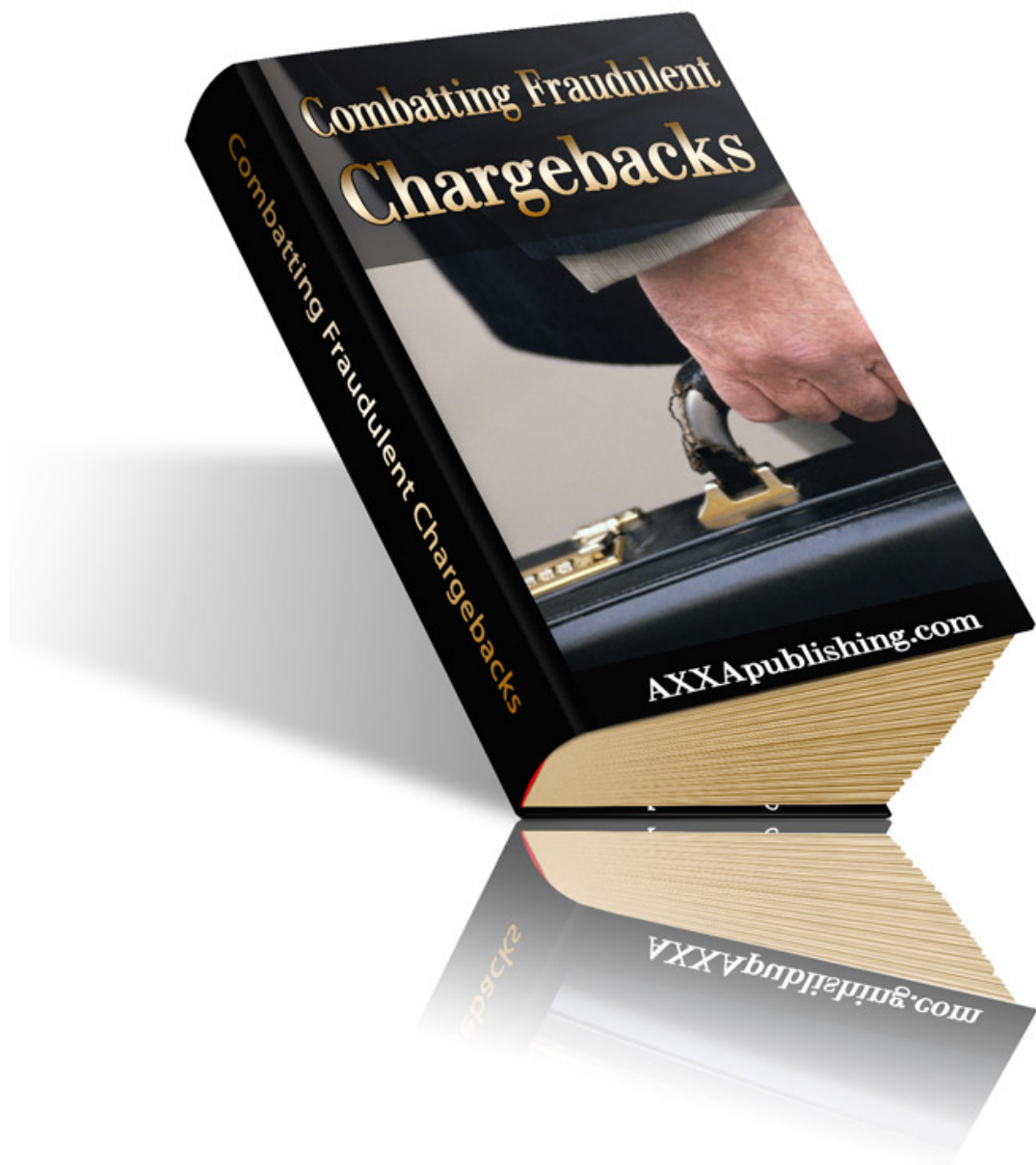




Combatting Fraudulent Chargebacks

A Special Report for Online Merchants

Contents:

- Introduction
- What is a Chargeback?
- What is the Chargeback Process?
- The Costs of Chargebacks to Merchants
 - The Immediate Costs of Chargebacks
 - Merchant Account Fees and Problems
 - Chargeback Inevitability
- Preventing Chargebacks Prior to Sale
 - Offer a Quality Product
 - Offer a Clear Product Description
 - Offer an Anti-Fraud Statement
 - Obtain a Good Merchant Account
 - Create a System for Handling Chargebacks
 - Maintain Records Properly
 - Provide a Telephone Number
 - Scrutinize Sales
 - Beware of Free Email Accounts
 - Beware of Some International Orders
 - Beware of Unusual Orders
 - Follow-up on Scrutinized Orders
- Preventing Chargebacks at the Point of Sale
 - Tell Customers Who will do the Billing
 - Provide a Good Receipt
 - Collect CVV2 Codes
 - Collect Customer Telephone Numbers
 - Use an AVS System
- Preventing Chargebacks After the Sale
 - Provide Status Updates
 - Handle Customer Interactions with Chargebacks in Mind
 - Act quickly
 - Refund when Necessary
- Other Chargeback Solutions
 - SET and Similar Offerings
 - Signature Collection Services
 - Chargeback Advocates
- Other Causes of Chargebacks
 - Information Requests
 - Cardholder Disputes Placing Order
 - Transaction was Processed Repeatedly
 - Failure to Render Services
 - Refund not Processed
 - Invalid Account Number
 - Transaction not Processed Timely
- Simple Billing Error

Introduction

John Acme is an online merchant. Through his websites he sells widgets to the public. With a merchant account and a credit card processor, John is able to offer potential customers an easy way by which they can order his widgets. His business is new, but he is seeing a regular profit that allows him to meet his living expenses.

One day, John opens his mail and finds a letter labeled “Retrieval Notice” from the provider of his merchant account. The notice references a specific transaction and requests a copy of the sales documentation. Acme finds this odd, as the transaction had seemed to go off without a hitch when it was processed weeks before.

John Acme may not yet realize it, but he is looking at a potentially costly situation. He has already sent the widgets to his buyer and has already accepted the payment he received. His response to the retrieval notice will determine whether or not he will be allowed to “keep” the sale at all. If he fails to provide the proper documentation, he may receive a chargeback. The money he earned will be deducted from his merchant account and he may very well never see the widgets he already shipped again.

