



# Unwrapping Holiday Fraud

Insights to Protect Your Business  
& Drive eCommerce Revenue



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# Introduction

The holiday season is almost upon us, and ushers in the most lucrative quarter for eCommerce merchants. The 2018 holiday season closed in at \$123.9B in the US alone - a 16.7% increase from the year prior, and it's clear that global holiday revenue will continue to grow. The opportunities are ripe for the picking, but in the competitive eCommerce landscape, merchants need to be best-positioned to maximize their success.

Our data reveals that shopping behavior and fraud trends are not consistent throughout the holiday season. We have identified six key 'sub-seasons', each with its own unique consumer preferences and fraud trends. Based on analysis of tens of billions of dollars in holiday orders, this guide will dive into these sub-seasons and extrapolate insights pertaining to geographies, channels and shipping methods - to give eCommerce merchants actionable tips to help optimize holiday performance.

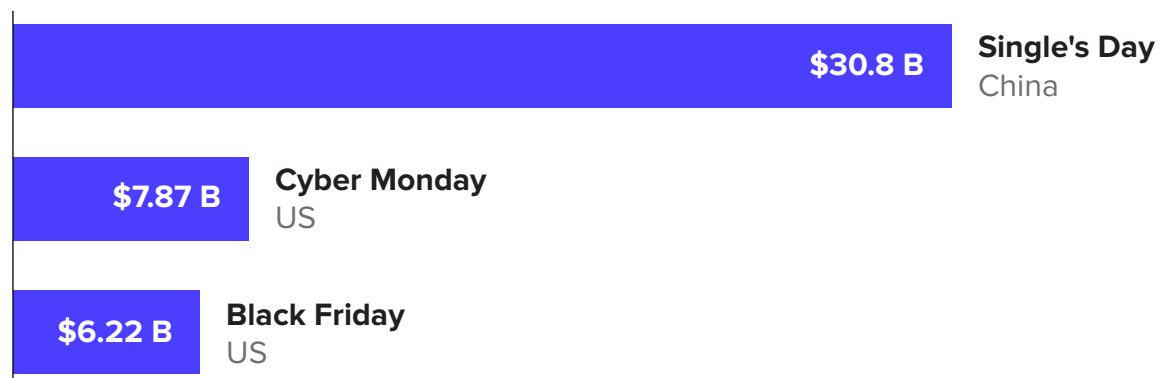


# What is the Holiday Season?

The winter holiday season is approaching, and with it the flurry of shoppers bustling to get gifts for their friends and family, themselves, and even the mailman. With each passing year, the holiday hype seems to start earlier, as merchants compete to snag the most sales, and consumers enjoy the extended promotions season. So we went ahead and checked if it is indeed getting longer.

The classic gift shopping period spans Thanksgiving and Christmas, but several key shopping events have solidified November as the precursor of the holiday shopping season. From Black Friday and Cyber Monday, to Chinese Singles' Day, to the presale kickoff days of retail giants Amazon, Walmart and eBay - the trickle-down effect is noticeable across the eCommerce market, all month long. Not only do these shopping events seem to be extending and redefining the holiday season, but they provide merchants with a large pool of global consumers that are eager to take part in the holiday frenzy.

