

# CHAIN STORE AGE

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## Beware of the Grinches

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For all the dire predictions that 2008 will be the worst holiday shopping season in recent memory, there have been surprisingly few warnings about the Grinches who will undoubtedly be out in force.

The more difficult the economy, the more desperate and opportunistic those with criminal intentions become.

One of the biggest threats facing retailers is the growing prevalence of fraudulent transactions, particularly in a card-not-present environment.

Recently, I had the privilege of talking with Gilbert Fiorentino, president of the technology products segment at Systemax, the Port Washington, N.Y.-based parent company of TigerDirect and CompUSA. The topic he was passionately espousing was how retailers could unite to “stamp out credit-card fraud.”

It makes sense that this is a top priority for him, given that the products his companies sell—laptops, televisions, consumer electronics, etc.—are among the easiest and most popular to fence on the nefarious open market. Also, the bulk of Systemax sales are generated online where all transactions are customer-not-present.

“We are always under attack by credit-card fraudsters—people who are using fake credit cards, stolen credit cards, stolen identities—it’s a never-ending battle,” he said. “At the same time, we’re trying to offer the lowest prices and the best service, which often means same-day shipping of orders.”

TigerDirect processes 20,000 to 30,000 orders a day depending on the season, with very little time to “scrub” the credit-card data to confirm its legitimacy. Fiorentino described a detailed proprietary-software program his company developed to identify fraud that included some 30 steps.

For instance, the system looks at the distance between the locations of the IP address and where the order originated. Still, he said the best-case scenario was that 83% of the orders were adequately scrubbed and the remaining 17% required additional manual investigation.

Mistaken decisions prove costly: When an order is accepted but the payment is fraudulent, the retailer loses both the merchandise and the money. However, refusing to

accept an order when it is impossible to prove that the payment is legitimate costs the retailer a sale and a customer.

“For years we’ve talked about how great it would be if we could share our credit-card experiences with other retailers,” Fiorentino told me. “If there was a way that all retailers could have access to credit-card histories so we could all learn from one another’s experiences with good and bad credit users, then the credit-card fraudsters would have to fight us as a group.”

Enter Ethoca—a global fraud-fighting community that maintains an encrypted database of credit-card histories. TigerDirect recently became a charter member and Fiorentino urges others to join.

When a customer places an order on TigerDirect.com, the credit-card data is immediately compared against the Ethoca database. The more companies participating, the greater the chances that previously given fraudulent payment information will be recognized and the credit card can be denied. Similarly, credit cards that have proved legitimate in the past can be confidently approved.

“This isn’t a competitive situation because companies never see the customer or order information,” he explained. “Through this common interface, we can all work together to stamp out credit-card fraud.”