If John is able to provide important information, he may be able to prevail. However, the proverbial deck is stacked against him. Merchants are assumed to be “in the wrong” whenever a customer requests a chargeback. If John’s efforts fall short of what is required, he will lose the chargeback argument and find himself charged additional fees on top of losing the sale.

What does John need to show the merchant account provider in order to protect himself? What kinds of information are valuable in these circumstances? What kind of things can online merchants like John do in order to prevent situations like this from happening again and again?

This report attempts to provide answers to these questions. Chargebacks are a potentially devastating force for any online merchant and must be treated seriously. Chargebacks and the fraud that is often their precursor are regular events in the world of online sales and they pose a huge risk to merchants of all types.

What is a Chargeback?

A chargeback occurs when the holder of a credit card contacts the card issuer to dispute a billing entry. In response to the customer claim, the card issuer contacts the merchant's credit card processor and disputes the sale. The proceeds from the original sale are subtracted from the merchant's account. In essence, a chargeback is a customer-driven refund conducted without the consent of the merchant.

What is the Chargeback Process?

A chargeback generally begins with a customer complaint. When a customer lodges a complaint about a transaction with the card's issuing bank, the cardholder's bank will generally send what is called a "retrieval request" to the merchant's credit card processing service. The retrieval request represents the initiation of a chargeback. The processing company will then forward the request to the seller's merchant service account provider. When a retrieval request is made, the merchant has the opportunity to prove that the transaction was legitimate and that delivery of goods or services was provided appropriately.

This can be a key moment during the chargeback initiation process. At this point, the merchant can produce whatever documentation they have that demonstrates the propriety of the transaction. In ideal circumstances, one would have a signed sales slip for the transaction or some other written confirmation to which the cardholder's signature was affixed. Internet merchants, however, are rarely afforded with this luxury and must often rely on other documentation and evidence to make their case.

The burden of proof in a chargeback situation rests entirely with the merchant. The consumer's statements are assumed to be accurate until such a point that the merchant can clearly prove things otherwise. This puts a substantial burden on merchants to understand how to prevent chargebacks in the first place, as well as how to defend against them once initiated.

If a merchant is unable to evidence the legitimacy of the transaction, a chargeback is effectuated. This entails the card's issuing bank receiving the amount of the transaction from the merchant's bank and then crediting the customer.

The Costs of Chargebacks to Merchants

The Immediate Costs of Chargebacks

The cost of chargebacks to online merchants can be significant. In fact, countless merchants have found their business efforts completely thwarted by frequent chargebacks.

The initial cost of chargebacks is reason enough to be concerned. Every chargeback automatically results in a loss of income due to the cancelled payment of an order. Money a merchant already collected is suddenly (and often unfairly) taken from them. For businesses that deal in relatively high-ticket items with lower sales volume, a single chargeback can truly devastate the bottom line. Businesses dealing in smaller cost items that are not well financed may also have a difficult time weathering the storms that can be created by chargebacks.

Chargebacks are a margin killer. Consider this scenario of John Acme and his widget sales site. Each widget retails for \$1,000. The cost to Acme for a widget is \$500, resulting in a profit of \$500 per widget. John has additional operating expenses of \$2,000 per month. Acme sells 20 widgets per month. So, Acme clears \$10,000 per month. If Acme's operating expenses are taken into account, his total cost of doing business is \$7,000 (\$5,000 for widgets plus \$2,000 in other costs). He makes a profit of \$3,000 per month, on which he relies of living expenses.

If Acme suffers two chargebacks in a month, he loses the \$2,000 in sales after already purchasing the widgets. His profit is now all the way down to \$1,000. Two chargebacks would crush Acme's ability to pay rent, buy gas and eat. Acme may or may not recover the merchandise he's already sent out, but he will still not be able to profit from that until he processes orders for the next month. Two simple chargebacks can turn his sufficiently profitable business venture into an outright disaster.

The impact of chargebacks can vary, of course, based on the exact nature of a merchant's enterprise. Regardless of whether or not a few chargebacks will destroy a venture, however, the Acme case illustrates that every chargeback creates a palpable reduction in bottom line profits. Merchants are in business to make money—not to have it taken away. Chargebacks, therefore, must be minimized or avoided whenever possible.

This becomes increasingly obvious when one considers the other negative impacts of receiving chargebacks.

Merchant Account Fees and Problems

A merchant account that enables one to process credit cards for their online business is essential. In fact, finding a reliable processor is an absolute prerequisite for online business. The idea of relying upon checks or money orders for an online business is laughable at best. Customers must be afforded the convenience of using major credit cards in order for them to even consider making a purchase.

Merchant account providers dislike chargebacks as much, if not more, than merchants. Every chargeback requires effort on their part and forces them to undertake investigatory action as well as dealing with the logistics of the cancellation. Merchant account providers make their money, in many cases, from taking a percentage of total sales from their subscribers. When chargebacks cancel sales, they take money from the merchant account provider as well as the merchant.

In response, most account providers will charge significant fees to those who suffer chargebacks. Often and understandably these fees are in excess of the revenue the processor would have gained from the straight sale of the product. Chargeback fees can add up and further deleteriously impact a merchant's bottom line.

Returning to the example of John Acme: A chargeback may cost John an additional forty dollars in fees and penalties. His profit, already reduced to a paltry \$1,000 is now reduced all the way to \$920 (remember, there were two chargebacks lodged). The idea of a relatively small fee in the face of a chargeback may not seem that important, but when one considers the way a chargeback cuts into the bottom line on its face, these additional expenses take on added meaning and can be a source of additional frustration and/or hardship.

Additionally, merchant account providers do not want to associate themselves with questionable businesses. A significant percentage of chargebacks will be viewed with great suspicion on the part of the provider. When providers take into account their costs in dealing with chargebacks, as well as the potential for future problems, it is understandable why they feel they need to take a hard line with merchants who frequently encounter chargebacks.

This hard line approach can be manifested in the outright cancellation of a merchant account. If the number and value of a merchant's chargebacks rise to a level exceeding a fixed percentage of the total business conducted, the account provider will cancel a subscriber's account.

