

RETAIL

## Risk of fraud grows with "buy online, pick-up in-store" trend

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*U.S. department store chain Nordstrom claims that order pickup is now its most profitable sales channel. Image credit: Nordstrom*

By MICKEY ALAM KHAN

As the COVID-19 coronavirus soldiers on, it is forcing retailers and brands to adapt to new shopping behavior that puts health safety above all else. So what was once a service offered by few is now becoming a key option for many consumers and merchants: buy online, pick up in-store, or BOPUS, in retail lingo.

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BOPUS is the great leveler, allowing smaller brands and retailers to compete with larger players. Two-thirds of shoppers in the United States have used BOPUS, 90 percent of U.S. retailers will offer it as an option by next year and it is expected to represent 10 percent of all sales by 2025.

"Nordstrom says that order pickup is now their most profitable sales channel," said Monica Eaton-Cardone, chief operating officer of Chargebacks911. "The same goes for most luxury retailers that offer it.

"Consumers love the in-store pickup option, but it is inextricably linked to increased chargeback risk," she said. "Luxury retailers are, in effect, caught between a rock and a hard place on the matter."

**Chargebacks911** is a dispute mitigation and loss prevention firm.

Worryingly, the general adoption of BOPUS is now being accompanied by an uptick in various kinds of fraud.

So, unless consumers are alert, this could lessen the advantages that they derive from this transaction model, also affecting the merchant in a negative manner.

"We are seeing BOPUS to lead to more fraud in 2020, as many locations don't require consumers to show ID or a payment card at the time of pickup," Ms. Eaton-Cardone said.

"This could lead to a surge of different abuses, from fraudsters imitating legitimate buyers and legitimate consumers being incorrectly labeled as cyber shoplifters," she said.

**Ms. Eaton-Cardone** is considered an authority on online loss prevention. In this Q&A, she discusses BOPUS fraud and the protections that need to be installed to protect both merchant and customer, how fraud occurs, the need to show customer ID, and what merchants and marketers must do as next steps. Please read on.



*Monica Eaton-Cardone is chief operating officer of Chargebacks911*

BOPUS fraud seems easily preventable why is it so prevalent?

Fraudsters are, above all, opportunistic. They're always looking for ways to exploit new developments in business and technology and use them for their own purposes before everyone gets wise to what they're doing.

Simply put, the reason BOPUS fraud is so prevalent is that BOPUS is a very popular new business model. Buyers love the convenience reports show us that nearly 67 percent of U.S. shoppers have now used it, and 90 percent of retailers plan to offer it by 2021.

Some estimates project that 10 percent of all sales conducted nationwide will be fulfilled through BOPUS by 2025.

What protections should be in place?

BOPUS is new, at least in its current form, but online fraud is not.

Retailers should always have the fundamentals of a solid online fraud mitigation strategy in place.

For instance, they need multiple fraud detection tools employed to emphasize dynamic friction and weed out fraud attempts without impacting the customer experience.

This should be backed by reliable fraud scoring to gauge each transaction's relative risk.

Do luxury retailers forgo checking ID due to inconvenience?

Retailers should always verify their customers' identities in a BOPUS setting. Unfortunately, many opt to downplay, or entirely skip, this process.

After all, the entire concept behind BOPUS is speed and convenience for buyers. Verifying the customer's identity at pickup contradicts that goal.

But, given what's at stake, especially for luxury retailers, it's something sellers can't afford to overlook.

How does the fraud actually take place?

BOPUS sales offer fraudsters a few different opportunities to take advantage of merchants.

For instance, a fraudster might use account takeover to make purchases on a legitimate user's account, then pick up the items and vanish before the accountholder realized what happened.

It's not always so cut-and-dry, though. Many cases of supposed criminal abuse are actually friendly fraud. This occurs when customers file chargebacks without proper justification, and may result from buyer's remorse, a misunderstanding, or a deliberate attempt to "get something for free."