## Daily Sales: Black Friday vs Cyber Monday vs Singles' Day

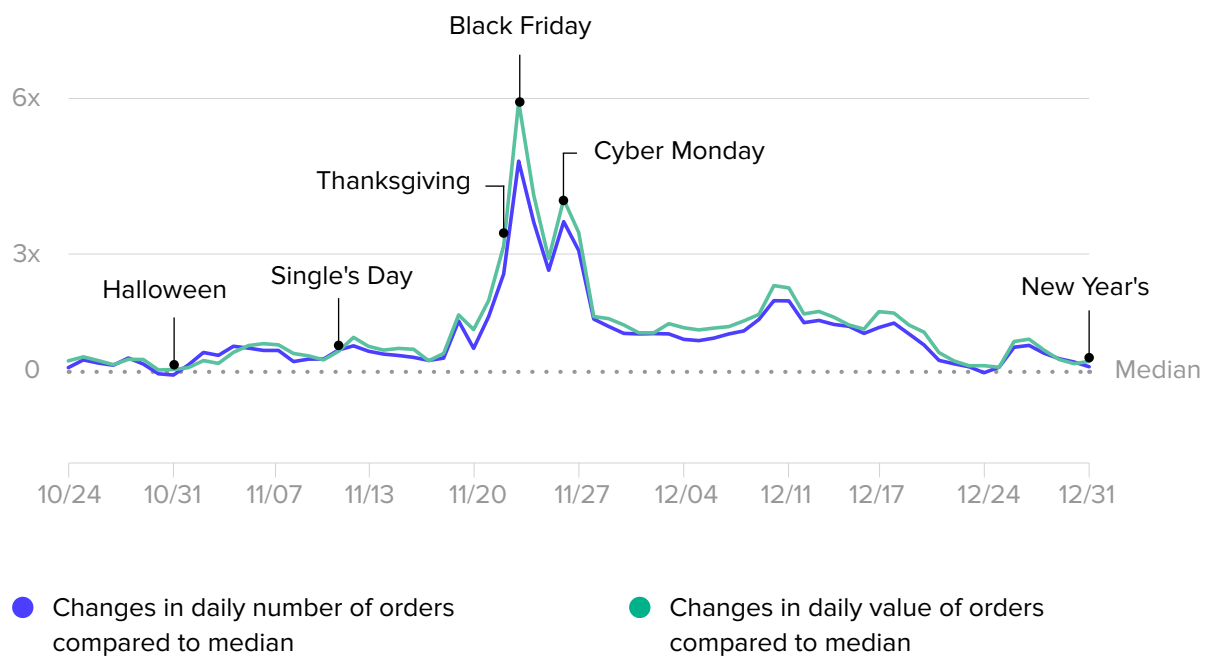


○ Source: eMarketer

As the above graph reveals, Single's Day sales tower over Cyber Monday and Black Friday combined. Retailers can tap into this revenue with competitive Singles Day promotions and deals. By participating in China's biggest shopping holiday, merchants can boost overseas eCommerce sales early on in the season.

This snapshot of potential revenue clearly marks November as an important and profitable month for online holiday shopping. Interestingly, though, Riskified data shows that across some verticals and markets, **the holiday surge starts in late October**. Does this mean we'll start seeing serious holiday shopping throughout October, as well? It's probably too early to tell, but definitely a trend to keep an eye on.

### Online Sales Volume During the Holidays



The graph above shows online transactions reviewed by Riskified throughout the 2018 holiday season. The volume increase already starts at the end of October, with a noticeable spike on November 22, and a steady surge in online sales through December 30.

## The Holiday Opportunity

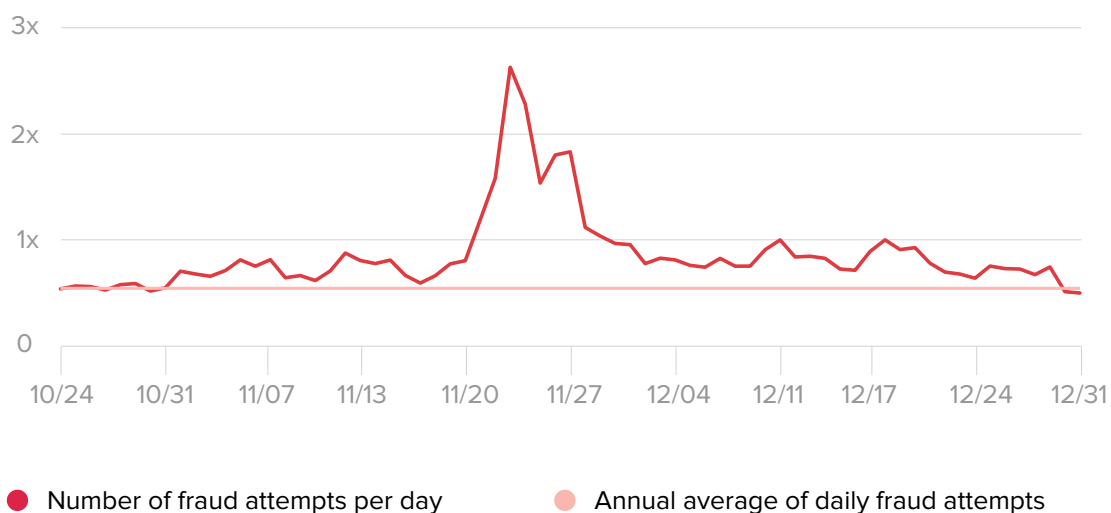
It's no news to merchants that there is much to be gained from getting the holiday shopping season right. Recent years have shown double-digit growth, and the forecasts for 2019 are no different. According to eMarketer, eCommerce spend is expected to grow 15% compared to last year. For merchants, this season is important for its strong impact on the yearly bottom line: Riskified data shows that merchants stand to make up to a third of their yearly revenue during winter sales! Easy, right?