Thus, chargebacks don't simply cost money of the front end with lost sales—they also jeopardize the very system by which the merchant can hope to collect any money. Loss of a merchant account can completely devastate an online business. During the period of cancellation, the merchant will be required to find a new processor if they hope to stay afloat and may lose countless sales if stuck “between” processors for any length of time.

An example of the excessive chargeback “death penalty” can be found in virtually any merchant service provider. For example, bitpass.com uses the following language with respect to accounts that have too many chargebacks:

“2.3.3 Excessive Chargebacks. If we determine that you are receiving an excessive amount of Chargebacks, in addition to our other remedies under this Agreement, we may take the following actions: (1) review your internal procedures relating to acceptance of BitPass accounts and notify you of new procedures that you should adopt (at your sole discretion) in order to avoid future Chargebacks; (2) assess or modify charges to process your Chargebacks; (3) collect from you an amount reasonably determined by us to be sufficient to cover anticipated Chargebacks and related fees and fines; or (4) terminate the Agreement upon written notice. You agree to pay any and all banking fees and fines assessed against you or against us relating to your violation of the Agreement or excessive Chargebacks under this section derived from Transactions on your web site or Transactions where you derived Net Funds.”

Clearly, generating too many charge backs can have a serious impact on one's relationship with a service provider.

Additionally, merchant account providers are not always attracted to merchants with a track record of chargeback problems. One may find themselves unable to find a processing partner, or may be left only with less desirable processors who charge larger fees.

The prospect of suffering through these kinds of problems should motivate any online merchant to take action to avoid chargebacks. Some, however, see these commonly encountered problems as unlikely worst-case scenarios and fail to take action. Those with this opinion should rethink their perspective.

Chargeback Inevitability

If a merchant has not yet experienced a chargeback, he or she may feel as if they have no need to worry about the situation. This is a flawed way of interpreting the matter. If a merchant has not had a chargeback, it merely means it has not happened yet—not that it will never happen at all.

Unfortunately, the primarily rationale and reasonable internet consumer base is peppered with chronic complainers, scam artists and others who engage in the

behavior that spurs chargebacks. The anonymity and ease of use associated with internet purchasing makes online enterprises an exciting business opportunity. Unfortunately, it also creates amazing opportunities for the nefarious, criminal and simply unreasonable.

In time, any successful online venture is likely to experience chargebacks. Merchants simply have too little customer control to avoid it. There will always be a low-life willing to use a stolen credit card number or an irrational customer who failed to understand their purchase prior to making it who ends up dissatisfied and willing to place a phone call to his or her credit card company.

Online merchants find themselves far more likely to be victimized by chargebacks than their traditional brick and mortar counterparts. Chargebacks are at least ten times more likely for online merchants. One industry study actually maintains that an online merchant is nineteen times more likely to experience a chargeback than a vendor in a traditional storefront. Even conservative estimates put total losses caused by chargebacks at somewhere between one and a half and three percent of total revenue for online sales.

Chargebacks are actually advocated by the media to consumers for a variety of circumstances that could be better and more fairly handled via other means. A recent major newspaper article advised an individual who was dissatisfied with a vacation to immediately seek a chargeback and then to discuss the matter with the merchant in question. Consumers are being actively encouraged to use chargebacks in any situation in which they are mildly dissatisfied instead of approaching merchants reasonably, discussing their concerns and looking cooperatively for a solution.

Any merchant who denies the likelihood of experiencing chargebacks should ask themselves how well he or she really knows her customer base. In all honesty, most online merchants know little more than some scant information and a credit card number. To believe they are insulated from the potentially devastating impact of chargebacks is folly.

Preventing Chargebacks Prior to Sale

The best way to deal with the problem of chargebacks is to prevent them from occurring in the first place. By taking adequate action before processing sales, one can minimize the risk of chargebacks considerably. These tactics will help a merchant reduce their exposure to chargebacks.

Offer a Quality Product

One of the most common causes of chargebacks is customer dissatisfaction with a product. Unlike a traditional brick and mortar store setting, customers do not have the opportunity to see, touch and evaluate a product as completely. In large measure, they are buying sight unseen when conducting business on the internet.

Many customers receive the products they order and are immediately disappointed. They do not feel the product was able to live up to the marketing that led them to place the order and then seek redress by petitioning their credit card issuer for a chargeback on the purchase.

Even when a product does basically live up to its pre-sale hype, some consumers will be tempted to utilize a chargeback simply in order to get the item for free. This is sometimes referred to as “internet shoplifting” or first-party credit card fraud. The basic key fending off these situations is to provide a product that is, without doubt, even better than advertised.

By over-delivering, a merchant can cut down on chargebacks considerably. Anyone hoping to successfully operate an online business should realize that product quality is essential to reducing chargebacks. If one is able to provide customers with products that truly meet their needs and expectations, one of the biggest motivators underlying chargebacks can be completely avoided.

Offer a Clear Product Description

There are those consumers who are unhappy with the quality of a product who create chargebacks. There are also those who simply did not get what they thought they were buying. These disgruntled customers can be a major source of chargeback grief.

One should not overestimate the intuitive skills or ability to “read between the lines” of the average internet consumer. People will find ways to be confused if a merchant does not take the initiative of completely explaining a product, its uses, and all other relevant details.

Chargebacks stemming from poor product description are generally not due to an intentional effort on the part of the merchant to deceive a consumer. However, great marketing can sometimes lead merchants to stop short of full explanation

or disclosure in order to make a product more attractive. This approach almost guarantees that chargebacks will result.

Merchants should be up-front and clear about what they are sending. Awesome sales letters and marketing tools may turn a buyer into a looker, but one must remember to provide the consumer with all relevant information at some point prior to processing the actual sale. This product description should be clear, readable and uncluttered with adjectives designed to market the product.

Let's return to John Acme's widget business. John wants to make sure customers know what they are really buying. He supplies a representative photo, along with all product specifications. However, he believes the specifications make for dull reading and fail to capture the spirit of his widget-peddling site. John edits the text accordingly. What once read: "Each widget is 7" tall, weighs 4" and is painted red" is then transformed to: "Each magnificent widget stands a towering 7 inches. These hefty widgets weigh in at an impressive 4 pounds—they are not the lightweight widgets you see elsewhere. Additionally, each striking widget is delivered in a striking candy apple red, the one widget color for which most savvy widget buyers clamor."

