DIGITAL RETAIL
COMMERCE 360

MAY 2022



THE PERFECT PURCHASE EXPERIENCE

At checkout, customers want online retailers to provide a secure transaction and payment choices like buy now, pay later. Retailers must also incentivize customers to return without alienating a once-receptive buyer. And warranties can strengthen bonds with customers and entice them to return.

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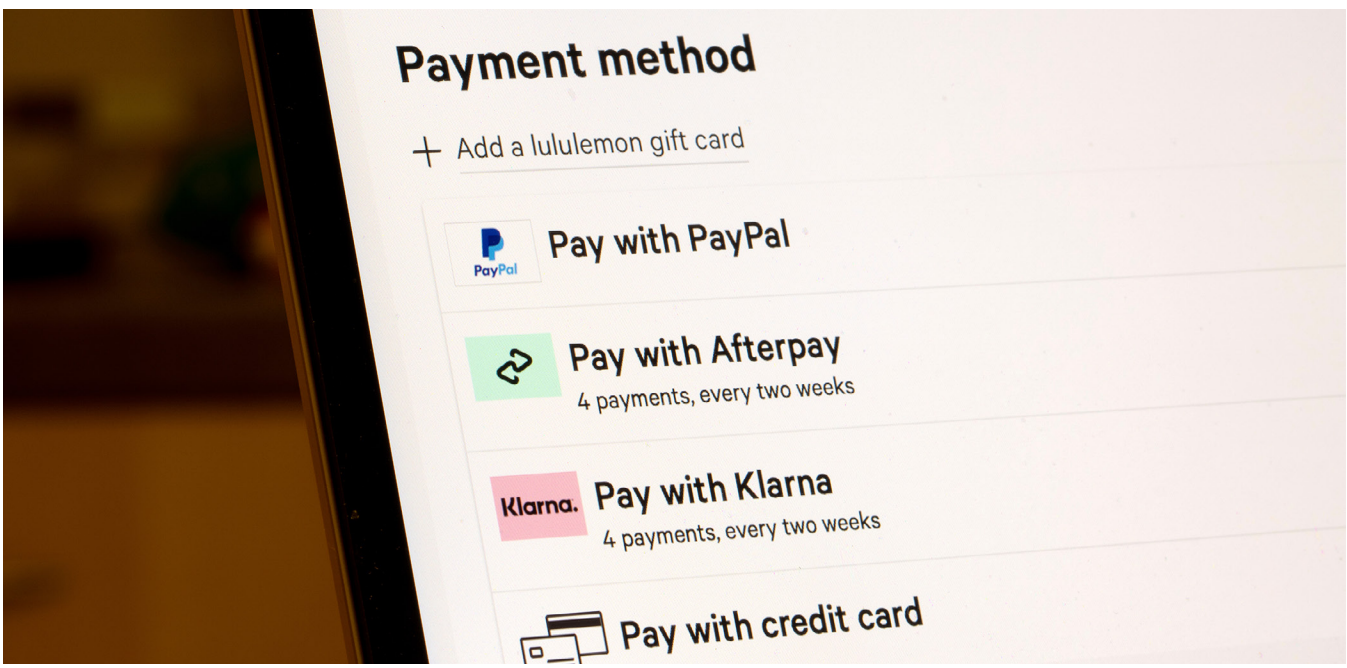
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PAY-LATER OPTIONS CATCH ON WITH ONLINE RETAILERS AND SHOPPERS

The installment payment option is here to stay, but consumers want choices. Retailers are seeing increases in average order value, conversion rates and sales when they offer their customers' preferred buy-now-pay-later system as a payment option at checkout.

By Gretchen Salois

Keyzar Jewelry offered PayPal's Pay in 4 and Shopify's Shop Pay Installments as buy-now-pay-later (BNPL) options as soon as it launched its ecommerce site in January 2021. It was a natural fit for the retailer with an average order value of $2,500, says Chief Marketing Officer George Pich. What surprised him was



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that customers were not happy with this selection. Through the retailer's Contact Us web page, shoppers voiced what they wanted: Klarna.



George Pich, chief marketing officer, Keyzar Jewelry

In May 2021, Keyzar Jewelry launched Klarna as a BNPL option. Within 30 days, Pich says customers who paid using Klarna were spending more than those who paid in other ways. Conversion rates increased about 6% in the first month and another 5% the next month.

"Our conversion went up by a total of 11% in those first two months," Pich says. Overall web sales increased about 14%, he says.

Sales increases like that explain why so many online retailers are quickly adding pay-later options. 45.7% of Digital Commerce 360's Top 1000 online retailers — North America's leading retailers by web sales — offered a BNPL option in 2021, up from 28.2% in 2020. And 7.4% offered two or more BNPL options, an increase from only 1% in 2020.

Small- to mid-sized retailers are also offering BNPL, with 32.9% of Digital Commerce 360's Next 1000 offering at least one BNPL option. The Next 1000 lists retailers ranked Nos. 1,001 to 2,000 by online sales.

And shoppers are using these deferred-payment options. BNPL accounted for 2.9% ($157 billion) of global ecommerce transaction value in 2021 and is projected to reach a 5.3% ($438 billion) share of global ecommerce transaction value by 2025, according to "The Global Payments Report," published in March 2022 by Worldpay, a payment processing firm owned by FIS, a global payment technology company.

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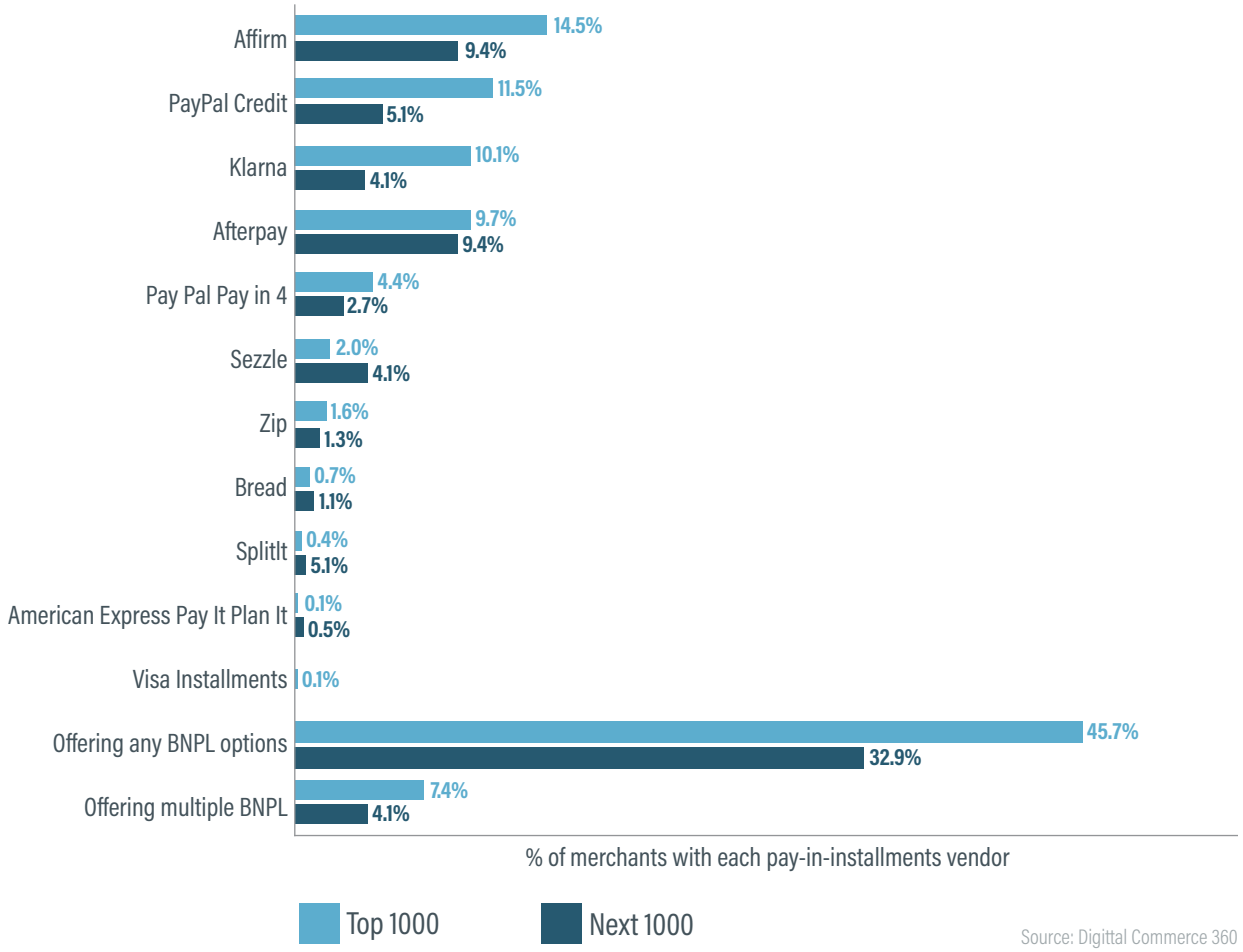
PAY-LATER OPTIONS CATCH ON
THE PERFECT PURCHASE

Buy now, pay later has proven especially important during the pandemic to a valuable demographic for online retailers: younger shoppers who may lack the means to pay immediately for larger purchases, says Jed Danbury, vice president at global payment service provider Computop.

"While already popular overseas, BNPL received a boost in the U.S. during COVID-19, as it provided cash-strapped consumers the ability to make partial payments upfront and then over a short time span," Danbury says.

45.7% OF TOP 1000 AND 32.9% OF NEXT 1000 RETAILERS OFFER BUY NOW, PAY LATER

Percent of Top 1000 and Next 1000 merchants offering each pay-in-installments vendor



Source: Digittal Commerce 360

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More than half of younger shoppers are using BNPL, according to financial advisory firm's Aite-Novarica Group survey of 2,046 consumers, conducted between July 2020 and June 2021 and published in July 2021. Among Gen Zers surveyed (individuals born between 1996 and 2002), 58% made a purchase using BNPL. That compares with 56% of young millennials (born between 1990 and 1995), and 53% of older millennials (born between 1981 and 1983). That's a stark difference compared with 22% of younger baby boomers (born between 1955 and 1964), and 19% of older baby boomers (born before 1955) who used BNPL.