## 2020 Holiday Challenges

Adding to the familiar challenge is the shorter holiday calendar this year, with just 27 days between Thanksgiving and Christmas (versus last year's 32). The shorter time span, coupled with an expected increase in sales, will mean higher daily transaction volumes as consumers rush to complete their holiday shopping. This will put pressure on all operations, from fraud review to fulfillment, to meet the demand and accommodate this surge.

### Fraud: The eCommerce Grinch

Always the uninvited guest, fraud is as unwelcome during the holiday season as it is during the rest of the year. But during the holidays, the pressure to manage the influx of shoppers adds stress to fraud operations as well. Interestingly, the rate of fraud attempts remains on par with non-season averages, but the increased volume of sales means there's an increase in the volume of fraud attempts, as well.



○ Source: Riskified data

Retailers wishing to cash in on the holiday hype need to stay on top of fraud to make the most of the opportunity. But this can be challenging as shopping patterns unique to the holiday season make it more difficult to distinguish between “good” and “bad” behavior.

#### Holiday Insights:

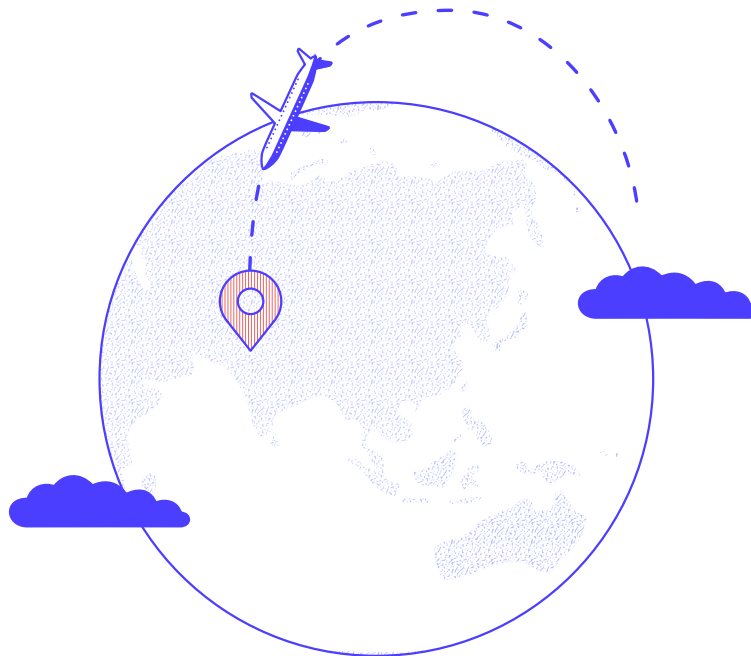
### Legitimate holiday shopping behaviors that look like fraud

#### **Billing/shipping address mismatches**

The season of gift-giving is also the season of gift shipping, meaning many shoppers make purchases to be shipped to the giftees. Several different shipping addresses all paired with one billing address could raise red flags for fraud review, even though they may all be legitimate purchases from a good customer.

