Retailers struggle to deal with rising fraud costs

Article

The data point: **Every $1 lost to <u>fraud</u> now costs US retailers $4.61 in total costs** after factoring in operational disruptions, reputational harm, and compliance burdens, according to a report from LexisNexis Risk Solutions based on a survey of 569 fraud and risk executives.

That's a 28% jump from 2021 and a staggering 47% increase over pre-pandemic 2019—underscoring how much more complex and costly combating fraud has become for retailers in recent years.

Striking the right balance: The rise in fraud is more than just a security issue—it's a customer experience and brand trust issue.

- Tighter fraud controls may reduce risk and can also introduce friction that hurts conversion and loyalty. In fact, 62% of online retailers and 58% of brick-and-mortar merchants say stricter fraud prevention has driven customer churn.

- This tension is particularly evident when consumers check out. Shoppers expect frictionless experiences now that **Amazon**- and **Shop Pay**-style one-click checkouts have become the norm. But 35% of retailers say poor user experience at checkout is a top reason shoppers abandon their carts.

This dynamic puts pressure on retailers to adopt advanced fraud prevention tools—like AI-powered detection and real-time monitoring—that are both effective and invisible, striking a balance between security and simplicity.

Our take: Fraud is a costly and complex challenge for retailers—not just because of direct financial losses, but because efforts to stop it can hurt sales.

Protective measures like stricter return policies or added checkout security often chip away at customer convenience, while sales-driving tactics like generous returns policies or promotions can open the door to fraud. That leaves retailers walking a tightrope: safeguarding margins without pushing away legitimate shoppers. And with consumers already feeling squeezed and cautious with their spending, striking that balance is more important than ever.

AI Use Cases Used by US Ecommerce Decision-Makers, Aug 2024
% of respondents

Use Case	%
Detecting fraud	94%
Personalizing advertising and marketing	93%
Forecasting or predicting demand	91%
Maintaining quality assurance	91%
Providing customer support	91%
Deciding how much money to save	90%
Finding job candidates	89%
Choosing what to invest in	88%
Negotiating discounts	88%
Optimizing supply chain	88%
Adding new suppliers	82%

Source: Commercetools, "Unwrapping Success: Key Investments Driving Holiday Sales" in partnership with Savanta, Sep 26, 2024

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