Same Day Delivery: Hidden Pitfalls for Retailers?

By Monica Eaton-Cardone — March 28, 2016

Prompted by Amazon's late 2014 introduction of its Prime Now same–day delivery, a growing number of brick-and-mortar retailers with nationwide stores such as Macy's, Kohl's, Walmart and Target are following suit. It's a big business and traditional retailers do not want to be left out. The value of merchandise ordered via same-day delivery was projected to grow 520% from 2014 to 2015, rising from $100 million to $620 million, and will exceed $4 billion within the next three years.

But there are underlying liabilities. Traditional stores who go big with online sales trade away their customized face-to-face service and compete strictly against price and inventory. The online shopper is loyal only to Google search results, reviews and reputation. A Nielsen survey found that North American consumers have lower brand loyalty to online merchants: 23% said they are "not loyal" to retail trade stores, while 37% are "not loyal" to online retailers. Of those willing to switch brands, 61% would do so for a better price.

Traditional stores need to create strong reasons for shoppers to visit. There is still a viable market: The National Retail Federation estimated that over the recent Thanksgiving weekend, nearly as many shoppers went into stores as went online; however, as online shopping is projected to surpass local retail on many fronts in the coming years, retailers who follow the consumer demand and venture into the online market need to be aware of another growing liability: a corresponding increase in chargebacks and fraud.

Experts have cautioned that America's transition to EMV technology – making card-present sales swindles harder to pull off – will drive more fraud to the card-not-present (CNP) online market. One study forecasts that by 2018, CNP fraud will be 400% greater than point-of-sale fraud.

Retailers need to be on the lookout not just for criminals using stolen credit card data, but also for customers perpetrating "friendly fraud" by filing illegitimate chargebacks to obtain merchandise for free. They can minimize both types of fraud losses with an effective risk management strategy that combines both advanced technology and human expertise, but first they have to be aware that the problem exists and that their banked profits may be less than first posted.