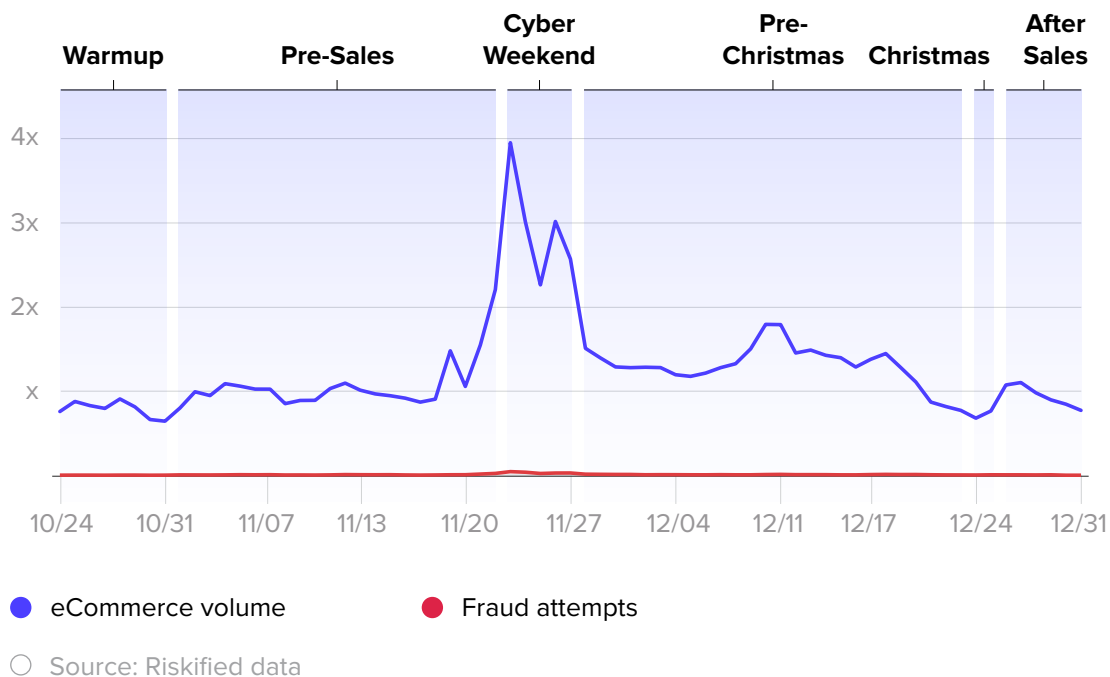
#### **Higher rate of international orders**

The number of international orders doubles over the entire season. Ecommerce merchants can expect to see a higher rate of international orders particularly during Cyber Weekend.



# The Holiday Sub-Seasons

Despite the visible spike in fraud attempts, it's clear that fraud is a very small segment of the entire order population. Nevertheless, it's important to understand the fraud that surfaces throughout the season. We've identified six unique holiday sub-seasons in order to distinguish opportunities from threats. Each holiday sub-season presents its own opportunities, challenges, consumer behaviors, and fraud threats. We'll explore them in-depth in the following section.



## Warmup - October 24-31

While not officially considered part of the holiday shopping season, October has become one of the highest revenue-generating months of the year. Riskified's analysis of the electronics, fashion and retail industries, in particular, shows the beginning of an upward trend in sales starting in the last week of October. But all merchants stand to gain from these early signs of holiday shopping intent. Merchants across all industries can expect to see a revenue spike, up to 30% higher than non-season averages during the last week of October, save for Halloween, when sales are actually slower.



A [2018 Deloitte survey](#) found that 39% of respondents planned to start their shopping in October. Even more interesting is that these early shoppers intended to spend more than December shoppers.

### **Shoppers: Early Birds**

We see a great deal of international consumers among these early bird shoppers, which makes sense when you take into account the added shipping times that are required. They're busy around this time of year to get their goods overseas - on time. So, merchants can expect to see an increase in international customers and they should take this into account when reviewing orders for fraud during this season.