Acme may be a great copywriter, but he is not doing himself any favors. All of the marketing verbiage may have a place at Acme's site, but that place is not in a final product description.

At some point prior to sale, a description must be offered that simply and starkly defines exactly what a customer is buying without any superfluous information. A good product description, offered somewhere where the buyer must see it prior to confirming purchase will be honest and objective, helping to insure that the customer truly does know what they are buying.

This kind of information should not adversely impact sales but will reduce the number of chargebacks. Customers will not only know in advance what they are getting but will also know when they receive the product that they were told exactly what to expect. In the mind of a consumer who may still not be wholly pleased, the fact they know they were exposed to a clear rundown of the product may prevent them from seeking a chargeback.

Offer an Anti-Fraud Statement

One of the most common causes of online chargebacks is simple fraud. Crooks will seek to get something for nothing and will be willing to either allege product deficiencies in a chargeback request or to use stolen credit cards in order to make purchases—which will also result in chargebacks.

One cannot dissuade all criminals from their illicit pursuits. However, most nefarious sources of chargebacks will prefer targets that appear soft. By

expressing a hardliner stance on fraud clearly before any sale is made, a merchant can convince potential thieves to look elsewhere.

All merchants should note their intolerance of fraudulent purchases and willingness to pursue all means necessary to see to it that those committing fraud are found out and punished. A solid anti-fraud statement placed upon a sales page can serve to dissuade some of the criminally-minded from trying to turn a fast buck.

Had John Acme provided a clear statement regarding his approach to fraud, he might have “scared away” a scammer whose efforts later produced a costly chargeback. Had he taken a little time to put a strongly worded anti-fraud statement on his widgets site, he could have communicated the seriousness with which he might pursue thieves and may have given at least one of them a cause to pause before trying to rip him off.

An anti-fraud statement also serves to bolster a merchant’s credibility with non-fraudulent consumers. Shoppers note that a site is serious about preventing fraud and may, therefore, feel more secure in making a purchase. A strong anti-fraud message not only conveys one’s willingness to take on would-be scam artists, but also the merchant’s overall concern with maintaining good business practices.

Obtain a Good Merchant Account

The reaction of your merchant account provider can be key in avoiding the hassles associated with chargebacks. Some processors are more reasonable than others both in terms of their outlook on chargebacks and the fees they charge when chargebacks occur. Different processors also have different levels of tolerance with respect to chargebacks. Before a merchant takes a single order for his or her online enterprise, he or she must first be completely confident in the merchant account provider and fully aware of its approach to chargebacks and expectations regarding merchant handling of chargebacks.

Too often, in the rush to get a business started, the question of which merchant account provider is reduced to “who can I get set up with the fastest for the least amount of money.” That seemingly efficient outlook can be devastating in the long run, particularly with respect to the issue of chargebacks.

The processor will be the one who actually takes money from a merchant when there is a chargeback. They are the ones capable of levying significant fees against a merchant. They are also the ones who may opt to discontinue a merchant account—the very lifeblood of an online business.

A great deal of care should be taken with respect to a merchant account provider. Optimally, a merchant should look to find a service that sees itself as a partner in creating a successful enterprise and not one who looks at chargebacks as an

opportunity for additional profits. One should also avoid a processor who is unwilling to consider the likelihood that many chargebacks are not the fault of the merchant.

The cliché that “the customer is always right” should hold true in the case of merchant account providers. Remember, the merchant is the customer for these operations. The complaining consumer is not. One should make sure they align themselves with a processing operation that looks after its customers—online businesses—first and foremost.

Remember, however, that no company is likely to really actively side with a merchant in most cases. There is still a strong presumption in favor of consumers when complaints are levied. However, there is an increasing trend among online providers to offer services that seem to be more supportive of merchants who are facing chargeback situations.

Create a System for Handling Chargebacks

In many cases, chargebacks come as a shock to merchants who have not yet considered the problem in its entirety. Taken by surprise, these merchants often find it hard to take appropriate action. Before taking a single sale, every online merchant should first consider and create a system for handling chargebacks. By investing some time and consideration on the pre-sale, front end, one can minimize the adverse impacts of chargebacks considerably.

The characteristics of a merchant’s anti-chargeback system will undoubtedly vary based upon the individual merchant and the exact nature of his or her business. However, there are some components that should be present in any workable chargeback solution, including the tips and advice offered herein.

John Acme had never given the issues of chargebacks a second thought. Although a true widget expert and a relatively talented website operator, John had only heard of chargebacks in passing and guessed it was an issue that only impacted dishonest or unscrupulous merchants. Had he known more about the matter and invested adequate time and effort into building a legitimate anti-chargeback strategy, John May have been able to avert the two chargebacks that nearly decimated his small online venture.

Maintain Records Properly

Eventually, all merchants will face a chargeback. When they do, they will need to be able to access all of the information regarding the transaction in question. It is therefore essential to save all transaction records and to manage them in a way that makes recall of a specific sale convenient and easy.

Disputing a chargeback requires documentation. Additionally, a merchant is under time pressures to provide responses and documentation. Too often, an

invalid chargeback goes unchallenged or is unsuccessfully resisted by a merchant who was simply unable to put his or her hands on the required data in a timely fashion.

Records maintenance may often seem like a poor investment. If you go a long period without experiencing a chargeback may feel as though the time spent recording and maintaining transaction logs is wasted. However, facing even one chargeback and the attendant hassles will make all of the effort worthwhile. When a merchant remembers the significant costs associated with chargebacks, the time and effort expended in records management will present itself as a relatively inexpensive form of insurance.

Those who don't consider chargebacks, like our hypothetical John Acme, often fail to maintain all necessary records. Even if all records are saved somewhere, they are often not maintained in a manner that allows for great accessibility. Had John been able to find his sales slips, supporting documentation and related information, he may have been able to avoid one of the chargebacks he suffered.

Provide a Telephone Number

Merchants should always advise their merchant account provider to include the business telephone number on billing statements. The presence of a telephone number can often result in a consumer calling on the merchant to discuss their potential complaints instead of immediately requesting a chargeback.

