A Frost & Sullivan White Paper

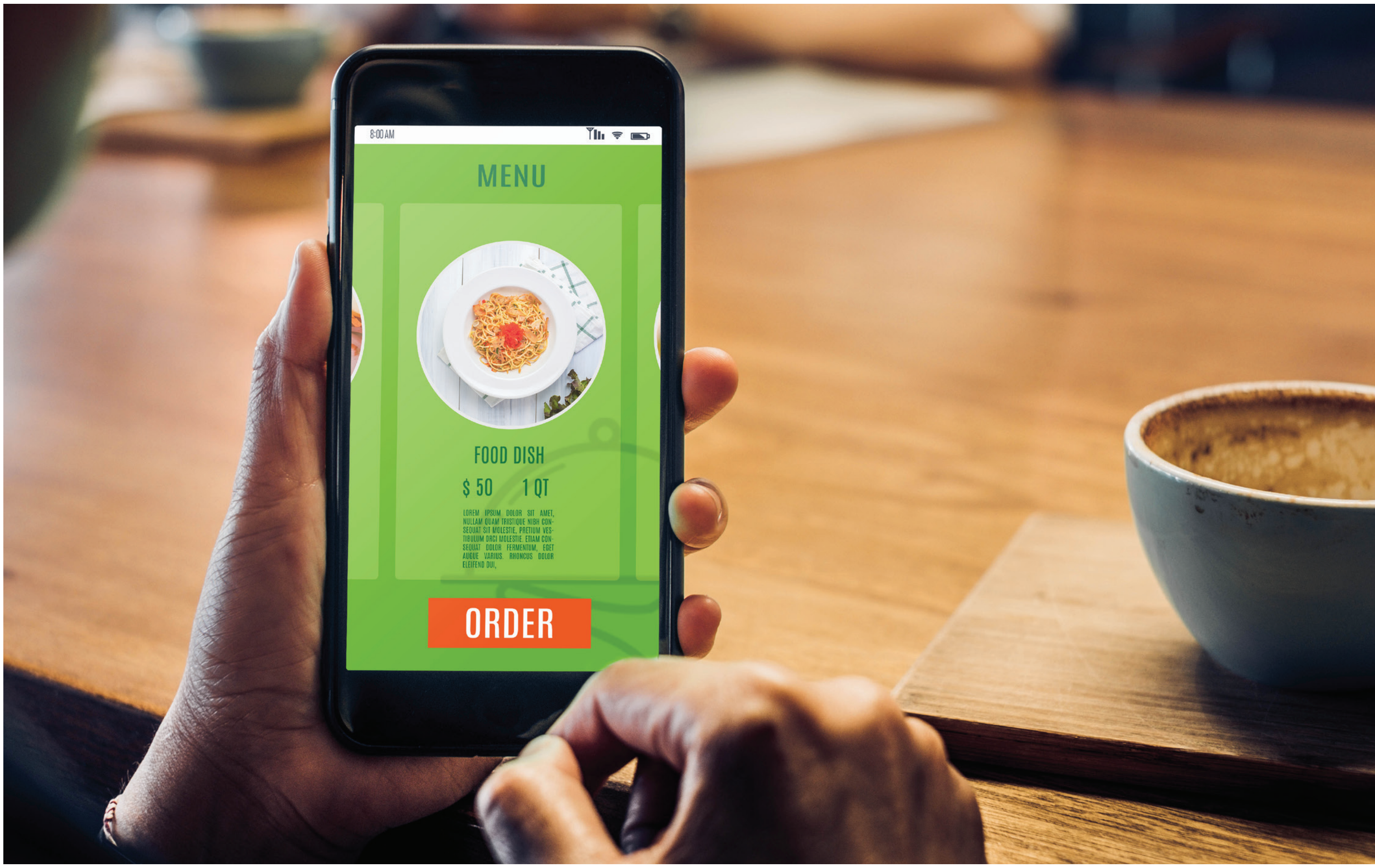
Mastering Fraud Prevention in the Online Food and Beverage Industry

Powering clients to a future shaped by growth

FROST & SULLIVAN

THE FOOD AND BEVERAGE INDUSTRY IS ON A GROWTH TRAJECTORY

Few would deny that online sales for the food and beverage (F&B) industry are increasing rapidly.[1] Frost & Sullivan's research indicates that e-commerce orders for food delivery are expected to generate $199.35 billion in revenue by 2025.[2] According to the Food Industry Association, an industry trade body representing food retailers, wholesalers and suppliers in the U.S., consumers are likely to spend more than $100 billion per year on online groceries.[3] While delivery and takeout have long been table stakes for the F&B industry participants, the evolution of traditional, store-based delivery by companies such as delivery.com, Amazon Fresh, Peapod, Instacart, Grubhub, DoorDash, Foodpanda and Uber Eats has been instrumental in driving strong revenue growth for this segment. These companies have excelled by delivering convenience, variety, and low-cost service to consumers at the touch of a button. Major cities and urban centers have been the epicenter of this evolution, especially because of the increased penetration of smartphones and widespread internet connectivity.[4]



1 For the purpose of this research, Food and Beverage includes restaurant, grocery, food delivery services and quick-service restaurants.
2 Frost & Sullivan research: Future of Global Online Food Delivery Services Market, Forecast to 2025.
3 Food Industry Association: https://www.fmi.org/digital-shopper
4 Frost & Sullivan research: Future of Global Online Food Delivery Services Market, Forecast to 2025.