## **Pre Sales - November 1-28**

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November marks the beginning of holiday presales. Three dates drove this season last year: the kickoff of Amazon's presales on November 1, Chinese Singles' Day on November 11, and eBay's presales kickoff on November 19. But these retailers aren't the only ones to profit from their official kickoff days; in 2018, revenue for other eCommerce merchants on November 1 was 20% higher than the non-season average, and 150% higher on November 19. So what can you expect from shoppers during this sub-season?

### **Shoppers: Big Spenders**

Shoppers are spending more at this point in the holiday season than in any other holiday sub-season, especially on physical goods. So, it's important to note that higher value orders, although sometimes regarded as riskier, are safe and common during this time of the year. Towards the end of this sub-season, as merchants begin to roll out early Cyber Week deals, self-gifters and deal seekers join the mix.



## Cyber Weekend - November 29 - December 2

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Cyber Weekend is traditionally the highest grossing sales period of the year for almost all eCommerce merchants. Shoppers have been patiently waiting for price cuts on the gifts and goods they've had their eye on all year. These days alone stand to bring in approximately 6% of merchant's annual revenue.

### Shoppers: Self Gifters

These shoppers have been researching prices and patiently waiting for the post Thanksgiving deals. They're buying for themselves, which usually means more shipping and billing addresses will match up. The rate of standard shipping is higher than usual; attributable to the fact that free standard shipping is a common promotion. Merchants who wish to reduce shipping costs should incentivize in-store pickups for their customers. This has the added benefit of motivating customers to spend more, as many of them make additional holiday purchases while in store.



Holiday Insights:

**While Cyber Weekend makes up just four days of the year, on average it accounts for 6% of a merchant's yearly revenue!**

## Pre-Christmas - December 3 - December 23

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December marks the "core" holiday shopping season, with a steady flow of shoppers throughout, looking to purchase gifts for their loved ones. The first two weeks of December are marked by significant growth in sales of physical goods. But as Christmas looms closer and shoppers rush to purchase gifts that won't be held up by shipping, there is a surge in the sales of digital goods.

### **Shoppers: Gift Givers**

These are classic Christmas shoppers, combing the web for gifts for friends and family. But their habits change as they get closer to Christmas Eve, rushing to get gifts in time for the holiday. More shoppers opt for premium shipping and in-store pickup, while sales of digital goods rise sharply in the last two weeks of December.

It's the holiday sub-season with the lowest rate of international shipping. This, however, doesn't mean there are fewer international customers: their volume is still about 30% higher than average, they just tend to "get lost" amongst the huge influx of domestic shoppers.

## **Christmas - December 24-25**

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For 48 hours - the shopping frenzy comes to a lull. One-third of the world's population celebrates Christmas with family gatherings, holiday meals and religious observances, and the volume of shoppers reaches its lowest since the start of the holiday season. The rate of fraud attempts is highest of all of the holiday sub-seasons, but this is due to the decreased number of legitimate shoppers - the volume of fraud attempts reaches its lowest point since November.

### **Shoppers: Last-Minute Buyers**

These shoppers need to get their gifts ASAP, opting for digital goods or in-store pickup of physical goods at higher rates than any other sub-season. They make their orders on-the-go, with the highest share of orders coming from mobile devices.

Amongst these legitimate customers hide the fraudsters who focus on phone and chat orders - any order method that requires human assistance, as fraudsters know that customer service teams are exhausted so late in the holiday season



## After Sales - December 26-31

In the United Kingdom, Canada and Australia, the day after Christmas (December 26) is marked by post-season promotions, with merchants looking to clear inventory and snag some more last-minute sales. There's an obvious decline from the holiday hype, but merchants who offer weeklong post-Christmas promotions can expect to see a 20% increase in revenue compared to non-season averages.