BNPL is relatively new in the U.S. and, for the most part, consumers and e-retailers are happy with it. However, if many consumers start incurring fees when they miss payments — an increasingly likely scenario as interest rates rise — the costs could make the option less appealing. But it may still seem a better option than the interest charged on traditional credit cards.

BNPL providers approach fees differently. For example, Affirm offers an interest-free option if a customer can pay in four installment payments, but also offers customers interest rates on the principal balance of the loan. Other BNPL companies may be interest-free but charge high missed- or late-payment penalties.

"Each user should read the terms and understand them before rushing through checkout," Danbury says.

Defaults, coupled with rising interest rates and inflation, may also cause providers to pull back, says Greg Cohen, CEO of financial services company Fortis. It's something to watch out for in 2022 and beyond.

"As rates go up, that forces providers to consider battening down the hatches a bit," Cohen says. "Maybe they become more selective

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and someone who would have been approved for a $1,000 purchase is now only approved for $500."

For now, it appears retailers need to offer BNPL or risk losing business. It particularly makes sense to break up payments for expensive items like Keyzar's engagement rings.

Another online retailer, fluidfreeride, which sells electric scooters, didn't offer buy now, pay later at first but succumbed to customer demand. As a result, AOV nearly doubled.

But what is just as interesting is that the price need not reach thousands of dollars to entice customers to complete checkout with BNPL. Monoprice Inc. customers are using it to purchase $200 headphones just as they might for a $4,000 sound system. And blender retailer BlendJet's most popular item retails for $50 — but that hasn't stopped 15% of customers using Afterpay at checkout.

Customers are using BNPL for products at many price points — but BNPL services are not all the same. It behooves consumers to carefully weigh whether they can afford to pay on time or risk costly penalty fees and/or a negative impact on their credit report.

BUY-NOW-PAY-LATER SERVICES ARE NOT THE SAME

The concept of deferred payment isn't new. Before ecommerce, many stores offered the "layaway" option, taking a down payment and then putting the item aside until it was paid in full.

BNPL systems are deferred payment plans that allow shoppers to split up payments into installments. This is a type of short-term loan that typically does not charge interest unless the customer is late to pay. Customers who miss a payment deadline are charged penalty fees or interest. All three U.S. credit bureaus — Experian,

400%

Percentage increase of Monoprice.com's online sales after adding Affirm as a buy-now-pay-later option.

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Equifax and TransUnion — have plans to launch the capability to receive data from BNPL companies in 2022.

With the online version of buy now, pay later, shoppers pay a down payment, typically about 25% of the total balance, and receive the merchandise. The shopper is responsible for paying off the remaining balance in interest-free installments, usually broken down by four-week periods. It can be spread out beyond that, depending on the provider.

Affirm is different from other BNPL providers. It offers an option to pay in four interest-free payments every two weeks. But it also has monthly payment plans and charges interest on the principal amount. Affirm offers payments between 0% – 30% APR based on a customer's credit history and can be paid in three, six or 12 months. There are no fees or compounding interest. And there are no penalty fees for paying the balance off early. Options depend on the purchase amount, up to $17,500, and a down payment may be required.



"The difference in customer orders paid using Affirm was obvious."

— Richard Tseng, vice president of marketing, ecommerce and technology, Monoprice Inc.

HOW MUCH DOES IT COST RETAILERS TO ACCEPT BUY NOW, PAY LATER?

Cost to retailer based on BNPL provider in 2022

BNPL PROVIDER	COST TO RETAILER
Affirm	**$0.30 and a 5.99% commission rate per transaction***
Afterpay	**$0.30 and a variable 4 - 6% commission rate per transaction**
Klarna	**$0.30 and a variable 3.29 - 5.99% commission rate per transaction**
Sezzle	**$0.30 and a 6% commission rate per transaction**
Pay in 4	**$0.49 and a 3.49% commission rate per transaction**
Shop Pay Installments	**$0.30 and a 5.9% commission rate per transaction**

Source: Digital Commerce 360

*Varies by business type and size. Retailers don't pay integration fees, annual fees, or monthly fees.

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For a $1,000 purchase at 20% APR over six months, the total interest equals $59.14. By the end of the six-month loan period, the customer will have paid a total of $1,059.14. The same loan over 12 months would accumulate $111.51 in interest and by the end of the loan, the customer will have paid a total of $1,111.61.

Retailers receive full payment within hours after the purchase, minus the processing fee the retailer agreed to as part of the partnership, according to Affirm.

Other popular BNPL choices include Afterpay, Klarna, Sezzle, PayPal Pay in 4, and Shop Pay Installments. Of these, only Afterpay does not perform any kind of credit check. It uses an algorithm to approve customers. Afterpay does not state the exact reason for denial to the customer. A person can be rejected because there are insufficient funds available on the card the customer is using, or the shopping cart value is too high (the customer may be approved after removing items and lowering the value); the customer is new to Afterpay and trying to make multiple purchases within the first six weeks; or the customer already has many loans with Afterpay.

Customers must be over 18 years old and be the authorized holder of an eligible debit or credit card to use Afterpay. Purchases must be over $35 and 25% of the total cost must be paid up front. Customers can pay in four installments every two weeks until the entire purchase is paid off. Should the customer miss a payment, the account is frozen and they are charged an $8 late fee, followed by an additional $8 late fee each week until the balance is paid in full. Afterpay can report negative activity to Equifax.

Other BNPL providers perform a “soft” credit check, a kind of background inquiry that does not affect a person’s credit score. However, the result can affect the dollar amount the BNPL system will lend the shopper.

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Klarna allows shoppers to break up payments into four or more interest-free transactions up to $10,000. For example, a Keyzar Jewelry customer interested in purchasing a $4,500 diamond eternity band can pay off their balance in $125 monthly installments over 36 months. Customers for other retailers offering Klarna can also "pay-in-30," trying products for 30 days and only being charged for what they keep. Customers who decide to pay later with financing can select a payment plan.

Online retailers that use the Shopify ecommerce platform can offer Shop Pay Installments, which gives shoppers the option of paying in full at checkout or splitting their purchase into four equal interest-free installments. Shopify Shop Pay Installments is available for those who want to make a purchase for as low as $50 with a limit of $3,000.

PayPal Pay in 4 will split the total price of an order into four equal installments, which are due every two weeks. The first payment is due at checkout. Customers can pay down purchases beginning at $30 and up to $1,500. Customers using PayPal are subject to its soft credit check, which determines whether that person is allowed to use PayPal Pay in 4. A person having a PayPal account does not guarantee access to its BNPL option.



"I believed if you couldn't afford it, you shouldn't buy one but realized we were losing out on sales and not delivering what our customers wanted."

— Julian Fernau, founder and CEO, fluidfreeride

THE AOV EFFECT

Retailers stand to gain a higher AOV at checkout from customers paying with BNPL as is the case with fluidfreeride, an electric scooter retailer that added it in 2020. Sales tripled in 2020 and grew another 50% in 2021.

AOV is $1,200, a price point where BNPL makes sense. But founder and CEO Julian Fernau did not want to offer customers BNPL — at least at first.

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“I believed that if you couldn’t afford a scooter, you shouldn’t buy one,” he says. “I’m German, and we’re not such a credit- and consumption-driven society compared with the U.S. So, yes, I shied away initially [from BNPL] because I thought it was too aggressive to have people rack up debt to buy one of our scooters.”

Fernau quickly realized U.S. shoppers wanted a BNPL option.

“I spoke to customers and realized that not only were we losing out on sales, but we were also not delivering what our customers wanted,” Fernau says.

In the months after adding Affirm, Fernau says there was a 20% to 25% increase in overall orders on fluidfreeride’s website. But what stood out is that customers paying with Affirm had nearly double the AOV compared with other payment methods. Affirm’s overall AOV is nearly $2,400.

Customers pay with Affirm 20% of the time, compared with credit card at 60% and PayPal at 20%.

After adding Affirm, fluidfreeride experienced a 20% to 25% increase in online orders.





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It makes sense for consumers to break down payments for more expensive items. But for consumer electronics retailer Monoprice Inc., customers in the market for $200 headphones are just as likely to use BNPL as customers purchasing $4,000 sound systems.

"It's an interesting curve," says Richard Tseng, vice president of marketing, ecommerce and technology. "Customers will use Affirm to buy one high-end item, but then we also see customers buying multiple items that end up costing as much as $4,000 to $5,000."

Affirm also impacts the conversion rate, but only in certain categories, Tseng says. In audio and video, for example, the conversion rate increases 20% to 30% when a shopper pays with Affirm. Tseng declined to disclose the company's overall conversion rate. The median conversion rate for Digital Commerce 360's Top 1000 is 2.84%, according to Digital Commerce 360 estimates.

BNPL FOR ANY PRICE POINT

BlendJet's blenders retail for as low as $50, but the retailer's surveys indicated customers wanted Afterpay. On average, between 2019 and March 2022, customers chose to pay for their purchases with their credit card 38% of the time. PayPal accounts for 23%, followed by international payments, which account for 17%. Afterpay accounts for 15% of customer payments, and Amazon Pay for 7%.

BlendJet performed a test in January 2022 where some customers were offered Afterpay as an option while a separate group were not. BlendJet did not disclose how many customers were tested. The results showed that, on average, 15% of BlendJet customers offered the Afterpay option used it at checkout, mirroring the overall 15% of customers that currently choose Afterpay at checkout. Conversion increased 15% for those checking out with



"The impact to our conversion rate is proportional to the percentage of customers who use Afterpay."

— Ryan Pamplin, co-founder and CEO, BlendJet

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Afterpay compared with those not given the option. BlendJet's overall conversion rate is 4% and Afterpay users' conversion rate was 4.6%.

"I think that 15% for Afterpay is an exceptional number that exceeded my expectations," says co-founder and CEO Ryan Pamplin. "The impact to our conversion rate is proportional to the percentage of customers who use Afterpay, which means that 15% of people probably would not have bought a BlendJet without that payment option."

Afterpay's AOV is also higher at $71.70, compared with the average credit card ticket of $66.21 and PayPal at $65.49, BlendJet says, based on data from January 2022 through the first week of March.