Quality customer interaction is a great way to reduce the occurrences of chargebacks. This is especially true in cases of confused customers or those dissatisfied with a product. An opportunity for communication may allow a situation to be completely solved without involving the credit card issuer or merchant account provider. Many chargebacks are initiated by "trigger happy" consumers who could be led away from the action if an opportunity to talk to the merchant is readily available.

Those who fail to provide a contact number are encouraging consumers to take their complaints to their credit card companies immediately. The card issuers, in an effort to provide maximum protection for their customers, may very well recommend a chargeback in situations that really do not warrant a reaction of that magnitude. By creating opportunities for merchant-customer interaction, one decreases the frequency of chargebacks. Before a merchant takes a single order, he or she should make sure all necessary contact information will be provided to customers.

Scrutinize Sales

One of the easiest ways to reduce the risk of being victimized by chargebacks is to carefully scrutinize sales before accepting payment. A good scrutinization strategy can allow a merchant to avoid specific situations that may result in

chargebacks altogether. There are a variety of factors at play with respect to sales scrutiny. A few, however, stand out as nearly mandatory portions of any successful plan.

Beware of Free Email Accounts

Free email accounts are used by thousands of legitimate consumers every day. However, they are also the favored routes for scammers and thieves. A free email address can be obtained in less than five minutes and does not require the submission of any accurate information. Free accounts can be quickly and easily created with fictitious names and information by virtually anyone. Many online thieves will create a seemingly legitimate free email address to match the stolen credit card they plan to use.

It may not be possible to completely reject any purchases made by those using unpaid email addresses. Some online vendors have implemented such systems, but they usually offer products that appeal to specific niches where a paid email address is *de riguer*.

There are some, however, who insist that taking orders from free email services guarantees disasters. One advisor has recounted a client's horror story involving free email addresses. The merchant had been relatively successful even though he would only accept "paid" addresses. In an effort to generate more sales, however, he decided to experiment with abandoning the prohibition on free accounts. His initial sales numbers soared. So did the number of chargebacks he suffered. This established merchant soon found himself on the brink of completely losing his merchant account.

If one feels they must accept orders that are attached to free email addresses, the orders must be examined closely for any possible problems. The "@hotmail.com" may not mean fraud is on the horizon, but it does increase the likelihood that a transaction could be illegitimate significantly.

Beware of Some International Orders

The internet is a global phenomenon, and part of its attraction is the ability for merchants to reach a truly international audience. Unfortunately, it seems as though some parts of the globe are often the source of scams and rip-offs.

Nigerian "419" scams are one of the most well known internet rip-off ploys. Fraudulent emails prey upon the unsuspecting and ill informed. It is no surprise, when one considers the skilled and experienced scamming population of Nigeria that orders placed from the nation are often fraudulent.

Orders stemming from other developing nations are also more prone to be fraudulent than those from more affluent nations. Poverty and a lack of law enforcement make scamming a viable means of generating income in many areas.

A savvy online merchant will note the originating nation of orders and will be particularly suspect of transactions stemming from lesser developed countries. Former Soviet Republics and the nation of Malaysia are also considered high-risk countries with respect to fraudulent online credit card purchases.

Of course, not every Nigerian is a thief. Nor is every American an honest buyer. Good and bad consumers exist in both nations. Nonetheless, the amazing percentage of transactions originating from nations like Nigeria that turn out to be fraudulent warrants a close investigation of every sale to the area. Many online merchants, in hopes of better self-defense, refuse to process any transaction stemming from such locales.

Beware of Unusual Orders

If a merchant sells something that appeals to only a limited office or is usually ordered in small quantities, they should be suspicious of any large orders that do not meet their usual experiences. Likewise, merchants should consider the popularity of their product in various regions in order to assess which orders must be closely examined. If a merchant sells sleds, for instance, he should be immediately suspicious of an order placed from Florida.

Not all odd orders will be that obvious, of course. However, every merchant will have a good idea of the usual quantities or their products that are purchased and other characteristics of a common sale. They can compare these tendencies to new orders in order to isolate those transactions that seem particularly odd or likely to be fraudulent.

The failure to examine unusual orders can often result in chargebacks that otherwise could have been avoided. Our John Acme, for instance, may sell widgets that are offered in lots of one dozen. In the course of several years of doing business, the largest order John Acme ever processed was for three dozen widgets. When John sees an order for twelve dozen widgets, he is able to recognize that the consumer probably meant to order one dozen, not a gross. A simple telephone call to the customer confirms the confusion. Had he shipped a full twelve dozen widgets to the consumer, he may have experienced a chargeback. By carefully scrutinizing unusual orders of any sort, a merchant is able to better avoid chargebacks.

Orders that consist of several quantities of the same item and the other types of orders mentioned above are not the only kinds of orders that warrant increased scrutiny. There are other things for which a merchant should be on the look out.

Purchases that request a rush delivery when one would usually not be necessary should raise a red flag on the part of merchants. This strategy is often used as a way for fraudulent buyers to get their hands on the goods before their criminal acts are discovered.

If a customer places an extremely large order for higher-priced products, this can also be a cause for concern. For instance, if a merchant operates a technology-related sales site and finds him- or herself looking at an order for several very expensive yet seemingly unrelated items, they should be concerned at the prospect of fraud.

This same rule holds true when one notices a rash of orders from a new customer in short proximity to one another. Generally, consumers do not behave in this fashion and the unusual order should be relatively noticeable. Many orders from the same individual over a short period of time are often a sign that fraud is afoot.

Another rationale for close scrutiny is when an order features one address for billing, but requests delivery to an alternate location. This can be a completely innocent request on the part of a buyer. Perhaps they are simply using a personal credit card for something that they would prefer to have delivered to their office. Maybe the consumer is purchasing the item(s) as a gift and wants them delivered to the intended recipient directly. These rationales are sensible and do occasionally occur. However, requesting shipping to an alternate address is also a technique used by those committing fraud. They may have enough cardholder information to provide the correct address, but they would prefer to have the order shipped elsewhere for pick up in order to get their hands on the illegal obtained materials.

