



Friday, January 14, 2005

Industry Issues

Fighting Fraud Growth That's Outstripping Sales Growth

By Joseph Checkler

Unfortunately, the growth of Internet commerce has led to growing sophistication in online fraud. And the 2004 holiday season, during which year-to-year sales jumped 29% to \$15.8 billion according to comScore Network Inc., resulted in a wider variety and larger number of fraud attempts, e-tailers said.

"Fraudulent activity on the Internet is unfortunately back to life," Kent Anderson, the president of Macys.com, told Online Retail Report. However, he said Macy's Inc. was ready for the influx of online scam attempts because of a new pact with Hazlet, N.J.-based fraud prevention firm Retail Decisions Inc.

On orders both inside and outside the U.S., e-tailers and the vendors that aid them have turned to procedures that very closely mirror those in physical stores. Of course, smaller e-tailers are candidates to be caught in the tailwind of not being able to afford high-priced fraud solutions, and therefore are more susceptible to the efforts of sophisticated fraudsters. But sometimes, just being aware and having the right people can help just as much as advanced technology.

A recent survey by CyberSource Corp. said that while e-commerce fraud in 2004 was estimated at \$2.6 billion, up \$700 million from a year ago, the overall fraud rate dropped a bit among sophisticated e-tailers. However, the 36% increase eclipses the percentage increase of online sales, which grew 26% to \$117.4 billion in 2004.

Because of Retail Decisions, which Macys.com hired in October to screen fraudulent order attempts on both U.S. and international orders, the company was able to handle more volume and still improve upon its ability to catch "fraudsters," as Anderson dubs them.

The company used to handle its fraud prevention in-house, but as the scams got more high-tech and more frequent, the company decided that outsourcing to a fraud expert was the wiser move. Macys.com was using a rules-based decision-making tool that "worked satisfactorily" but could not handle the increases in sales. "It lacked the sophistication that we were able to acquire with Retail Decisions," Anderson said.

"The last couple years were extreme," Anderson said. "There was a variety of scams that we dealt with. But I think this holiday, my gut tells me this is the best we've done." Anderson said concrete figures on how the company performed are not available until 60 to 90 days after purchases are made, because of how credit card transactions are processed. Still, his gut feeling is aided by some preliminary statistics.

"I've seen some data that strongly suggests that we had a very successful season," Anderson said. Part of the reason for his gut feeling is Retail Decisions' ability to handle "tumbling and stopping," a common fraud practice that busts the algorithms used by the e-tailers' servers. Other fraud prevention firms like Cyota Inc. and eMarkMonitor Inc. also have technology that tries to thwart the tumbling and stopping technique.

Fighting Fraud With Book Smarts And People Smarts

Abebooks Inc.'s Web site, ranked No. 3 in 2003 sales among all books, CD and video e-tailers, uses sophisticated technology as well to combat fraud, but it is an in-house operation. Almost as important to Abebooks, though, is the human touch.

"The biggest thing is the people," said David Arrowsmith, the manager of customer service and head of security and trust for Abebooks.com. "You can have the biggest budget and the most impressive technology in the world, but you still need the people who are dedicated to preventing the crime."

Arrowsmith said that while his company seemed to see more fraud attempts during the 2004 holiday season, it could have been more attributed to other factors, such as becoming more popular in the press and thus well-known to fraudsters.

"If the number of attempts are up for the past holiday season, it's possible that next holiday season, attempts could be down," Arrowsmith said. "That's the cycle we're in." Besides the holiday season, Abebooks often sees more fraud attempts when a new "Harry Potter" book is released, and during the back-to-school textbook buying season.

"Just being aware of the fraud is the first step," Arrowsmith said. "Right now the next phase of fraud tools are on my desk. You've got to be a couple of steps ahead at least."

Arrowsmith said that smaller e-tailers, the ones without the resources for sophisticated anti-fraud technology, have to spend enough time monitoring fraud and enough good people monitoring it to try and thwart it.

But something that has become helpful in anti-fraud work is the community culture that has been formed. Anderson of Macys.com said that when he worked for the brick-and-mortar Macy's stores, he would share information about fraud with competitors in the area, and vice versa. The jump in e-commerce fraud has created a similar trend.

"In many ways, I find the Internet emulates the real world as it grows," Anderson said. Retail Decisions even shares data among its clients. "That's not atypical of what we do in

the real world," Anderson said. "Stores in a certain location share information about fraud rings and theft rings so they can eliminate activity.

"It comes back to that human element that's so important in the balance of things," Arrowsmith said. "Planning and prevention is really the key."

<http://www.macys.com>

<http://www.abebooks.com>