Buy now, pay later's consumer adoption, and its ability to raise average ticket and conversion for retailers, suggests it is here to stay. U.S. online retailers need to consider how each provider is different and strategize how BNPL can open the door to new customers, says Francisco Alvarez, advisor at Aite-Novarica Group. And customers need to think carefully about the fine print before committing to a payment plan.

"Retailers must question how a buy now, pay later provider can target a completely different type of customer and enter completely new customer segments," Alvarez says. "It's not just about offering more payment options, but why those payment providers appeal to certain customers versus others. There's a lot to learn."

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15%

Percentage increase in conversion rate for BlendJet after adding Afterpay.

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WHY ACADEMY SPORTS AND OUTDOORS OFFERS VENMO AT CHECKOUT

Venmo caught on as a way for consumers to split the dinner bill with friends. Now it's starting to show up on some retail checkout pages.

By Gretchen Salois

Online retailers should use payment tools customers already know, like Venmo, says Scott Nixon, vice president of digital product management at Academy Sports and Outdoors. Venmo, he says, is



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a payment option the sporting goods retailer added in September 2021 to its website checkout page.



Scott Nixon, vice president, digital product management, Academy Sports and Outdoors

"It's about leveraging tools that customers are already using in their personal lives to reduce friction on Academy.com," Nixon says.

Academy Sports and Outdoors sells merchandise online and has 259 physical stores in the U.S.

Venmo LLC launched in 2009 as a mobile app consumers can use for payments, and PayPal Holdings Inc. acquired it in 2013. Venmo users link their bank accounts to the app, allowing them to pay other people with Venmo accounts. That money then stays in Venmo for later use or can be transferred back to the person's checking account.

Online retailers pay Venmo $0.49 and 3.49% per transaction. That is higher than the average cost of credit card purchase, which is about 2.5% when including all the fees an e-retailer pays, says senior analyst at Bankrate.com and creditcards.com Ted Rossman.

Venmo's merchant fees are difficult to justify, Rossman says.

"From an online merchant standpoint, cost is a big consideration," he says.

He says he believes Venmo will be adopted by online retailers, but he does not expect Venmo to reach the scale of brand recognition that will make it a go-to payment option.

"Choice is important, but this isn't going to put credit cards out of business," Rossman says. "And if retailers need a workaround to accepting credit cards, I think there is probably a cheaper way to do that."

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SPONSORED ARTICLE

Q&A

An executive conversation with **Indy Guha,** chief marketing officer, Signifyd



Why sharing shopper identity and intent knowledge helps retailers approve more transactions and improve the checkout experience

As customer acquisition costs rise, the return on online ad spend is dropping. Today, retailers are scrambling to maximize the value of every transaction while providing frictionless experiences for all existing and new customers that land on their sites. Still, many are missing out on valuable revenue because they're declining good transactions they mistake as fraudulent. To discuss how retailers can boost revenue by providing satisfying checkout experiences that maximize transaction value without increasing the risk of fraud, Digital Commerce 360 spoke with Indy Guha, chief marketing officer at Signifyd.

Why is the checkout experience so important in today's ecommerce climate?

Retail sales are expected to grow by an anemic 6% this year, the National Retail Federation says. Meanwhile, a benchmark report from Visa showed that on average, retailers decline 12% of transactions at checkout. Fixing that friction - through better awareness of whether a transaction is good or bad - could increase growth rates 2-3X. That's a CEO's-office-worthy issue, especially as user acquisition costs are up as much as 50% and conversely, return on ad spend is down. The emphasis now must shift to maximizing the value of every site visit.

What new trends have emerged around checkout?

Giving shoppers the fulfillment options that meet their needs — such as two-day or even one-day shipping, buy online pick up in-store, or at the curb, or ship from store — is a huge source of innovation around checkout. Each fulfillment mode has a different cost structure. BOPIS, for example, is a lot cheaper than buy online ship from store. You need to be thoughtful about the business logic behind these different options. What unites all these innovations is speed. The only way to meet these convenience promises is to automate the entire order flow from order placed to the point of fulfillment.

Offering different payment types is another trend — whether that's buy now, pay later, digital wallet options or even cryptocurrency. A big driver of cart abandonment is the retailer not supporting the consumer's preferred method of payment.

Why do merchants struggle to get the checkout experience right?

The root cause is they don't know who the shopper is. For most shoppers interacting with the vast majority of merchants, you are anonymous if you're a first-time shopper. So, the merchant must guess if you are legitimate or a fraud risk when deciding to approve your transaction.

Even though intrinsic fraud pressure, on average makes up 1% or less of transactions, declined revenue can be 5% to 15% of transactions, depending on the category. To address this, merchants must have a better understanding of identity and intent.

- Who is the shopper?
- What are they trying to do?
- Are they a legitimate or lifetime-value customer or are they an abusive shopper or fraudster?

These are strategic questions that inform every aspect of the customer journey and experience.

What strategies and technologies help retailers deliver their customers a better purchasing experience?

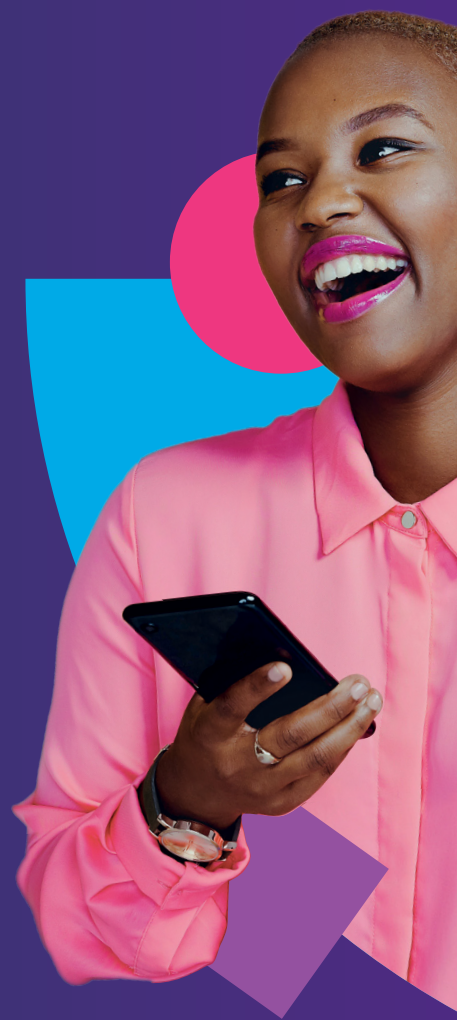
Start with a robust data network, like Signifyd, that understands identity and intent at the individual shopper level. Even if a consumer is shopping for the first time with a merchant, 98% of the time that shopper is already in Signifyd's network. We know instantly if it's a high-value customer, an abusive customer or a fraudster, and we can decide in seconds whether to approve or decline the transaction.

When merchants use Signifyd, they see on average a 5% to 7% increase in approved orders. That is the power of an extensive commerce network and the knowledge of identity and intent that it provides.

Signifyd

Signifyd

Reduce false declines and deliver a superior checkout experience with frictionless commerce protection



Signifyd's Commerce Protection Platform was designed to help merchants streamline checkout experiences for customers, without risk. With Signifyd, liability for fraud and abuse is shifted away from the merchant, allowing you to trust more customers, automate order review, and grow fearlessly.

Protect Revenue

Shopper knowledge is power. Signifyd helps merchants approve 5-7% more orders on average.

Grow Fearlessly

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For certain merchants, a large portion of their client base may not use payment cards or a BNPL service.

"And they could benefit from offering Venmo or a similar type of payment option," says Andy Cease, manager, financial solutions at Entrust, a global identities, payments and data protection company.

"Many users hold that [peer-to-peer] money in Venmo," Nixon says. "Adding Venmo to Academy.com gives our customers another way to access those funds."

Only 11.3% of the Digital Commerce 360 Top 1000 and 6.2% of Next 1000 retailers offer customers Venmo at checkout. Most retailers haven't tapped into the peer-to-peer payment service yet, despite its wide consumer adoption.

More than 83 million U.S. consumers use Venmo, according to Venmo. In 2021, its payment volume increased 44% year over year to $230 billion, according to eMarketer. In November 2021, Venmo announced a partnership with Amazon.com Inc. to add Venmo as a checkout option in 2022 — a move likely to send a ripple effect in the ecommerce retail world.

> "It's about leveraging tools that customers are already using in their personal lives to reduce friction on Academy.com."
>
> — Scott Nixon, digital product management, Academy Sports and Outdoors

AHEAD OF THE RETAIL ECOMMERCE PAYMENTS CURVE

Nixon says the average order value for payments made using Venmo aligns with that of Academy Sports and Outdoors' other payment methods. The retailer offers PayPal, credit card, and buy-now-pay-later options Klarna and PayPal Pay in 4.

Academy only offers Venmo on its ecommerce site, not in its app. It is presented as a button and redirects the customer to sign in with their Venmo account credentials and complete checkout. It is a similar

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experience to tapping on the Venmo button within a retailer's mobile app. Nixon says the retailer plans to add Venmo to Academy Sports and Outdoors' app in 2022.

It is important for retailers to consider mobile traffic. 65.4% of traffic to Digital Commerce 360's Top 1000 and 64.7% of traffic to Next 1000 retailers are from mobile devices and is most popular for men and women ages 25 to 44 years old.

Academy Sports and Outdoors declined to reveal its AOV or what percentage of customers pay with Venmo, though Nixon says Venmo payments are on the rise. Nixon expects Venmo use to increase even more once it's offered in the retailer's app.

It makes sense for retailers to add Venmo — as well as Apple Pay and Google Pay — to their apps and websites, Cease says.

65% OF TOP 1000 AND NEXT 1000 RETAILER TRAFFIC IS FROM MOBILE

Percentages of mobile traffic from Top 1000 and Next 1000 retailers

	T1000	N1000
Traffic from mobile	**65.4%**	**64.7%**
Male	**44.2%**	**46.7%**
Female	**53.7%**	**51.2%**
Age 18-24	**15.3%**	**16.2%**
Age 25-34	**25.0%**	**25.9%**
Age 35-44	**21.2%**	**21.1%**
Age 45-54	**16.2%**	**15.7%**
Age 55-64	**12.2%**	**11.6%**
Age 65+	**7.2%**	**6.7%**

Source: Digital Commerce 360, April 2022

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"There is a proliferation of these expedited checkout buttons and, given Venmo's brand awareness — especially with younger consumers — it's all about which button do they recognize and have the most brand affinity to, and it's a split-second decision," Cease says. "Right now, it is seen as a traditional peer-to-peer type of money transaction, but I see Venmo moving into the retail ecommerce space more aggressively."