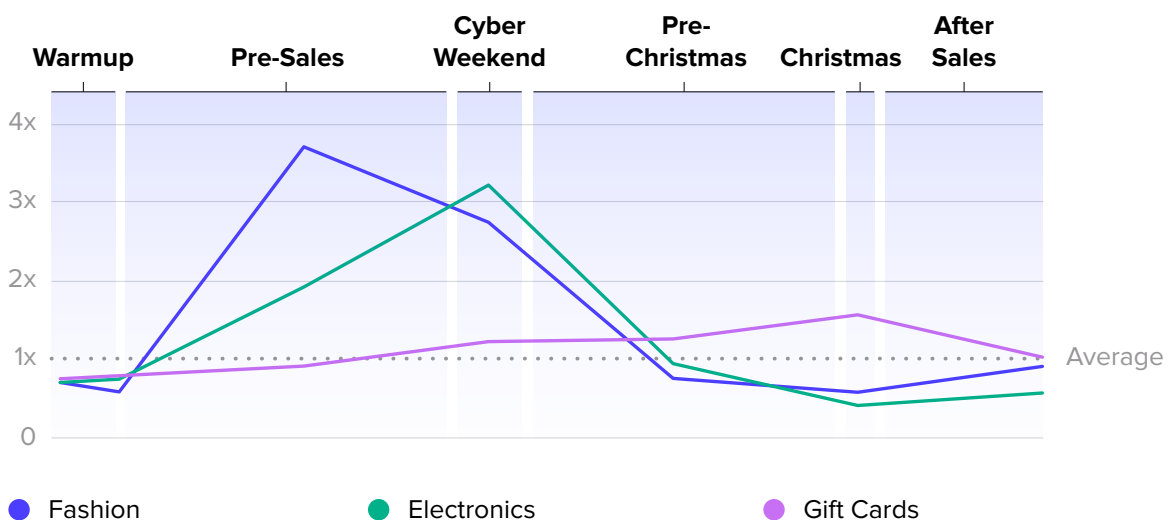
### Shoppers: Deal Hunters (and Fraudsters)

The deal hunters know that merchants have inventory to get rid of, and they're looking to cash in on the discounts. This is a good time to continue to offer promotions and increase your bottom line as the year comes to a close. However, this is also the time where patient fraudsters might surface. In fact, we see the highest rate of fraud in digital goods orders during this holiday sub-season, especially on high-value goods.

## An Industry-Centric Look

Understanding changing consumer behaviors and fraud trends during the various holiday sub-seasons is important to unlocking the season's full potential - but it's just the first step. Depending on the industry you operate in, your customers have unique behaviors specific to them.

### Average Daily Revenue: Fashion, Electronics, and Gift Cards



○ Source: Riskified data

The graph above shows the average daily revenue for the fashion, electronics and gift cards industries throughout the holiday sub-seasons. Note that each of them peaks at a different time - fashion just before Cyber Weekend, electronics on Cyber Weekend, and gift cards long after - during Christmas.

Simply put: consumers buy different products for different reasons, at different times of the holiday season. So dive into your numbers. You should get familiar enough with your customers to know when they're shopping, and how they behave while doing it. This will allow you to:

### **1. Expand the holiday opportunity**

Know when to expect your customers, and boost sales there. Is your vertical weaker during the Pre-Sales season? Are you having trouble staying competitive during Cyber Weekend? Identifying weaker domains will allow you to plan promotions around them and recoup revenue that's being left on the table - or lost to competitors.

### **2. Safeguard your business and your customers' experience**

Some behaviors that are red flags for fraud in other industries, could represent legitimate shopping behavior of your customers. For example, in digital goods, the order source is an important risk indicator. During Christmas Day, digital goods are primarily ordered from mobile devices due to the on-the-fly nature of last minute orders. Call center orders, on the other hand, may be a riskier segment for review.

