security or in the customer's account security.

Once they have completed a transaction unauthorised by the cardholder, they set off a ticking time-bomb that won't hit merchants until January and February, by which time the fraudster will be long gone, the customer may be discouraged and the merchant has been hit with hefty penalties, as well as lost merchandise.

7 CreditCards.com, January 2015

8 YouGov, December 2014

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THE CHARGEBACK TIME BOMB

Despite both Visa and MasterCard advocating that consumers contact merchants first before any attempt to dispute a transaction with their bank, an alarming 86% of cardholders initiate a chargeback without ever giving the merchant an opportunity to resolve their claim. Even more disturbing is the fact that over half of these subsequent chargeback disputes filed may prove to be a symptom of chargeback fraud (“friendly fraud”), resulting in undeserved penalties for the merchant and unscrupulous rewards for the cardholder. With customers filing chargebacks for 60-90 days after the transaction (all the way up to 180 days after the transaction date alone), merchants do not realise the financial damage until the new year. Consequently this financial exposure also involves the cost of the product and shipping – a hidden but often substantial hit to bottom line profits.

The season of goodwill then officially ends as retailers find themselves in a period of refunds and returns. Sometimes these also follow genuine customer transactions. Unwanted Christmas presents and too-hastily purchased sales items are also returned during this period, often at a big cost to retail businesses.

This is where friendly fraud can also creep into the chargeback equation. In 2013, 98% of US consumers who had filed for chargebacks from January to March did not attempt to resolve their issue with the merchant first. Meanwhile, an astounding £7.5bn can be attributed to annual losses to friendly fraud, higher than losses through identity theft. This results in higher prices for consumers to cover the losses incurred by merchants hit by fines and processing charges, along with potential damage to credit ratings.

Perhaps most worryingly of all is that if customers get away with a fraudulent claim, they will defraud your business more and more in the future. 40% of consumers who file a fraudulent chargeback will do it again within 60 days, according to Visa.

Chargebacks are a particular problem after the festive period. Act quickly to understand what the problem is, using data analytics to help yield answers. Even if you haven’t yet come across an issue, be prepared to take action to manage and counter risks when they inevitably arise.

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CONCLUSIONS

Fraud during the peak festive season is a real problem and as consumers are increasingly shopping online, increased chargebacks via friendly fraud is a very high and costly risk unless managed correctly.

January is a particularly busy time for consumers returning goods or claiming not to have received gifts. The sad truth is that not all of these will have been genuine purchases. For every £64 in chargebacks filed, the average merchant pays £172 in related costs, so merchants need to be extra vigilant at key seasonal shopping times and ensure they have the right protection technologies and processes in place to safeguard their business. The key is being able to identify the reasons and sources for your chargebacks, so you can pinpoint the problem and reduce current and future losses.

From monitoring suspicious activity to having a security solution in place to protect against potential risks and guard sensitive data, both merchants and retailers need to wake up to the huge problem of friendly fraud and protect themselves from charges and reputational damage, which all impacts the bottom line.

Monica Eaton-Cardone, Co-Founder and CIO of Global Risk Technologies concludes:

"All retailers will at some point have to deal with chargebacks, but they should not simply be accepted as a 'cost of doing business'. They can be prevented using best practice behaviours and innovative technology that helps identify the reasons for chargebacks, before working to prevent them.

"Black Friday spending has become a stellar phenomenon in the UK but if merchants are to profit from its continued growth, they need to ensure that they recognise the potential pitfalls and prepare their business to root out fraud and succeed in this space every year."

To find out more about combatting the chargeback threat, speak to Global Risk Technologies on +353 (0)1 6363111 or email info@globalrisktechnologies.com

ABOUT GLOBAL RISK TECHNOLOGIES

Global Risk Technologies is an international risk mitigation company. It provides comprehensive and highly-scalable enterprise solutions for acquirers, card issuers and merchants in chargeback processing and fraud management. The company's patented technologies help merchants identify and resolve friendly fraud issues related to chargebacks.

Global Risk Technologies operates two merchant centric arms: Chargebacks911 and Chargeback Tech, created by merchants, for merchants, to help create sustainable online businesses and maintain control of both transactions and profit. Global Risk Technologies is headquartered in Dublin, Ireland, with offices in Tampa, Florida and Scottsdale, Arizona.

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