Venmo will catch on in ecommerce, Nixon says.

"Right now, Venmo hasn't quite reached maturity in retail ecommerce, and we knew we were a little bit ahead of the curve," Nixon says. "As other major retailers add this capability, we expect Venmo to eventually grow to be on par with other digital wallet tenders."

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65%

Percentage of traffic from mobile devices among Digital Commerce 360's Top 1000 and Next 1000 retailers.

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INSIDE THE BATTLE AGAINST ECOMMERCE FRAUD

Stop bad orders. Approve good orders. Do it quickly.

By Paul Conley

When Kyle Vassallo joined Timex Group USA Inc. in 2017, he knew something needed to change. The Connecticut-based watchmaker was facing a slew of fraudulent orders, and the system to prevent fraud was slow and cumbersome.

"It was a very manual process," Vassallo, the senior manager of global ecommerce operations, told Digital Commerce 360. Timex had only one employee dedicated to online fraud detection. "He would



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kind of go through and look at what he judged as possible fraud and then go through each order individually and look up addresses and basically cyberstalk, if you will, these orders by looking at people's phone numbers and email addresses," Vassallo says.

"It was very time-consuming and at the scale that we were growing — 20% to 30% year over year — it just wasn't feasible for him to go through and evaluate these himself."

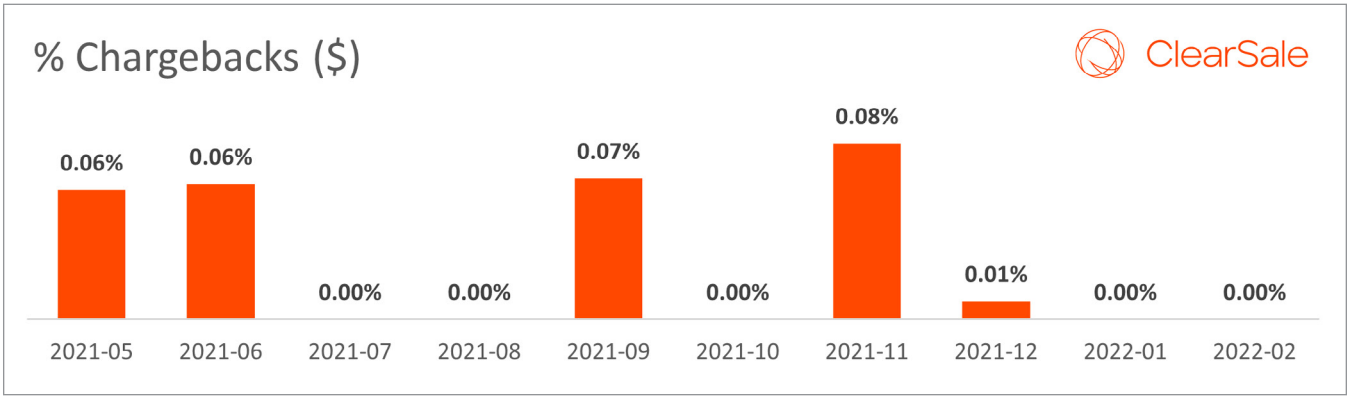
So Vassallo began searching for software that could prevent fraudulent transactions. After looking at several vendors, he chose ClearSale, a Brazil-based company that uses artificial intelligence to screen purchases for possible fraud.

"I think the selling point for us was really that they stand behind their chargebacks. Any order that does go through and we get dinged for a fraudulent order (by the credit card or other payment company), ClearSale takes that off our bill for the following month," Vassallo says.

ClearSale says it helped retailers avoid more than $55 million in fraud in the past 12 months by stopping more than 200,000 fraudulent transactions. The rate of fraud attempts vary widely across ecommerce categories.

WHAT IS A CHARGEBACK?

A chargeback is when a merchant is forced to return money after a consumer disputes a purchase made using their credit card, claiming that it was fraudulent or made without their knowledge or permission. In a chargeback, the credit card company reverses the charge, reimburses the consumer, and debits the merchant's account.



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ClearSale says it has seen fewer fraud attempts for Timex than for online stores that sell cellphones, perfumes, computers, cameras, or luxury clothes. But Timex faced more fraud attempts than for online stores that sell beauty products and clothing/apparel.

Fraud and chargebacks are a massive problem for ecommerce retailers. And it's getting worse.

According to the Fraud Risk at a Glance report by NuData Security, 52% of fraud attempts against ecommerce retailers are now deemed "sophisticated," meaning professional criminals used state-of-the-art methods aimed at circumventing anti-fraud systems. For example, card cycling — a method for testing the validity of stolen credentials — increased 54% in the past year. The result was that 9.9% of stolen credentials were correct in the first half of 2021, setting a dangerous record compared to the 1.9% in 2020.

Among these "sophisticated" tactics are the use of bots that can mimic human keystrokes and mouse movements, and the use of actual human workers to solve CAPTCHAs or pass other security challenges.



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The growing skill of online criminals is expected to cause an explosion in fraud in 2022, according to Julie Fergerson, CEO at the Merchant Risk Council.

"It's going to be a tough year as it relates to fraud," Fergerson said in the 2022 Ecommerce U.S. Trends report by payments processor Checkout.com. "The economy is hitting a bumpy patch, and this always leads to an increase in fraud. Fraudsters are also getting more sophisticated and finding novel ways to attack businesses and consumers."

There's also been an increase in less-sophisticated attacks, according to Riskified, which uses machine learning to block account-takeover attacks. Starting in October 2021, Riskified observed a huge volume increase in account takeover (ATO) attempts by bots. In an ATO attack, a fraudster takes control of a shopper's credentials, i.e., saved credit cards, log-in and password information, etc. at a retailer's website.

The goal of these attacks isn't necessarily to commit fraud — it may be to test credentials so they can be sold to the human fraudsters who go and commit the fraud by hand. Riskified said it saw a corresponding **spike in the number of human-attempted account takeovers during the holiday shopping season**.

CLICK HERE FOR CORRESPONDING DATA

RETAILERS CAN'T FIGHT FRAUD ON THEIR OWN

Colin Sims knows how difficult it can be to stop fraud.

Sims was the chief operating officer at Delivery.com, which connects consumers to local merchants, from 2009 through 2016.

"That was an interesting time because fraud really took on a new form during that period. The face of fraud really changed," Sims told Digital Commerce 360.

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"One myth is that really good fraud detection is going to detect the fraudster the first time they commit fraud. Up until the point someone commits fraud for the first time, they're not a fraudster. So you're not going to detect them."

— Colin Sims, chief commercial officer, Forter

Attacks were growing more frequent and more difficult to detect.

"We were an on-demand platform. And so the amount of time we had to deal with fraud and the transaction funnel was almost zero," he says.

Sims started looking for a vendor who could do a better job of detecting fraud and do it faster, and he found Forter.

Today, he is Forter's chief commercial officer. He says he knows the pain that fraud and chargebacks can bring to retailers. And he knows it's a losing game for a retailer to try to fight criminals on their own.

"Traditional systems are almost unanimously rules-based engines," Sims says. "So if you put yourself in the retailer's shoes, and all of a sudden you start experiencing fraud, your first temptation is to do your own pattern recognition. You decide that orders from this place, with this value, and these characteristics tend to be fraudulent. But not all of them are, and you don't want to lose good orders. So you create a rule in your system that flags those orders, and you want someone to basically eyeball them to see if this high-

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risk order should be passed. That's what I did. That's what most retailers did."

The result is a heavily manual process that tends to block good orders along with the fraudulent ones.

"What you realize is that people aren't really that good at reviewing orders," he says. "They are inconsistent, which is a big problem. Humans actually come up with a narrative very quickly, based on a small number of data points that may be right or may be wrong for any given order."

According to Sims, while the number of incidents of fraud is rising, the number of fraudsters is not.

"What you see is that the number of people out there that are actually committing fraud is relatively fixed. You know, these are professionals. This is what they do for a living. They're running literally a business in fraud," Sims says. "But they're migrating across different merchants. And so you see them focus on one retailer and then move over to another retailer. And so to each one of those retailers, it looks like fraud went up and then went down."

Among Forter's clients is Nordstrom Inc., No. 20 on the Digital Commerce 360 Top 1000.

"With Forter, we've seen year-over-year improvements with our chargeback performance to the tune of about 10%," Jim Gallagher, Nordstrom's vice president of customer care and fraud, said in a written statement. "Every single year, our chargeback performance positively is improving by about 10%. And that's with significant volume growth in the ecommerce space."

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BIGGER TICKETS ARE A BIGGER TARGET

Merchants with a higher average ticket value were more likely to say they'd seen an increase in criminal fraud, according to a 2019 survey of 400 retailers in the United States and U.K. conducted by research firm Censuswide on behalf of Chargebacks911, which challenges chargebacks by payment processors on behalf of its retail clients. Merchants with an average ticket value between $14 and $28 reported an increase of 18%. Merchants with an average ticket value between $211 to $350 said they'd seen an increase of 33%.



Raj Seecharran, CEO, TrueFacet

That's not a surprise to Raj Seecharran, CEO of TrueFacet LLC, an online marketplace of luxury watches and jewelry.

"Fraud prevention is always front of mind for us in the jewelry space; everyone is aware of it," Seecharran says. As soon as he and his partner acquired the business in 2013, "we knew we had to partner with someone in order to protect ourselves."

Seecharran chose Signifyd, a provider of AI-based fraud prevention that also offers a 100% guarantee on any chargeback that arises from an order it approves.

"It's our first line of defense," Seecharran says. "We do not approve or accept payments without a pass from Signifyd from every credit card transaction. On average, my order value is about $5,500 on credit cards. But I think we're at 100% success rate on orders approved by Signifyd, which is amazing."

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KEEP THE CUSTOMER'S ATTENTION AFTER THE PURCHASE

By Abbas Haleem

Yungi Chu has been selling headsets online for nearly 20 years.