Commonly, this involves using the address of a hotel. Delivery services will leave the package at the front desk, and the unscrupulous buyer will simply pick up the package there. Hotels often fail to get detailed information about those who pick up such packages, asking they provide nothing more than a signature on a check out form. The names and information often go unchecked, allowing someone who is not even staying at the hotel to use it as a staging area for their criminal scheme. These situations demand attention on the part of a merchant and make processing orders with two distinct addresses worrisome.

Follow-up on Scrutinized Orders

Simply noticing that an order may be suspect will do nothing to prevent a chargeback. In order for the observation to have any meaning, some action must be taken. All merchants should examine their sales for possible problems and then be willing to act upon those that seem to be of high risk.

Sometimes the action can be as simple as an email to the buyer. In other cases, a telephone call may be necessary. In very questionable situations, merchants have been known to request faxed copies of identification and other documentation before effectuating a sale.

The exact nature of the follow-up will depend upon the merchant and the exact suspicions at hand. What is important is that the information gleaned from close scrutiny of each sale results in proactive measures to reduce the likelihood of

chargebacks. Considering the risks posed by chargebacks, that sort of aggressive behavior on the part of merchants is wholly necessary.

When it appears that a chargeback is likely, the merchant should usually not follow through with product delivery until adequate information can be obtained to process it safely. This may inconvenience a customer, but most buyers will be understanding of the situation. In fact, many may be pleasantly surprised that the merchant is so willing to take actions designed to protect customers.

Preventing Chargebacks at the Point of Sale

Even if a merchant does everything in his or her power to avoid chargebacks before they take their first sale, they are still at risk. The best preventative regimen still leaves room for issues and problems that can result in chargebacks. There are additional steps a merchant must take in order to protect him- or herself.

Tell Customers Who will do the Billing

Internet transactions often involve a third-party credit card payment processor. This handy innovation has made online business more accessible for many entrepreneurs. However, it can also cause confusion on the part of consumers resulting in chargebacks.

Let's say our hypothetical widget-seller, John Acme, uses a third-party processor for his credit card orders. The company with whom he does business is known as Green Gadget, Inc. Acme's customers may be confused when they see their bill. Knowing they don't do business with anyone named Green Gadget, they seek a chargeback.

This situation is also true when one web site or internet venture works under a larger umbrella owned by the same entity. For instance, John Acme may sell widgets at his "Hot Widgets Site." Meanwhile, he may be selling gadgets at his "Cool Gadgets Site." John uses one merchant account for both aspects of his enterprise, which is named "Acme Goodies." When customers see Acme Goodies on their bill, they may or may not associate their purchase with the "Hot Widgets" or "Cool Gadgets." The consumer confusion can result in chargebacks.

Unfortunately, a unique billing name for every web site is not always possible. If it is possible for a merchant, they should pursue that strategy. Others should simply make sure to take the time to advise their customers of the name that will appear on their credit card statement.

Some indication of the billing name should probably be made on the sales page. If a merchant sends a follow-up email to buyers the information should be included there, as well. This relatively simple act may allow an otherwise confused buyer to recognize the transaction on their statement and can reduce chargebacks accordingly.

Provide a Good Receipt

A clear and informative receipt can reduce chargebacks. Consumers who are provided with the details of their purchase in black and white are far less likely to attempt a chargeback later. The receipt functions in many ways to discourage chargebacks.

First, it communicates necessary details to the consumer, reducing the likelihood of confusion on their part. This can prevent some chargebacks from ever happening.

Second, a good receipt will include the contact information necessary to keep the lines of communication between vendor and customer open. Merchant accessibility results in complaints being directed to the merchant instead of being immediately referred to the credit card issuer, further minimizing the risk of chargebacks.

Third, a professional receipt communicates to customers that a merchant is serious and organized in their efforts. By maintaining a professional image, a merchant can deter those scam artists who may be seeking soft targets.

Finally, a quality receipt also helps a merchant in his or her own record-keeping efforts. Maintaining receipts makes recalling needed data a breeze if a chargeback should occur.

A receipt can be provided on-screen following a purchase along with information regarding how it can be saved for the customer's records. Although many internet businesses stop at that point, it is also advisable to email a complete receipt to the customer, as well. By making the details of the transaction clear and insuring that the receipt is delivered a merchant can reduce the likelihood of chargebacks.

Collect CVV2 Codes

The back of every credit card includes a long series of numbers. The last three digits in this sequence are often referred to as a CVV2 code. American Express cards feature a four digit code on the front of the card that serves the same function. This code does not appear in print anywhere but on the card itself. Thus, anyone who is able to recite a correct CVV2 code either physically possesses or did physically possess the credit card at one point.

Obviously, requiring the use of a CVV2 code will reduce the instances of credit card fraud, which is a chief cause of subsequent chargebacks. Many scammers and thieves are able to find credit card numbers to use for their online pursuits. Relatively few of these villains, however, are capable of also obtaining the matching CVV2 codes.

Obtaining and verifying a CVV2 code will not guarantee that all transactions are completely legitimate. However, it will dramatically reduce the number of fraudulent sales one might otherwise receive.

The ability to require a proper CVV2 code should be a feature of the merchant's credit card processing account. If a merchant account provider or third-party

billing partner does not allow you to require CVV2 matches for credit card orders, one should look for other billing solutions that offer better protection from fraud.

Collect Customer Telephone Numbers

Collecting the telephone numbers of those who purchase your products can be of tremendous value in reducing the number of chargebacks one may otherwise encounter.

As noted earlier, any means by which communication between customer and merchant can be effectuated is desirable. This increases the chances to negotiate an alternative to a chargeback or to solve issues of confusion that may otherwise result in chargebacks.

Additionally, a customer telephone number is a great resource when investigating purchases a merchant has flagged as potentially problematic. It allows a seller a potential means of contacting a suspect customer. Many times, a simple phone call will allow one to discern the legitimacy of a transaction. In other cases, an incorrect phone number or a false number can serve as additional evidence that a suspicious purchase may be fraudulent and can give the merchant cause to pause before processing the order.

Requiring a customer phone number also decreases, to some extent, the likelihood that a slightly disgruntled customer will request a chargeback. The buyer will be well aware that a merchant can contact them directly. In some cases, less than sincere customers use chargebacks as a tool of convenience. The prospect of actually having to discuss their fictional concerns may be enough to prevent them from calling their credit card company in the first place.

