Defining Key Performance Indicators

For Battling E-commerce Fraud

WHITEPAPER

Defining key performance indicators For battling e-commerce fraud

Managing the risk of fraud has become a critical bottom line challenge for every e-commerce merchant, and it's one that grows more urgent with each passing year.

According to a study conducted by Javelin Strategy & Research, Exploring the Financial Impact of Fraud in a Digital World, digital goods merchants spent on average almost $4.2 million more on fraud-related costs in 2017 than in 2016—a stunning year-over-year hike of 13%.

But online fraud can also have a corrosive effect on business growth and goals well beyond the impact on a company's bottom line. For example, 53% of e-commerce finance executives reported that the risk of fraud had interfered with their efforts to develop new products or services in 2017. Many reported that the combined cost of fraud losses and investments in new fraud-fighting technologies ultimately reduced investment in better talent, R&D and training—the critical components of maintaining a competitive edge or driving the innovation needed to sustain growth.

53% of e-commerce finance executives reported that the risk of fraud had interfered with their efforts to develop new products or services in 2017.

KPIs: You can't manage what you don't measure

Faced with the pressing need to better manage their fraud costs while maximizing performance, e-commerce professionals can begin by monitoring specific data points to gauge their current risk mitigation systems. Since there are many possible performance indicators, it's essential to identify two or three key metrics that impact overall program performance.

Known as key performance indicators (KPIs), these data points typically focus on core operational areas within a fraud prevention system such as:

Attack Rate: Concentrated fraud attempts that result in high decline rates

Approve/Decline Rate: Decision results from bank authorizations, fraud systems or order reviews

Conversion Rate: The percentage of successful orders cleared and fulfilled

Chargeback Rate: Chargebacks by merchant account provider (MAP) rates vs. run rates, percentage of orders, dollar amounts, number of transactions affected

Merchants should also be tracking these metrics by channel. For instance, track buy-online-pickup-in-store (BOPIS) versus traditional online sales and fulfillment and product type (physical or digital) for deeper insight into risky areas. KPIs can also be used to monitor and anticipate potentially risky seasonal or time-dependent fraud spikes.

Using KPIs: pluses and pitfalls

Once KPIs have been selected, monitoring them should become a regular exercise, with performance on these metrics informing business decisions.

For merchants, the long-term benefits of this process are considerable:

- Enabling business decisions to be tied back to trends
- Monitoring the overall performance of key systems and third-party vendors
- Providing data-driven, performance-based reasoning for budget planning, hiring and expansion
- Becoming alerted to emerging problems and challenges as they develop rather than after they have caused disruption

There are challenges in using KPIs when or if they're misunderstood, not placed in the correct context or lack operational alignment with strategic business goals. **Collecting too much data can make information difficult to interpret,** just as focusing on micro-views can degrade the overall business decision-making process. **Looking at too many KPIs can also overcomplicate the value of any one metric** through the dreaded phenomenon of "analysis paralysis" and produce unintended outcomes.

Selecting the right KPIs for you

Despite these challenges, the correct metrics can help digital merchants anticipate and respond to the constant change of market and product cycles. Rooted in an understanding that the universe of KPI models is almost infinite, merchants should select those performance indicators that support their ability to make informed decisions on both the internal aspects and external forces influencing their business trends, needs and practices.

Metrics that capture a business' current state are essential, but e-tailers should also look to establish a clear view of performance improvement objectives that allow them to evaluate—and delineate—competitors, vendors, outside forces and trends when assessing gaps in performance levels. Drawn from a standard baseline set of operational measurements, these KPIs should enable e-commerce merchants to anticipate changes.

Merchants should select the performance indicators that **support their ability to make informed decisions.**

Checklist

Do my KPIs support my business needs?

- [ ] Are my KPIs actionable?
- [ ] Can I use my KPIs for continuous process improvement?
- [ ] Can my KPI strategy predict the future?
- [ ] Can I track external trends?
- [ ] Can external studies/surveys be used to provide valuable insights into my own KPIs?

Completing this checklist will help you make informed decisions about selecting which performance indicators are right for you and for your business needs.

Leveraging KPIs and experts to fight fraud

As e-commerce retailers know, change is both constant and disruptive, with new products, services and solutions continually emerging in the marketplace. Meanwhile, the threat and costs of payment fraud are only increasing in volume and complexity. The modern-day fraudster is always a step ahead of the merchant, experimenting against the latest technologies to find any exploitable gap that allows criminal activity.

In an increasingly competitive marketplace, merchants must simultaneously focus on the right KPIs and actively manage their fraud operations. Yet, all too often, retailers are consumed with innovating to meet evolving customer expectations and developing new strategies to grow their business—leaving little time to focus on fraud management.

By partnering with a dedicated fraud solution provider, merchants can eliminate fraud and chargeback losses, while leveraging complementary data to better identify and track the KPIs most impactful to their business.

With the right measures in place, today's merchants can rest assured that their hard earned revenue will be **secure and available to invest in future growth and innovation.**

Contact us

AMERICAS

Vesta Corporation
5400 Meadows Road, 5th Floor
Lake Oswego, OR 97035
USA
+1 502.790.2525
+1 503.790.2525
info@trustvesta.com

Vesta Corporation
HSBC Building, 6th Floor
Av. de las Amèricas 1545,
Providencia, 44630
Guadalajara, Jal.
info@trustvesta.com

EUROPE

Vesta Corporation
5400 Meadows Road, 5th Floor
Lake Oswego, OR 97035
USA
+1 502.790.2525
+1 503.790.2525
info@trustvesta.com

Vesta Corporation is the leader in guaranteed e-commerce payment solutions. Founded in 1995, Vesta began as a pioneer in processing fully guaranteed card-not-present (CNP) payment transactions for the telecommunications industry. Since then, we've steadily expanded our solutions and solidified our position as the leader in guaranteed digital payments. Today, Vesta processes and protects more than $18 billion in transactions annually. Our flexible and scalable solutions enable our customers to eliminate fraud and increase revenue by delivering secure, frictionless transactions that maximize acceptance and improve the customer experience—all backed by a zero-fraud-liability guarantee.

Reduce fraud and build revenue with Vesta

Find out How

Get in Touch