He estimates his company sells 20,000 to 30,000 headsets a year through its website, HeadSetPlus.com, based on the roughly $3 million it grosses annually.



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At first, he used to give away T-shirts and hats to promote his business. He tried printing catalogs and mailing them out to get more customers, but that became too expensive. The website, which went live in November 2003, was one of the first of its kind, so competition early on was sparse. Although he also sells directly to consumers, most of his customer base comes from businesses that make repeat purchases.

As is common with online retailers, shoppers receive their order confirmation and shipping information by email once they click "Buy."

"We send a welcome email," Chu says. "We basically offer them a number to contact us should they have any questions, if they need support. Basically, let them know there's a human behind this. Not just: 'Here's the box, thank you, bye bye.'

"Some of these setups can be confusing for most people. Most of these headsets don't work right out of the box. It needs to be adjusted. It's not a DVD player — they just plug it in and it's going to work. These are office headsets. They require a little tuning to work correctly."

But after the sale, HeadSetPlus.com is basically hands-off.

"We make it a point not to spam people," Chu says. "If they reach out to us, we respond. We don't offer any marketing materials. Just shipping and tracking."

That's not always the case, though, for e-retailers. Online retailers must each decide how best to communicate with shoppers after completing their purchases, and approaches vary. Although some companies like Chu's stick to cut-and-dried transactional emails —

80% to 85%

The average open rate for an order confirmation email, or a receipt.

Source: Shopify

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order confirmation and shipping and tracking information — others incorporate related or suggested products.

Post-purchase communication often extends beyond transactional emails — which are typically opened the most — to emails featuring related or complementary products. The average open rate for an order confirmation email, or a receipt, can be as high as 80% to 85%, according to Shopify. Some retailers send discount codes to incentivize another purchase, information about their brand and loyalty programs, and requests for product reviews.

ParcelLab, an operations experience management company, released a report of trends and insights from 200 ecommerce retailers. It found that just 21% of those brands offer product recommendations in their shipping communication.

And that communication isn't limited to email. Companies are increasingly using SMS for transactional updates, and they provide live chat and in-app notifications as well to allow shoppers to get more information. They request feedback from customers and use data from each communication channel to learn what their customers like so they end their shopping experience on a positive note. Each communication method helps companies segment their customers and connect with them on a more personal level.

ADD VALUE WITH UPDATES AND SUGGESTIONS

Klaus Werner, Global Industrial's chief marketing officer, says the more personalized and relevant a retailer's message is to its customer, the less intrusive it well be. GlobalIndustrial.com focuses mainly on construction, manufacturing and distribution. It sells supplies like carts, furniture, freezers and supplies for a several industries. Like HeadSetPlus.com, it sells mostly business-to-business (B2B) but is open to consumers too.

25%

The percentage of retailers that connect directly with customers post-purchase, according to parcelLab. The rest rely on the carrier to recognize and communicate shipping delays.

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Werner says the messages it sends that get the most traction are primarily personalized emails that include notifying shoppers about an abandoned cart or an abandoned product they viewed but did not buy. And for customers who do complete the checkout process, online retailers should start post-purchase communication with an order confirmation, a summary of the order, and a confirmation of when customers should expect each product, Werner says. After that, retailers should send updates when there are developments related to the order. That can include when a new order has shipped, but it can also be a rainy-day scenario, like when an order is delayed.

Those updates are crucial, as AfterShip co-founder Andrew Chan says they lead to many opportunities for a retailer to interact with a customer. AfterShip is a post-purchase platform that focuses on automated shipment tracking, including providing specific delivery-date estimations and meeting them. Tracking pages average 3.1 visits per order, according to data from AfterShip. That means merchants can expect, on average, 3,000 site visits for every 1,000 orders placed, Chan says.

Chan says although fast shipping is key for many e-retailers, customers care more about the merchant keeping its delivery-date promise. AfterShip data shows that customers are more likely to forgive Amazon.com Inc. and other marketplaces for late deliveries than a small or local direct-to-consumer brand. Only 5% of marketplace shoppers said they didn't return to that marketplace after a bad experience. However, just over half who received late shipments from small or local D2C brands did not shop again with those merchants, according to AfterShip data. Consumers were also more forgiving of larger retailers.

In line with AfterShip's findings, parcelLab reported that 48% of people surveyed said a poor shipping and delivery experience

74.6%

The percentage of retailers in Digital Commerce 360's Top 1000 that offer free shipping.

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affects their relationship with a retailer. 23% are unwilling to order from a retailer again after a negative delivery experience, parcelLab found. Furthermore, project44, a tech and logistics company that works with retailers, reported that 68% of customers won't return after a poor delivery experience.

Chan explained that specificity and proactivity are key to managing customers' expectations. Some e-retailers notify customers when they create a shipping label, but this doesn't help customers get a better feel for when a purchase is meant to arrive because the package may not leave the warehouse for days after the label is created. Instead, merchants should notify the customers when the carrier picks up the parcel from the retailer, he says.

Just 25% of retailers connect directly with customers post-purchase, parcelLab found. The rest rely on the carrier to recognize and communicate shipping delays. And delays in processing returns and refunds are common, too, with 47% of refunds taking over 10 days to process, according to parcelLab.

After the customer receives the order, Global Industrial tries to anticipate what the customer needs next, Werner says. That can mean emailing months later to remind customers that it might be time to replace a floor scrubber or cleaning chemicals.

"I have something I say: know me and remember me," Werner says. "Know who I am, remember what I buy, and talk to me in a language that I'm going to understand that is not going to be intrusive. And be quick and relevant."

When Werner first started at Global Industrial, email communication was more uniform. He says he noticed the response rate was low and the unsubscribe rate was high among customers from government agencies.

"I have something I say: know me and remember me. Know who I am, remember what I buy, and talk to me in a language that I'm going to understand that is not going to be intrusive. And be quick and relevant."

— Klaus Werner, chief marketing officer, Global Industrial

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"It was too much and not relevant enough," Werner says.

So Global Industrial segmented that sector and reduced the communication to weekly. It also changed the creative in those emails to include a picture of the United States Capitol. From there, it focused more on what's typically on that customer segments' minds, which was the end of the fiscal year and what products those customers normally buy.

"We listened to the customer and adjusted accordingly," Werner says.

Global Industrial also provides some text messaging updates, including for order confirmation and status. Werner says the company is testing sending marketing messages via text, but it's moving slowly and carefully because customers may view texts as more intrusive than email.

Project44 found in its post-purchase communication report that 93% of consumers say they like email because it's easy to refer to later. Demographics play a factor too, though, as it found 43% of consumers ages 21 to 29 prefer to receive messages from retailers via text. 33% of consumers prefer to receive messages from retailers via push notifications, project44 found. Push notifications differ from SMS in that the messages come from within apps, as opposed to from a phone number.

KEEP IN CONSTANT COMMUNICATION

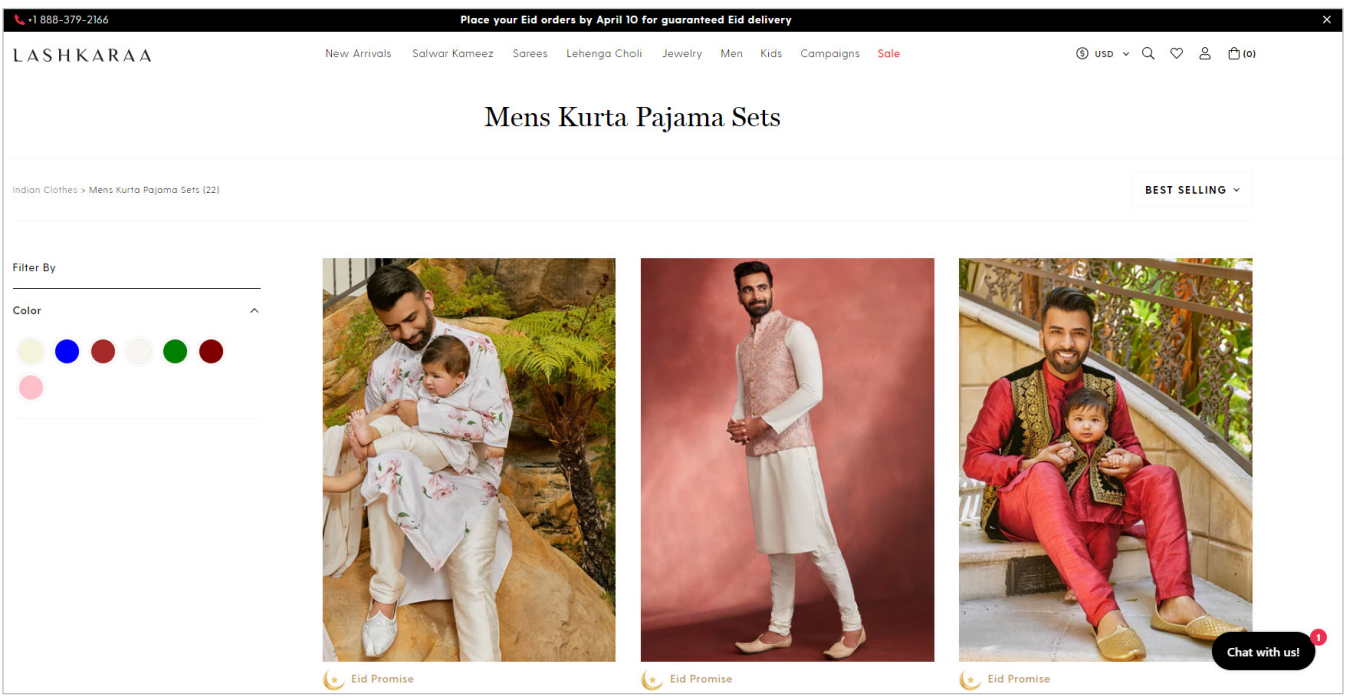
Sumeer Kaur, who founded Lashkaraa.com, takes an involved approach with order-based emails. Lashkaraa.com, which sells Indian clothing, allows customers to send custom stitching measurements, and Kaur says about 10% of the brand's customers use that option. Customers who select custom stitching — as

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opposed to standard sizes — also get a more personalized experience to ensure measurements are correct.