Use an AVS System

An AVS (address verification system or service) can reduce instances of fraud considerably. Some industry experts claim that massive reductions in fraud levels can be obtained simply by gathering and checking address information associated with a credit card number.

Generally, an AVS will require the seller to provide information obtained from the customer regarding the buyer's address. The AVS service will check that information against what is on file for the credit card itself. If a different address or ZIP code is discovered the transaction is not processed.

This means that any would-be scammer would have to know not only the credit card number and expiration date, but also the billing address for the credit card. While not foolproof, this extra hurdle is easy for legitimate buyers to clear and difficult for the criminal to manage. When used in conjunction with CVV2 codes, AVS can further reduce instances of fraud, which invariably lead to chargebacks.

Merchants should strive to use a card processing service that allows for AVS on all credit card transactions. The resultant decrease in chargebacks makes use of the service a bargain for any online merchant.

Preventing Chargebacks After the Sale

All of the pre-sale and point-of-sale methods for chargeback reduction still cannot guarantee that a merchant will not experience problems. As such, it is important for merchants to remain vigilant even after a sale is processed. There are a few things merchants can do to continue to protect themselves after a sale is made.

Provide Status Updates

If an order does not allow for immediate delivery of a purchase, a merchant should be prepared to provide regular status updates to his or her customer. This is particularly true in cases where items ordered were temporarily out of stock or in service-related fields where a project may not be completed for some time.

By remaining in regular contact with a customer, a merchant increases the customer's sense of security in the transaction and can prevent them from launching a "cold feet" or "buyer's remorse" chargeback prior to completion of the order. Those customers who do not get regular updates in these situations may begin to legitimately question the status of their transaction and chargebacks in these circumstances are understandable. A few simple updates regarding the status of an order can save major headaches for a merchant.

Handle Customer Interactions with Chargebacks in Mind

Many times, a merchant will have post-sale interaction with a customer and will consider the sale over and the deal completely done. They fail to recognize that chargebacks can occur well after an actual sale is processed and occasionally engage in communication that spurs consumers to act rashly.

This does not mean that one must be overly accommodating to customers who may be considering a chargeback or disputing their bill. In many cases, taking a hard-line in negotiations can prevent would-be cheaters from following through with their plans.

One internet entrepreneur illustrates this clearly.

"I had a customer who was threatening a chargeback. She claimed she didn't make the purchase at all. When confronted with the fact that the code on the back of the card matched up and that I had her correct address, she backed off a little. I explained to her that if she persisted, all of that information would be relayed to the credit card company. I told her that it sure looked like she had made the purchase—and if it wasn't her it must have been someone else who knew an awful lot about her. Maybe a family member or a friend. I told her that I wouldn't give in to a chargeback attempt easily and that I'd make sure a full investigation was made."

This hard-line approach worked. “After hearing that, she changed her tune. She indicated that it must have been her husband and that I didn’t need to worry about the whole thing. I don’t know if the information I had opened her eyes to the fact that someone at her place made the buy or if my approach just convinced her it wasn’t worth trying to wriggle out of the purchase. Either way, the threat of chargeback disappeared.”

This story not only illustrates the potential power of taking a serious attitude toward those who are attempting to effectuate a chargeback. It also underlines the importance of acquiring good information (in this case a CVV2 code and using AVS) in order to prevent chargebacks after a sale.

When discussing matters with customers who may be contemplating a chargeback, the merchant must be firm and protective of his or her self-interests. That does not, however, mean that the merchant should act in any way that would upset a customer. Too hard an approach can actually encourage a chargeback.

Like any other negotiation, dealing with dissatisfied customers requires “people skills” and a clear understanding of one’s objectives. When conducted appropriately, these interactions can result in avoiding chargebacks.

Act quickly

It is easy to let a chargeback notice fade into the background. If one is busy and business is good, a single chargeback may seem to be a low priority. However, one must remain cognizant that a successful chargeback effort can result in additional fees and that too many chargebacks can create the backbreaking hassle of losing a merchant account completely. Thus, it is important to take every chargeback seriously and to deal with them promptly.

The exact timetables for handling chargebacks varies based on the merchant account provider and credit card company involved. Regardless of time limits, merchants should respond to any chargeback immediately and should provide all available documentation. Most of the time, the merchant will be given an opportunity to provide any other relevant information. If this is the case, one should provide a synopsis of the transaction and timetables involved in writing and attach it with the other documentation and forms required.

A merchant should take chargebacks seriously and approach them professionally and quickly. Hesitation will not only draw out the process, it also creates the opportunity to forget to deal with the situation. For a busy online businessperson, this could conceivably result in completely forgetting the matter and missing out on the opportunity to dispute the customer’s claims.

Refund when Necessary

If a merchant has the opportunity to deal directly with a customer prior to the initiation of a chargeback, they should remember that a refund might be less costly than a chargeback. One can usually void a credit card transaction far less expensively than allowing it to fester and turn into a chargeback. Although processing services do not like refunds or voids, per se, they are generally less despised and penalized than chargebacks.

If one is dealing with a completely obstinate customer who is obviously unwilling to yield, the merchant should consider making a refund prior to allowing the matter to escalate. This can be difficult for many merchants who simply cannot stomach the proposition of losing money and would prefer to make a stand on the matter until the “bitter end.” However principled that position may be, it often makes less sense in financial terms than simply voiding the transaction or issuing a refund.

Issuing a refund makes great sense in those situations where fraud is a likely scenario and the cardholder is unlikely to have been the actual purchaser. One should be prepared to offer a pre-chargeback refund when indicators point to a likely case of fraud perpetrated by someone other than the cardholder.

As hard as it is to give money away, merchants must remember that the decision to refund a customer’s money will likely be far less costly (and fraught with far less risk) than pushing the matter to the point where a chargeback is pursued.

Other Chargeback Solutions

SET and Similar Offerings

That's one of the reasons MasterCard and Visa expect the Secure Electronic Transaction (SET) payment protocol to be so popular with merchants. With SET, cardholder information is encrypted in the transaction and transmitted to the merchant's bank, which decrypts it, authenticates that the cardholder is who he or she says he is (and that the merchant it legit as well), and gives the merchant an authorization to charge the card. Many believe this system will gain in popularity as it becomes more widely offered. This technique promises to help in reducing instances of fraud and decreasing chargebacks accordingly.