THE COVID-19 PANDEMIC HAS ACCELERATED GROWTH

e-commerce sales in general, and in particular e-commerce sales for the F&B sector have accelerated due to the COVID-19 pandemic. Frost & Sullivan's research indicates that many of the purchasing trends formed during the pandemic are likely to see permanent adoption as consumers become familiar with the ease and convenience of e-commerce delivery and curbside or in-store pickups. The statistics below highlight the growth in e-commerce for the F&B industry.

- According to App Annie, a leading mobile data and analytics platform, demand for retail delivery is high across the board, with shopping app downloads hitting 106 million globally during the week of March 29-April 4, 2020 (up 15% from the weekly average for January 2020), and 14.4 million in the US (up 20% versus the same period).[5]

- In April, Instacart, a leading provider of grocery delivery services, disclosed that its order volume was up more than 300% year-over-year and its shopper community expanded to more than 350,000 active shoppers, up from 200,000 just two weeks ago.[6] Domino's, the world's leading pizza company, announced plans to hire additional workforce to support increased demands in its delivery and carryout operations due to COVID-19.[7]

- As highlighted in the Ninth Edition of Forter's Fraud Attack Index, transaction volumes increased in the food delivery and beverage sector by 93%. This higher than ever transaction volume for merchants led to issues with stock, fulfilment, and delivery time frames, which impacted customer experience and prompted increased service chargebacks. Exiting June, new users on merchant sites account for approximately 30% of overall consumer volumes versus 5%-7% during pre-COVID-19 days.

5 App Annie. https://www.appannie.com/en/insights/market-data/walmart-grocery-takes-1-spot-in-shopping-app-downloads/
6 Instacart press release: https://bit.ly/3fjO8ot
7 Domino's press release: https://bit.ly/3djworB

EFFECTIVE FRAUD PREVENTION IS CRITICAL FOR SUCCESS

A surge in online commerce is expected to accelerate merchant plans to digitally transform their businesses. F&B merchants face unique fraud prevention challenges that, if not sufficiently addressed, can derail their digital commerce initiatives. The key challenges impacting fraud in the online F&B industry include: short fulfillment cycles, atypical peak demands, policy abuse (especially promotions abuse and new account sign-up abuse), and difficulties in recovering cost of chargebacks.

▶ Short Fulfillment Cycles Create Challenges

The total time it takes for merchants to accept the order, share the order information with the fulfilling merchant (in the case of aggregators) and complete delivery is no more than 30-60 minutes. Due to the requirements for expeditious service delivery, merchants cannot afford to spend more than a few minutes authenticating a transaction. They also don't want to limit sales by asking for additional information from users for order verification.[8] These dynamics are exploited by fraudsters to obtain items fraudulently, particularly with merchants that are focused on approving orders quickly. The increase in ordering volumes due to COVID-19 has only added to the challenges of providing efficient service delivery while ensuring that fraudsters do not take advantage of the situation by posing as legitimate users and blending into the increased traffic.

▶ Atypical Peak Demands Introduce Unpredictability

The F&B industry is prone to dramatic and unpredictable changes in demand. For example, the bulk of demand for restaurant food delivery tends to occur on weekends, around mealtimes. However, the demand for food delivery can increase by several times when it is raining, making it difficult for merchants to manage fraud if they are not appropriately set up to handle transaction volume spikes. Automation is key to addressing this challenge. Planning staffing around manual reviews when the business demands can change considerably in a short time is virtually impossible.

▶ The F&B Industry Continues to Battle Promotions Abuse Issues

The F&B industry is highly impacted by promotions abuse. Unlike fraud, promotions abuse can be perpetrated by good customers (or those that look like good customers) that want to exploit loopholes in coupons offers, welcome benefits, referral bonuses or loyalty programs for their own benefit. The ability to identify the individual behind the transaction is critical for preventing policy abusers from taking undue advantage of sales promotions. Behavioral analytics to help identify suspicious user behavior across different accounts is a powerful tool to prevent scenarios such as sign up abuse by detecting criminal or unintuitive behavior during the signup process.

▶ Chargebacks are Costly

A rapid influx of new buyers due to unpredictable events can create gaps in service delivery, leading to increased chargeback rates. Given the low margins in online F&B delivery, it can take several good orders for merchants (aggregators) to recover the cost of chargebacks. As opposed to focusing only on minimizing chargebacks, merchants should ideally try to achieve the right balance between chargebacks and sales by modeling business performance using the lifetime value (LTV) of customers.

8 Frost & Sullivan Research: 30% of shopping cart abandonment is due to added friction during the checkout process.

MERCHANTS TAKE NOTE—AUTOMATION AND ACCURACY CAN COEXIST!