She says the brand connects one of its designers in India with the customer, who can then pick a color and type of embroidery. Lashkaraa sends the customer fabric swatches when she approves the design, Kaur says. Those are just the first of several touch points that keep the customer engaged after making the purchase, she says.

Lashkaraa then updates the customer when the fabric comes back from dyeing, when it goes to embroidery, when it's hand-embroidered and when it's stitched. It then sends photos of how the garment looks when stitched and when it's complete before shipping. Those touch points, in addition to order confirmation and shipping tracking emails, help maintain the customer's expectations, as orders often take weeks to prepare and ship from India.



Lashkaraa.com offered a delivery guarantee to customers completing their Eid clothes shopping by April 10.

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"We know the shipping times really well," Kaur says. "We know when we ship from India, it takes anywhere from four to seven business days. We include that time into our shipping timeline as well. We add an extra day just in case. A lot of times, we're delivering before the date we set, so customers are even happier when they receive their order."

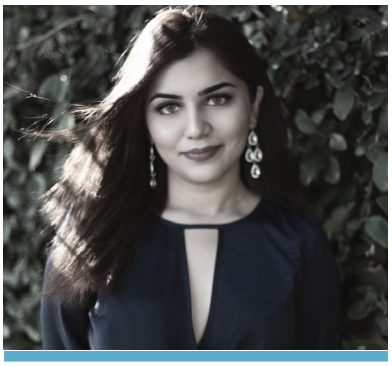
Although Lashkaraa does not currently measure its net promoter score (NPS), it uses survey post-purchase customer surveys to gauge customer experience. About 10% of customers answer those, and of those who do, Kaur says about 95% say they had a positive experience. She also deploys customer service satisfaction surveys, and about 87% of customers report they are happy with the service they received, she says.

From there, it's all about reengagement. Lashkaraa offers loyalty rewards in which the customer gets points for every purchase, giving one point per dollar, free shipping, 10% off, and a promotion to "save up x amount of points, you get 15% off," Kaur says.

57% of consumers will choose a brand based on free shipping and returns, parcelLab found.

74.6% of retailers in Digital Commerce 360's Top 1000 offer free shipping. 45.9% of Top 1000 retailers provide free shipping with a minimum order, and the median order threshold for free shipping is $60. Furthermore, more than a quarter of Top 1000 retailers (27.4%) offer free return shipping.

Kaur also incentivizes reviews — another touch point — by offering 15% off the customer's next purchase. Customers who include an image get 20% off. She added that customers were initially less likely to send reviews until she began offering discounts. About 3% of customers respond to post-purchase review emails now that the



"When we post pictures of our actual customers wearing our clothes, we sell out more of that specific item. Customers love to see how that same dress looks on another customer compared to a model."

— Sumeer Kaur, founder and CEO, Lashkaraa

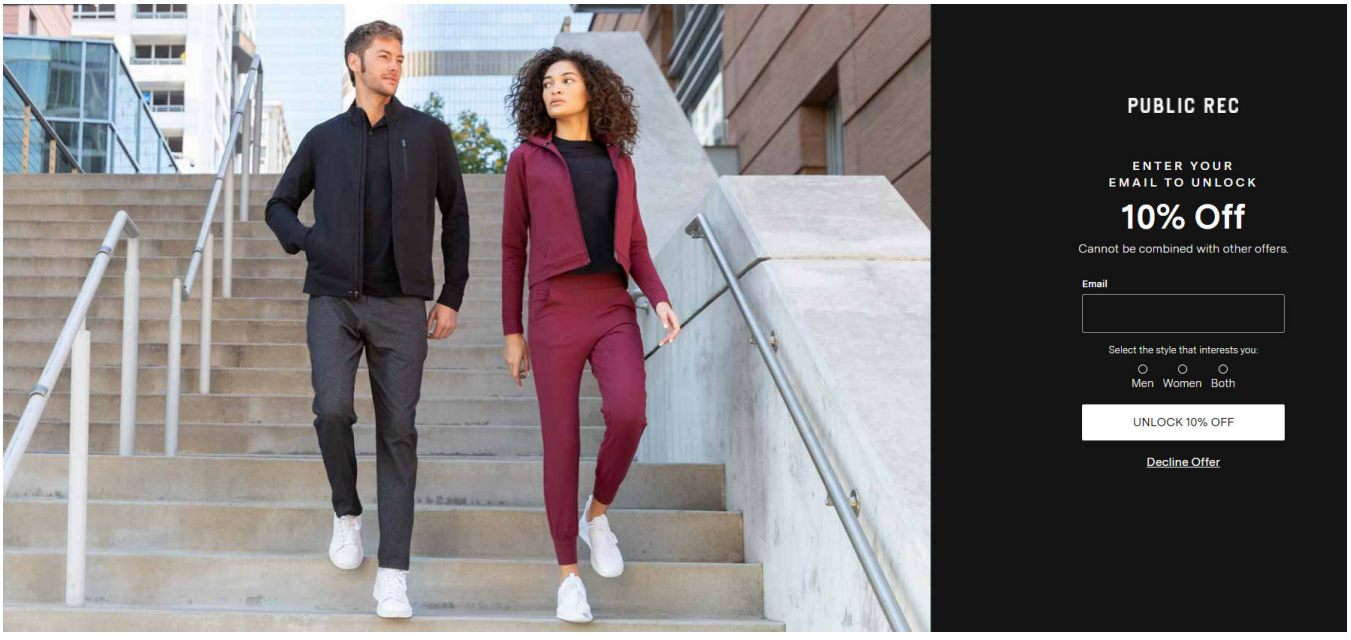
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incentive is in place, up from about 1% writing reviews before the incentive, Kaur says.

"When we post pictures of our actual customers wearing our clothes, we sell out more of that specific item," she says. "Customers love to see how that same dress looks on another customer compared to a model."

Adding reviews to the site boosted the conversion rate 18%, she says, and helped push sales for products that customers provided images of themselves wearing. Outside of stitching and order-tracking updates, Kaur says Lashkaraa minimizes email sends, only delivering two or three marketing emails a month.

And although constant post-purchase communication looks different for PublicRec.com, an athleisure apparel line, the company's CEO and founder, Zach Goldstein, also focuses on its marketing email cadence.



Like many e-retailers, PublicRec.com offers a discount to customers if they sign up to receive marketing emails. This helps the retailer maintain contact with the customer post-purchase.

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"We're very sensitive to try not to over-email," Goldstein says. "We're constantly testing the right frequency."

He says PublicRec tracks how many customers unsubscribe from its emails after every send. He finds that sending about every two or four days works well. Emails also drive traffic to the site, though, and therefore revenue. And whereas PublicRec doesn't currently offer incentives for product reviews, it still reaches out to customers by email to request them.

In addition to a review email on the product, PublicRec sends an NPS email. It asks how customers' experiences were with the brand and if they're likely to recommend it to others. PublicRec also has designed its product description page — incorporating customer feedback — to set pre-purchase expectations properly, Goldstein says. Those product detail pages provide reviews, FAQs, size charts, and shipping and return information to help new customers feel more at ease about their purchase.

PublicRec also communicates with customers via SMS, Goldstein says. He says rather than using text for customer support, PublicRec uses it to inform subscribers about product information and launches. Kaur says Lashkaraa doesn't currently offer text as a communication channel but is working to add it in the next few months so it can keep subscribers and repeat customers informed about its Black Friday sale in November.



"We're very sensitive to try not to over-email. We're constantly testing the right frequency."

— Zach Goldstein, founder and CEO, PublicRec

ONGOING COMMUNICATION AND SUBSCRIPTION SERVICES

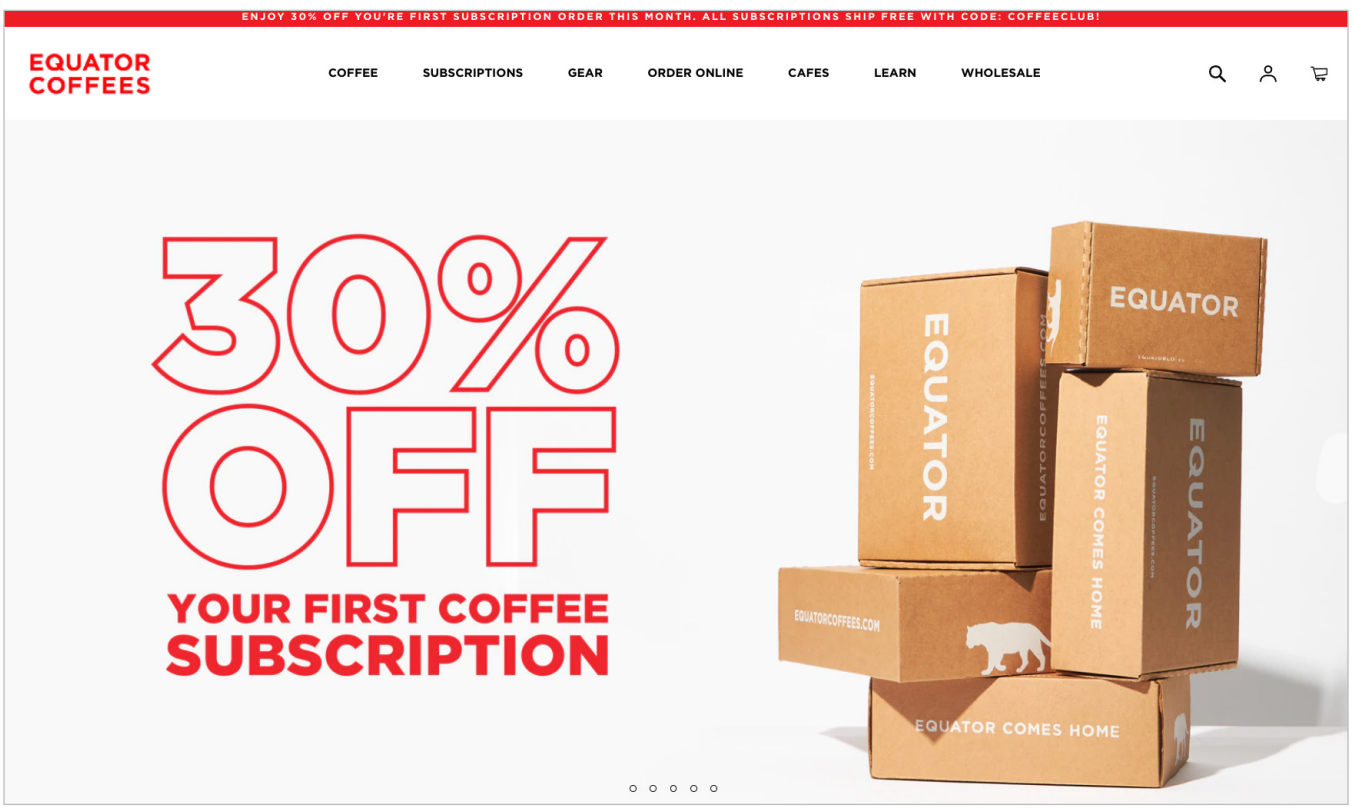
Loyalty comes through a different lens for Equator Coffees, a coffee roaster founded in 1995 that is also a certified B Corp. That means it meets certain standards related to the environment and treatment of its employees and those of its suppliers. It pivoted to direct-

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to-consumer retail in the 2010s from selling its coffee wholesale and launched its ecommerce site in 2017, says Elan Lieber, the company's senior performance marketing manager.