How does this impact the luxury goods industry?

We can draw a line directly connecting BOPUS to an increase in chargeback filings in just about every industry.

Chargeback filings in the big box retail space increased by 30 percent with the introduction of BOPUS, and roughly 80 percent of those incidents are suspected to be fraudulent.

Despite the added losses, though, BOPUS is too lucrative to give up.

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Luxury retailers are, in effect, caught between a rock and a hard place on the matter.

What is the cost of BOPUS fraud right now?

It's nearly impossible to quantify the direct impact of BOPUS on in terms of revenue loss.

We can point to the food and beverage space as a case in point, though. This industry reported practically no chargebacks in 2013. Just five years later, once BOPUS took off in that space, more than one-quarter of merchants have a chargeback rate between 0.5 to 1 percent of overall transactions. One in ten had a rate above 1 percent.

Between lost revenue and merchandise, added fees, higher overhead, and threats to long-term business sustainability, merchants lost \$3.13 per every dollar of fraud in 2019.

How does this cost affect the consumers?

Although merchants suffer the up-front costs, some of those losses get passed to consumers when merchants raise prices to offset margin compression.

There are other potential consequences for buyers, too.

For instance, some merchants opt to blacklist customers who file a chargeback. The reason the buyers is either a) not an authorized user, or b) a friendly fraudster.

In either case, they don't want to give the person behind the transaction more opportunities to file disputes.

Plus, if a cardholder is exposed for deliberately abusing chargebacks, the bank that issued the card in question might close the account and blacklist that user, too.

What should consumers do to demand that protections be put in place so they don't get wrongly targeted for BOPUS fraud?

While customers might like the seamlessness of BOPUS, requiring them to show identification at the time of pickup is vital.

It's a very minor inconvenience, typically only taking a few seconds, and is a major deterrent against fraud.

Scanning or taking a picture of a photo ID could also prove useful in the case of friendly fraud.

How much worse will it get?

We expect BOPUS to lead to more fraud in 2020, as many locations still don't require consumers to show ID or a payment card at the time of pickup. Until that happens, the situation will continue getting worse.

Fraudsters are inventive and resourceful. They can find ways to take advantage of businesses much faster than we can find ways to repel them.

What else needs to occur to stop this fraudulent activity?

Merging sales channels together won't eliminate problems. It will only spread them to new areas of the business.

That's why merchants need to educate themselves about the current prospects for fraud in an increasingly omnichannel environment.

Every seller should have an in-depth knowledge of current fraud threats, as well as technological and tactical solutions to counter them. Merchants can't rely solely on automated fraud detection. They need a strategy customized to the unique needs of their business.

How can luxury merchants prevent this?

We have a number of practices that can help turn the tide against BOPUS fraud.

For instance, refusing BOPUS pickups beyond a certain distance from the ZIP code associated with the credit card may prevent some fraud attacks employing stolen cardholder information.

The key is understanding that fraud is never-ending and ever-changing.

Merchants can't stop every incident of fraud, and new threats will inevitably catch them off-guard from time to time. The best response is a dynamic, comprehensive fraud prevention strategy.

With chargebacks, merchants need a comprehensive overhaul of outdated chargeback practices.

Instead of relying on reason codes, they should identify chargebacks based on their three fundamental sources: criminal fraud, friendly fraud and merchant error.

Once they develop a more complete profile of their chargeback situation, it's possible to develop a more complete strategy one composed of complementary pre- and post-transaction fraud prevention tools.

How can luxury marketers prevent this?

Marketers play a vital role in setting customers' expectations for products and services. As such, they can influence the business's risk of chargebacks.

The key is presenting a realistic impression of goods and services.

Customers should know exactly what to expect before checking out, so providing a detailed description, along with multiple high-resolution photos of all goods from multiple angles is vital.

If marketers are conscientious of chargebacks, and are sure not to overpromise, they may be able to eliminate a significant number of disputes before they happen.

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