The myth that fraud prevention can either be automated or accurate—but not both at the same time—persists. This is due to the limitations of legacy, rules-based fraud tools that merchants have used in the past. Based on the rules that were created, transactions were accepted, denied or moved to manual reviews. However, manual reviews introduce material inconsistencies and latency in fraud decisions. They can also be notably inaccurate for fraud chargebacks.. It is also difficult to scale legacy systems to handle sudden increases in online orders, both from a system load capacity as well as analytics perspective.

Frost & Sullivan's research indicated that modern fraud prevention solutions based on machine learning (ML) and artificial intelligence (AI), and sharing of transactional and behavioral data across a network of merchants, can deliver high accuracy and automation in fraud prevention.

Automated, data-driven solutions can also eliminate biases that exist when fraud prevention solutions rely more than they should on manual reviews. Merchants must prioritize working with identity-based integrated fraud prevention platforms that can evaluate every step in the customer journey to build a detailed picture of consumer behavior for accurate fraud decisioning.

MODERN E-COMMERCE NEEDS MODERN FRAUD PREVENTION

Forter provides an automated, identity-based fraud prevention solution for modern e-commerce. It works with behavioral analytics, cyber intelligence, and identity linking, leveraging machine learning and the power of big data that is informed and refined by highly trained analysts. Forter's Global Merchant Network consisting of more than 800 million global identities in its database enables it to know even those consumers that transact with F&B merchants for the first time. In cases where Forter has not previously seen new customers, it can still infer trust based on linkages to other customers already in Forter's network. The examples below highlight how leading F&B merchants use Forter's fraud prevention solutions.

- **delivery.com** is a leading online and mobile platform that enables users to order from local restaurants and stores for on-demand delivery. With Forter, Delivery.com found a fraud prevention solution that reduced overhead and chargeback costs, and worked seamlessly with their high-velocity business. Forter's solution has helped delivery.com achieve an extremely high approval rate of 99.5%. Other benefits include 100% real-time fraud decisions with no manual component, and continued fraud protection during times of atypical peak demands.

- **TGI Fridays**, the iconic American bar and grill restaurant chain, was looking for a fraud prevention solution to improve their chargeback rate for online orders and in-restaurant mobile check payments. The company turned to Forter to fix its fraud problem. Since integrating with Forter, Fridays' approval rate for payments is 97.2%. With instant approve or decline decisions on all mobile and online transactions, Forter fights Fridays' fraud in real-time and also provides insight into their mobile ordering service.

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MERCHANTS MUST RETHINK THEIR FRAUD PREVENTION STRATEGIES

Unfortunately, a digital commerce strategy is essentially useless when supported by legacy fraud prevention solutions. Merchants must carefully rethink their fraud prevention strategies and ensure that they invest in sophisticated fraud prevention solutions to accelerate growth.

F&B merchants should consider the following when developing their fraud prevention strategies:

- **Policy abuse.** Does the solution provider have a compelling policy abuse prevention offering? What specifically is the strategy for addressing promotions abuse and account abuse? Is behavioral analytics used to identify suspicious user behavior across different accounts?
- **Automated, Machine Learning-driven operations.** Does the solution leverage ML for full accuracy and automation, with real-time approve/decline decisions and notifications at any point in the customer purchasing journey? What levels of manual processes are included in the current systems? How well would those systems scale in the event of more transactions or new regions?
- **Service and support capabilities.** What guarantees and/or service-level agreements are available from the fraud prevention vendor? Is dedicated customer support offered? How easy is it to create and/or modify custom fraud rules?
- **Data network capabilities.** Does the provider integrate fraud data from different merchants to generate a comprehensive view of fraudulent activities? How does the vendor determine trust for new, un-vetted customers?

With Forter, online F&B merchants benefit from accurate and real-time fraud prevention capabilities. Forter's AI-driven solutions are designed to handle large spikes in digital traffic and offer a unique level of protection against fraud. These core competencies have been particularly helpful for Forter's customers during the COVID-19 pandemic as they face a proliferation of new customer additions, along with unprecedented growth in transaction volumes for online commerce.

NEXT STEPS

- Schedule a meeting with our global team to experience our thought leadership and to integrate your ideas, opportunities and challenges into the discussion.

- Interested in learning more about the topics covered in this white paper? Call us at 877.GoFrost and reference the paper you're interested in. We'll have an analyst get in touch with you.

- Visit our Digital Transformation web page.

- Attend one of our Growth Innovation & Leadership (GIL) events to unearth hidden growth opportunities.

Silicon Valley
3211 Scott Blvd
Santa Clara, CA 95054
Tel 650.475.4500
Fax 650.475.1571

San Antonio
7550 West Interstate 10
Suite 400
San Antonio, TX 78229
Tel 210.348.1000
Fax 210.348.1003

London
Floor 3 - Building 5,
Chiswick Business Park
566 Chiswick High Road
London W4 5YF
Tel +44 (0)20 8996 8500
Fax +44 (0)20 8994 1389

myfrost@frost.com 877.GoFrost http://www.frost.com

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