Signature Collection Services

A new development in online chargeback reduction is collecting signatures from customers via a mouse. This service is designed to reduce the number of chargebacks from those who did make purchases but claim otherwise. The service is offered on a subscription basis and may be designed to blend in with one's overall payment system. The efficacy of these services is not as of yet entirely clear. However, if one does a large volume of business and find the subscription reasonable, it may be worth further investigation.

Chargeback Advocates

In today's specialized economy, there seem to be professionals dedicated to helping one with any aspect of business. The chargeback arena is not an exception. Many firms have developed offering chargeback advocacy services. These groups profess to be able to handle retrieval requests, fight chargebacks and to help merchant's improve their strategies for dealing with chargebacks while isolating particular risks to which the merchant is exposed.

If a merchant runs a large-volume business and finds chargebacks are simply too time-consuming an issue with which to deal, outsourcing the process may be in order. One must make sure do sufficient "due diligence" in order to ascertain a firm's experience talents and expected results.

Causes of Chargebacks

Many think of chargebacks as a byproduct of dissatisfied customers and fraud exclusively. Although these are the two chief underlying causes of chargebacks, there are a host of circumstances that could lead to that end. Some causes include:

Information Requests

In many cases, a cardholder or the cardholder's bank will request a copy of a sales record. This may be requested for any number of motivations, some of which could be completely unrelated to fraud or customer dissatisfaction, although those are often the case. When information requests are made through the proper channels, merchants are required to supply the information. Being unable to provide this data or simply failing to provide the sales record on time can result in a chargeback.

This problem is easily avoidable if one maintains good records, commits to handling chargeback issues quickly and has a strong overall anti-chargeback strategy.

Cardholder Disputes Placing Order

This is one of the primary causes of chargebacks. A customer who has been charged for a purchase claims to have never made the purchase in the first place. This can be an effort at fraudulent activity on the part of the buyer, or it may simply be that the buyer did not make the purchase and someone else committed the fraud.

As noted herein, there are numerous strategies any online merchant must undertake to defend themselves against this kind of chargeback. The burden of proof, so to speak, in these situations usually rests in large measure on the merchant. Thus, good record keeping, a proper outlook and the implementation of various anti-chargeback strategies are required to help avoid these situations.

Transaction was Processed Repeatedly

Sometimes an actual buyer will find his or her credit card charged on multiple occasions for the same purchase. A chargeback may be initiated as a result. This kind of problem generally results from a simple error on the part of the merchant and can be corrected by making sure that one's credit card batches reconcile correctly on a daily basis and/or by insuring that one's processing strategy does not easily allow for multiple billings.

In the case of online purchases, this problem can arise when buyer's click on a purchase form repeatedly without waiting for a transaction to process completely.

If a merchant's system creates a risk of this occurring, there should be clear notice to the consumer not to submit the payment form more than once and to wait patiently for processing.

Failure to Render Services

This is an example of the breed of chargebacks related to customer dissatisfaction. In these situations, a customer maintains that a product was not delivered or that services purchased were never provided.

This kind of problem can be avoided by maintaining exact records on shipping, sending confirmation emails when shipping and by saving any and all interactions with a customer. The other thing every merchant must remember is to deliver what was promised on or before the time it was promised. Good customer service can go a long way in avoiding chargebacks.

Refund not Processed

Occasionally, whether it is an outgrowth of merchant-customer negotiations or as a means of correcting a simple billing error, refunds are issued. When a refund is agreed upon and is not processed in a timely manner, the cardholder may initiate a chargeback.

Merchants can generally avoid this problem by effectuating refunds immediately and by providing the customer with the information and documentation necessary to confirm that the refund has been issued. Sometimes, refunds do not appear on a cardholder's account for a few days or more. A particularly antsy customer may initiate a chargeback even though a refund has been issued. This makes it very important to make clear to the customer what has been done, when it was done, and when they can expect to see their refund "show up" on their account.

Invalid Account Number

A merchant may process an order with an invalid account number. The account number may belong to another account holder who is otherwise completely unrelated to the transaction. This can happen as a fluke accident or as a byproduct of fraud. Merchants can help to fight these by using additional security measures such as CVV2 codes or AVS when taking orders. Additionally, maintaining good customer records may give the merchant an opportunity to successfully contact the original buyer in order to get the information necessary to correctly process the order.

Transaction Not Processed Timely

There is a time limit for the processing of most credit card orders. The exact timeframes vary with cards and processors. However, all merchants should strive to process orders as quickly as possible. By allowing orders to “back up,” one risks attempting to process an order outside of the acceptable time limits established by the card issuer and processor.

Simple Billing Error

Humans are imperfect. Occasionally, an honest error will be made in one's calculations, resulting in the over-charging of a customer. The customer may seek redress for this error via a chargeback. This problem is usually avoidable in the online world, as the billing system is generally quite automated. However, if manual processing of amounts occurs, the merchant must do everything possible to eliminate these simple clerical errors. A slight accidental mistake can result in significant losses for a merchant.

Conclusion

Chargebacks can destroy online businesses. Even those online ventures robust enough to withstand chargebacks are deleteriously impacted by them. Small operators like the hypothetical John Acme can be completely devastated by even a few chargebacks. The costs and consequences of chargebacks require online merchants to make a serious effort to avoid the problem completely. When occasional chargebacks still manage to occur, merchants must be prepared to deal with them effectively.

There is no easy one-step solution to avoiding chargeback problems. Instead, merchants must seek to develop a comprehensive anti-fraud and anti-chargeback strategy. Only by taking a serious perspective on the problem and doing all that is possible to avoid chargebacks can one hope to avoid significant costs and problems.

If you are an online merchant and receive a retrieval notice, you need to have all of the necessary information to back your claim discoverable and readily available. In the meantime, you can do any number of things to reduce the likelihood of that scenario developing in the first place. By committing yourself to a comprehensive anti-chargeback strategy, you are far more likely to be able to avoid the devastation wrought by chargebacks on so many other merchants.

A good anti-chargeback strategy is not a luxury or a small, ancillary part of your business that you can tackle “when things slow down.” It is an essential prerequisite for stable online success and must be made a priority if you hope to prosper online.