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TigerDirect Joins Anti-Fraud Initiative

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Gilbert Fiorentino, president of Systemax Services, is sick and tired of battling credit card fraud and he hopes you are too.

Fiorentino's TigerDirect.com and CompUSA.com, subsidiaries of Systemax, have joined Ethoca, a community of retailers and e-tailers that shares credit card data to prevent members from being scammed by the same card or fraudster again. Fiorentino hopes TigerDirect's inclusion will help attract more solution providers, including small companies, to join Ethoca.

"It's like a game. Many people consider [fraud] their full time job," said Fiorentino. "They're always bettering themselves in terms of the strategies they use. When you look back, the smartest, best hackers would try to take the world down with viruses. Now they've figured out how to make more money with their time."

TigerDirect ships more than 20,000 orders per day and gets "bombarded" with fraudulent orders each day, Fiorentino said. He said TigerDirect cancels several million dollars of fraudulent orders each year, but he did not say how much the company loses through fraud.

"It's a huge problem for us. We work very hard to give our customers the expectation that we can ship today. To be able to take an order, process the order and ship the same day, it's a matter of scale in terms of getting an order through credit card clearing."

There's a tradeoff between shipping orders quickly and slowing down to review those orders, Fiorentino said. TigerDirect has more than 40 people in its credit card department and while the company considers itself on the cutting edge of automation, it still manually examines about one in six orders.

"We still have to look. We're under incredible pressure to clear and ship the same day. That's the antithesis of fraud prevention. If I had 30 days to clear [credit cards], I'd have zero fraud," he said.

TigerDirect has invested a lot of money in anti-fraud technology, but the problem is that the fraudsters also evolve, resulting in an electronic cat-and-mouse game.

"Typically, they get smarter before us. There have been many times where I wish I could share credit card data with others like me, companies like Land's End, Amazon (NSDQ: AMZN), The Gap, people who do lots of orders like us," he said.

That's where Ethoca comes in.

The organization, with U.K. headquarters in Dublin and North America headquarters in Toronto, estimates that two percent of online transactions are fraudulent.

Ethoca's aim is to capture credit card data and develop a system in which users can quickly scan through a collective history of transactions to check for fraud. By working together, retailers can drastically reduce the amount of fraudulent orders, said Andre Edelbrock, CEO of Ethoca.

"It's about time that merchants started [sharing information]. The fraudsters are doing it today. They have fantastic tools to share data and broker stolen IDs," Edelbrock said.

Initiatives to share credit card information have been tried before, both in the United States and the United Kingdom, but they've had limited success attracting top retailers, Edelbrock said.

Ethoca was founded about three years ago with an initial focus in the U.K. Edelbrock secured a deal with the Royal Bank of Scotland (RBS), which helped attract more retailers quickly.

To join Ethoca, companies need to bring about 18 months worth of transaction history and be willing to share future transactions, including all clean orders, Edelbrock said.

When an order comes in, Ethoca runs analytics on it and measures it in a fraud risk engine, customized for each customer, Edelbrock said.

"TigerDirect may have a particular issue but Best Buy (NYSE:BBY) has a different problem," he said.

Users can receive real-time information for each transaction, or run a batch of orders after a certain period of time. Ethoca provides a score, based on the user's settings, and a recommendation to accept or reject the order. Ethoca won't reveal how many fraudulent orders it has prevented, under the terms of its contract with customers, Edelbrock said.

Users pay a monthly membership fee ranging from \$500 a month, up to \$25,000 a month, depending on how big they are and their usage, Edelbrock said.

"Can we handle 10,000 members? Absolutely. If we had 10,000 Amazons than maybe we'd have to have a conversation on how to unboard them, but that kind of architecting is build into the system," Edelbrock said.

Ethoca's data is secure, and specific end user information is not shared between members, said TigerDirect's Fiorentino.

"We did spend a lot of time and money looking at the security and risk of sharing this data. We are comfortable because it's offset by the possible savings in fraud," he said. "Keep in mind, this can improve service for good customers too. After enough [good orders], I get verified with certain order systems. Being verified can improve customer service. Orders can run through faster. On the other hand, if a fraudster tries a bad credit card and I run it through Ethoca, it shares that with another company the fraudster may try to hit next month."