Equator Coffees personalizes customer experiences, reaching out to new and existing customers differently post-purchase. It focuses on conveying to new customers what the company stands for while promoting early access to coffee products to existing customers. He says a lot of it comes down to offering information relevant to each customer segment.

A-B testing helped Equator Coffees determine what type of messaging to use with customers, Lieber says. That could include how much information customers want from the company, and how



Equator Coffees incentivizes customers to sign up for subscriptions rather than individual purchases.

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specific they want the information to be. Some customers preferred to get to know the brand and learn about its sustainable supply chain, and others were focused on product quality or collaborations. Another segment just wanted information about the retail cafes.

"Everybody has a very specific palate and flavor profile that they like, so we really focus on meeting them where they are," Lieber says. "People who buy blends from us, we really only communicate to them about blends. People who are big fans of single-origin coffees, we're always talking to them about single-origin coffees."

Equator Coffees differs from HeadSetPlus, Global Industrial, Lashkaraa and PublicRec because it also offers subscriptions for its coffees. It offers free shipping for all subscribers, from the first time they order to the end of their subscription. It also allows subscribers to pause and change their subscriptions without penalty or commitment to a specific period.

Each subscription delivery comes with its own pre- and post-delivery transactional emails, allowing Equator Coffees to connect several times with each subscriber customer. Equator Coffees can suggest products based on the customer's subscription. Subscribers get an email that their order is scheduled, and those emails remind them they can make changes.

"The subscription is the big loyalty component for us," Lieber says. "When someone comes to Equator and starts a subscription, that's where we see a really strong, long-term relationship versus just a one-off purchase."

More than 50% of all Equator Coffees' digital customers are subscribers, and this percentage continues to grow, Lieber says. He added that the subscription lifetime value is three times higher than non-subscription orders.

"Everybody has a very specific palate and flavor profile that they like, so we really focus on meeting them where they are. People who buy blends from us, we really only communicate to them about blends. People who are big fans of single-origin coffees, we're always talking to them about single-origin coffees."

— Elan Lieber, senior performance marketing manager, Equator Coffees

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ONCE THE SHOPPER CLICKS "BUY," HOW SHOULD A RETAILER COMMUNICATE?

How an e-retailer communicates with a customer after the purchase is key, as is how often the retailer reaches out. Over-emailing can alienate a once-receptive buyer, and under-emailing can reduce sales.

E-retailers, at a minimum, should provide order confirmation and shipping information. Although email is the standard for these transactional messages, some customers prefer text messages or push notifications instead of or in addition to emails. E-retailers should be prepared to use the customer's preferred communication channel.

If a customer's order is delayed, lost, shipped to the wrong address, or there is another issue with delivery, the e-retailer should be proactive in conveying updates and solutions to the customer rather than waiting for the customer to ask where the delivery is.

To encourage re-purchase, e-retailers can add suggested or related products to those transactional messages. Anticipate the customer's needs when possible, based on purchase history. That can mean personalizing suggestions with products that complement a purchase, or subscription services for products that require or benefit from replenishment. Discounts, free shipping, and loyalty points are good incentives both for re-purchase and for acquiring product reviews.

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WARRANTIES CAN BE A PATH TO HIGHER CONVERSIONS AND LARGER ORDER VALUES

For retailers, warranties and service plans can strengthen bonds with customers and keep them coming back.

By James Melton

For some brands, like outdoor apparel and gear brand The North Face, warranties are integral to their identities.

"In the early days of The North Face, our corporate mission statement was simply 'bring the customer back,'" says Carol Shu,



DIGITAL COMMERCE 360 RETAIL

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senior manager of global sustainability for the brand. “And the thinking was that a satisfied customer was the best way to build our business.”

Shu explains that Kenneth “Hap” Klopp, who bought The North Face two years after its founding in 1966, spearheaded the warranty program in 1968 when he took over the company. In 2000, VF Corp acquired The North Face.

The North Face offers a limited lifetime warranty for defects in materials and workmanship for all its products except footwear. The North Face will repair without charge or replace anything that fails due to a manufacturing defect for products covered under the lifetime warranty.

“Over the years, we have received countless stories of how warranty repair has kept some of our most iconic jackets in a family for decades,” Shu says. “We love that these jackets are able to be used time and again while remaining out of landfills. They also carry a strong sentimentality for customers who get to see the same jacket … passed on to the next generation of explorers within their own family.”

Not all products are good candidates for lifetime warranties. For example, nobody expects a cell phone or computer to last for generations. And even The North Face doesn’t stand by everything forever. However, some retailers say strong warranties — including extended warranties, service plans and breakage coverage consumers pay for — help them achieve higher conversion rates, raise average order values, and retain customers.

BBQGuys.com, a barbecue and outdoor living products retailer owned by ShoppersChoice.com LLC, offers customers two-, three- and five-year parts services plans covering parts. Irving, Texas-based New Leaf Service Contracts LLC administers the plans.

“Over the years, we have received countless stories of how warranty repair has kept some of our most iconic jackets in a family for decades.”

— Carol Shu, senior manager of global sustainability, The North Face

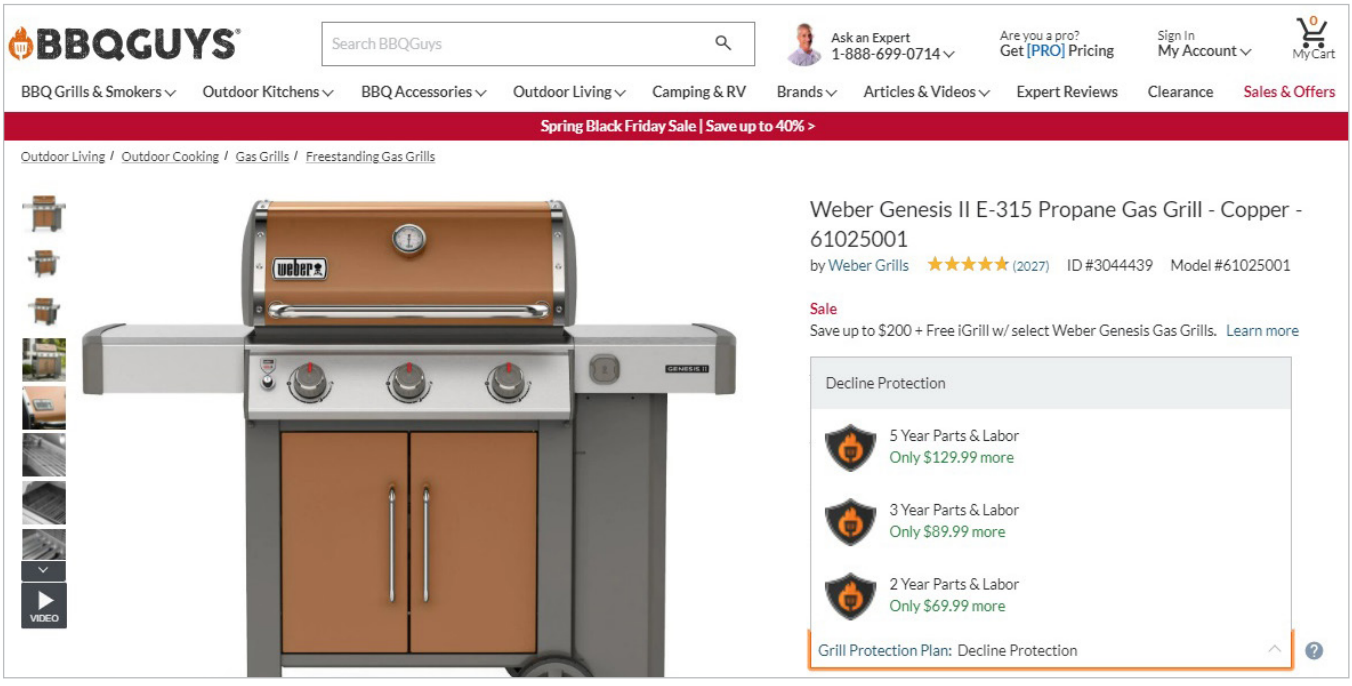
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Charlie Bini, chief sales officer at BBQGuys.com, says the primary goal is to offer customers peace of mind that extends for years beyond the initial purchase. He says between 5% and 7% of customers buy the plans.

“We build and sell grills and accessories that are built to last, and we want the customer to feel that they have partnered with a company that not only cares about the initial sale, but the lifetime enjoyment of the product,” Bini says.

The plans, which vary in price based on the items sold, cover parts and labor for any needed repairs. Customers who buy a five-year service plan but don’t use it during the warranty period receive a refund of 50% of the plan’s price.

Bini says the warranties keep customers happy when they need a major repair. And satisfied customers write positive online reviews, which encourage others to buy.



BBQGuys offers optional two- to five-year service plans.

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"There have been multiple situations where we have sold a customer a protection plan to cover their purchase, and a year later, they call us for help on a product that is not working correctly. When we tell them that the product is no longer covered under the manufacturer's warranty, but their protection plan covers the part and labor, they are relieved and, in most cases, write a review thanking us for suggesting the plan," Bini says.

