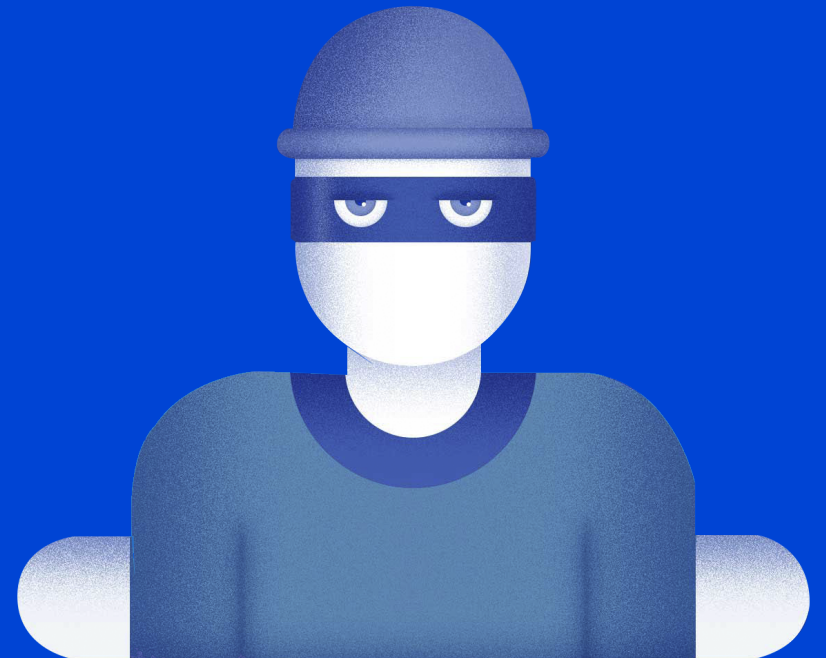


Rebilly

Reducing Chargebacks and Fraud



Reducing chargebacks and fraud

THE FULL COST OF CHARGEBACKS



When a customer successfully disputes a charge that you have made against their credit or debit card, the card issuer will typically rescind the sale from you - and add fees on top of it. This entire process is called a **chargeback**, and it costs businesses a fortune every year. In fact, “friendly fraud” — when a customer makes a purchase, then claims they didn’t — accounts for \$11.8 billion dollars in chargebacks each year, according to VISA.

Unless you physically swipe the cards of every subscriber each month — in which case, we’d love to see how — it can be very difficult to prove that a charge is legitimate. That puts the word of your credit card issuer’s customer against yours, and the customer usually wins.

It’s not just the money that’s at stake, either. In higher risk businesses, it’s already hard enough to get new merchant accounts with remotely reasonable rates and terms. Accrue too many chargebacks, and you can quickly find yourself with a termination notice, leaving you without a merchant account altogether.



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THE FULL COST OF CHARGEBACKS

“A one percent chargeback rate will typically cost you about three percent of revenues.”

Let's look at the full cost of chargebacks:

1. You typically lose the revenue, since the bank can claw it back without asking.
2. Plus, they'll charge you an additional fee — because, you know, banks.
3. Once you get above a certain percentage threshold of chargebacks, they'll assess additional fines and penalties — by both the issuing bank and often the card brand itself, i.e. Visa or Mastercard.
4. Finally, after they penalize and fine you out the wazoo, and make a healthy profit along the way, they'll shut down your account.

You aren't just out the revenue, fines and penalties, and operational costs of losing the merchant account and establishing a new one, though. You're also out:

- The cost of acquiring the customer, whom you've now lost.
- The cost of product delivery to that customer.

Put to numbers, a one percent chargeback rate will typically cost you about three percent of revenues plus additional fees like penalties and wasted acquisition and product costs. If you already run on low margins of 5% - 15%, a one percent chargeback rate can consume 20% - 50% of your profits. At scale, that's a financial disaster waiting to happen.

Reducing Chargebacks: Four tips to minimize your losses

THE FULL COST OF CHARGEBACKS

1. Enroll in a pre-chargeback alert program.

Services like Verifi and Ethoca have partnered with issuers to alert merchants at the very beginning of the chargeback process, which gives you a few days to respond and take corrective action to effectively prevent a chargeback. Remember, in the absence of strong proof, the customer will get their money back, and you'll be out the revenue, plus fees, plus penalties, plus acquisition costs. Sometimes, it's more cost effective to give the money back quietly, and avoid the lashing.

2. Keep your customer service on-point.

As many as 80% of "friendly fraud" chargebacks occur because the customer is too lazy to resolve the issue proactively with the merchant, or found it too difficult. Make it easy for customers to process returns and exchanges and resolve disputes — online and on the phone.

3. Check your billing descriptor.

Seriously, do this now. If your company is called SubscriptionKix, but you appear on credit card statements as SCHUMERNOVELTIES, you're in for a lot of chargebacks. A website address and a phone number is best practice, but remember that each issuer may display the information differently. Phone numbers get cut off. Pick a handful of trusted shoppers and ask them if your descriptor is spot-on or not.

4. Maintain blacklists and greylists.

Customers that commit friendly fraud once are more likely to commit it again. Remember, not every chargeback is fraud. Some are legitimate customer service complaints. But it's best to watch out for repeat offenders, and make sure someone who just won a chargeback against you isn't trying to see just how willing you are to give them more stuff for free.



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