BLENDJET OFFERS EXTENDED WARRANTIES VIA A VENDOR

In the case of portable blender manufacturer BlendJet, making paid extended warranty plans available to customers helped it achieve higher conversion rates, larger average order values and increased customer retention.

BlendJet, which began working with product-protection firm Extend in 2020, attributes $500,000 in sales to the availability of Extend's protection plans. In a recent statement, BlendJet CEO Ryan Pamplin said the brand's conversion rate increased 11% and its average order value increased an unspecified amount after it started working with Extend.

BlendJet offers customers the option of buying a one- to three-year warranty and accidental damage plan for an extra $3.99 for a year, $6.99 for two years or $10.99 for three.

Extend and rival Clyde Technologies Inc. became part of the Shopify Plus Certified App Partner program in April 2022. To become part of the program, technology providers must meet quality and security standards and offer "a seamless integration experience" with the Shopify Plus retail platform, according to information on the Shopify website.

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HOW PRODUCT-PROTECTION PLANS WORK

According to the Federal Reserve Bank of St. Louis, the cost of extended warranties comes from the provider's calculation of the probability of an adverse event to determine the price a person will pay for insurance.

The St. Louis Fed says consumers buy extended warranties and service for three reasons: to transfer risks to a third party, to make it easier to find a repair person when needed and save money if a costly repair exceeds the warranty cost or service plan. Dana Bahlinger, vice president of strategic partnerships at the Australia-based product-protection vendor Cover Genius, says product protection plans fall into two broad categories:

- Extended warranties, which do precisely what the name implies — extend the exact terms of a manufacturer's original warranty, and
- Service contracts, which offer benefits the original warranty doesn't cover. A common variant is an insurance that covers accidental damage from handling (ADH).

Cover Genius offers its plans to retailers at wholesale rates. Retailers then offer the programs to their customers at marked-up prices.

Once a consumer buys a plan, Cover Genius handles details like claims administration, billing and customer service.

Omnichannel retailers typically look to make anywhere from 30% to 60% in profit margin when they resell the coverage, Bahlinger says. The markup varies based on what retailers believe consumers will pay. But that's not the only way extended warranties and service plans generate revenue for retailers.

$169.82 BILLION

The estimated size of the global extended warranty market in 2021.

Source: Allied Market Research

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Bahlinger says such products can also boost conversion rates and drive repeat business. It says a survey of 2,700 U.S. consumers conducted for the warranty company in January 2020 by PYMNTS.com found that consumers like it when retailers offer extended warranties and service plans and spend more freely when retailers offer them. Among the survey's findings:

- 48% of consumers would make more ecommerce purchases if offered insurance coverage at checkout.
- 32% of consumers would purchase and spend more if offered insurance coverage at checkout.
- The average order value increases 62% when protection is purchased.
- 60% of consumers would buy insurance or a warranty from their ecommerce retailers if the retailers offered one at checkout.

BEST BUY'S NEW MEMBERSHIP PLAN

Service contracts can offer more elaborate benefits than ADH coverage. A good example is the membership plan that electronics and appliance retailer Best Buy Inc. launched in fall 2021.

Best Buy's program, called Totaltech, has an annual membership fee of $199.99. For that price, members get benefits that include up to 24 months of product protection on most Best Buy purchases, including AppleCare+ on Apple products.

Best Buy rolled out Totaltech nationally in October 2021 after testing it in several U.S. markets for six months. In addition to product protection, members get free tech support, free delivery and standard installation, discounts on labor for repairs and other benefits.

Most common kinds of product protection plans



Extended warranties

Extended warranties extend the manufacturer's warranty coverage after its expiration. The benefits of an extended warranty don't begin until the end of the manufacturer's warranty.



Accidental damage from handling (ADH) coverage

ADH plans protect specific products from certain types of accidental damage for a specific coverage term length. Depending on the covered product, accidental damage can range from breakage to cracks, rips, or liquid damage.

Source: Extend Inc.

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The product protection covers device failures due to causes such as manufacturing defects, normal wear and tear, power surges and overheating. For some products, the protection includes accidental damage from handling the device and battery replacement if the original battery fails to hold a charge.

Best Buy reports that it expects the combination of membership revenue and incremental purchases by members to add $1.5 billion in revenue by fiscal 2025 compared to the current fiscal year — fiscal 2023 — which began on Jan. 31, 2022.

In a March 3 conference call to discuss Q4 results, Matt Bilunas, Best Buy's chief financial officer, said a Totaltech membership offers services like extended warranties and products installations the retailer previously made available only as standalone products. The retailer will continue offering those services individually to customers who don't want a Totaltech membership.

Because of rollout costs — and the likelihood that Totaltech will cannibalize standalone sales of warranties and services — Bilunas acknowledged that the program would not initially be profitable.

During the conference call, Best Buy CEO Corie Barry said the retailer sees Totaltech as a way of building long-term relationships with consumers.

"These service interactions result in stickier relationships with our customers," she said, referring to selling services. She added that consumers who interact with the retailer's Geek Squad technical support and repair operation tend to be connected more firmly to the brand than other customers. "They come back to us. Or those who have a consultation, they're 93% more likely to continue to come back and work with their consultant again."

48%

The percentage of consumers who would make more ecommerce purchases if they were offered insurance coverage at checkout.

Source: Cover Genius

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AVOIDING WARRANTY FRAUD

The North Face does not stand by everything forever. The retailer covers footwear and products from The North Face Renewed series — a line of refurbished, returned, damaged, or defective products — with a one-year warranty covering manufacturing defects in materials and workmanship.

Shu says The North Face takes steps to protect itself from warranty fraud. One strategy, Shu says, is to post explicit guidelines about what is and what is not covered by the warranty.

"To limit exploitation of the program, we do note that damage not covered under warranty may be repaired for a reasonable rate and a fee will be charged for return shipping," Shu says.

So, even if a customer ruins a jacket due to improper care, the retailer will repair it for a low cost, incentivizing them to keep their jacket instead of throwing it away and buying another, Shu says.

"Overall, we have not had a significant issue with false claims and appreciate the honesty from consumers in returning their product for repair," Shu added.

But customer honesty has its limits. In 2018, outdoor apparel and gear maker L.L. Bean altered its lifetime warranty policy after more than 100 years because a growing number of customers interpreted its guarantee well "beyond its original intent."

"Some view it as a lifetime product replacement program, expecting refunds for heavily worn products used over many years. Others seek refunds for products that have been purchased through third parties, such as at yard sales," the retailer said at the time in a statement posted on Facebook.

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To protect from warranty fraud, The North Face recommends retailers ask for a detailed explanation in their warranty repair request forms and require consumers to "be clear and consistent in their story about how their product was damaged.

SURVEYS INDICATE CONSUMERS WANT PRODUCT-PROTECTION OPTIONS

Not surprisingly, product-protection-plan vendors contend their plans can help retailers build stronger relationships with customers and encourage them to make larger purchases. And, like Cover Genius, they offer survey data to bolster that case.

For example, a survey of 2,519 U.S. consumers conducted in summer 2021 for product-protection-plan vendor Clyde Technologies by PYMNTS.com found that U.S. consumers say they buy product-protection plans for about 30% of their durable goods purchases.

According to the Clyde survey, buyers are most likely to purchase product protection for goods costing $500 or more. The surveyed consumers added protection plans for 47% of their latest durable goods purchases of $500 or more but for just 17% of durable goods that cost less than $500.

By product category, the surveyed shoppers were most likely to buy warranties for consumer electronics. 38% of consumers bought protection for at least one electronics purchase during the preceding year, the Clyde survey found, while 30% bought product protection for furniture and 25% purchased it for jewelry.

A February 2020 survey of 1,200 U.S. adults from protection-plan vendor Mulberry Technology Inc. found that almost a third of consumers will move to another retailer (25%) or not make the purchase if a retailer fails to offer extended warranties for an item that costs $200 or more.

32%

The percentage of consumers who would purchase and spend more if they were offered insurance coverage at checkout.

Source: Cover Genius

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THE SIZE OF THE MARKET

Globally and domestically, extended warranties and services plans represent a growing sector, according to data from Allied Market Research.

According to Allied, the U.S. extended warranty market size was valued at $48.93 billion in 2019, and is projected to reach $59.52 billion by 2028, growing at a compound annual growth rate (CAGR) of 4.6% from 2020 to 2028. The firm expects the global market for extended warranties to reach $169.82 billion by 2027, up from $120.79 billion (about $370 per person in the U.S.) in 2019 — a CAGR of 7.4% from 2020 to 2027.

The firm says a decline in the sale of personal computers could hinder the growth of the U.S market. But globally, the growing use of smartphones, laptops, home appliances and other "brown goods" drive the extended warranty market growth. But, again, a decline in sales of PCs will be a constraint.

FOR SOME CONSUMERS, EXTENDED WARRANTY OPTIONS INFLUENCE PURCHASE DECISIONS

When shopping for an item that costs $200 or more, would you still purchase the item if the retailer did not offer extended warranty options?



Source: Mulberry Technology Inc. survey of 1,200 U.S. adults, February 2021

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Brown goods are lightweight electronic devices such as computers, smartphones, radios, audio equipment, small home appliances and televisions.

INVESTOR MONEY POURS IN

Investors have recently shown interest in extended warranty companies that work with online retailers. Examples of recent funding rounds include:

- **Extend:** $260 million announced in September 2021. Total funding raised since 2019 is $320.4 million.
- **Cover Genius:** 100 million Australian dollars (U.S. $74.4 million) announced in September 2021. Total funding since 2015 is $95.1 million.
- **Clyde Technologies:** $41 million announced in October 2021. Total funding since 2017 is $58 million.
- **Mulberry Technology:** $22 million announced in October 2021. Total funding raised since 2018 is $34.8 million.

CONCLUSION

As The North Face's Shu points out, long-term warranties can help retailers gain customers — and their children and grandchildren as customers. Unfortunately, the potential for fraud is a part of doing business in retail. So, retailers offering such warranties must be explicit about the terms and require customers to back up their stories if they make extraordinary claims.

For other merchants — especially those that sell expensive, complex products — making extended warranties and service plans available to consumers of expensive goods could be enough to entice them to push the buy button.

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