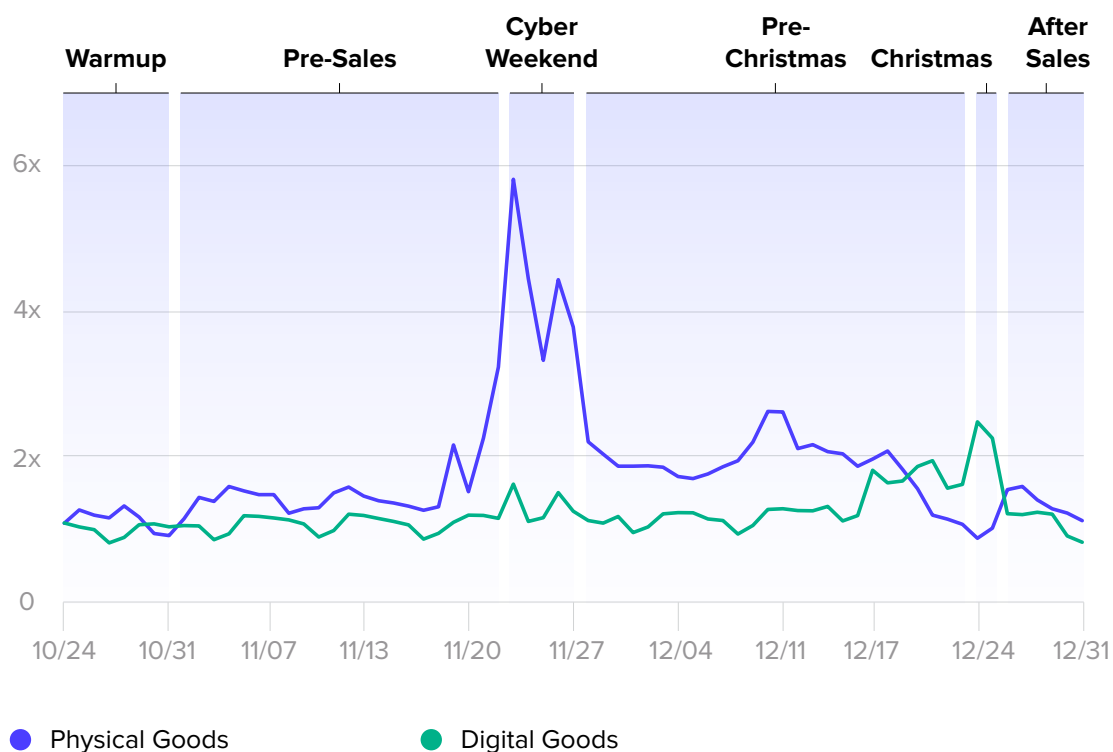
### **3. Make informed decisions**

Analyze your data and decide which orders to flag for review, instead of basing your fraud operations on generalizations.

# Physical and Digital Goods: Holiday Dynamics

There's much to be learned by studying shopping patterns across different industries, but one differentiator dramatically impacts holiday shopping behavior: whether the product bought is physical or digital. Both digital-only merchants and physical-first retailers can expect to see two different sales spikes: Cyber Weekend, marking peak sales for physical goods; and Christmas and After Sales, marking spikes in digital goods sales.

## Digital vs Physical Goods Sales Volumes



○ Source: Riskified data

A major reason for this difference is the fact that digital goods can be instantly gifted, without having to wait for shipping or pick-up. Last-minute shoppers, as well as those who forgot gifts for some of their loved ones, turn to digital goods as the gift of choice during Christmas and immediately after it.

#### Holiday Insights:

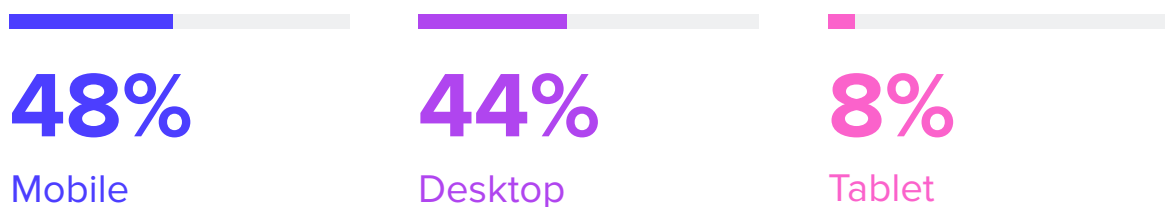
### The 'mixed cart' fraud MO

Physical-first merchants who sell gift cards should be aware of the 'mixed cart' fraud MO. Fraudsters fill their cart with a few physical goods, using the victim's true shipping address - and then add a digital gift card (delivered to the fraudster's email address). The order might appear innocent thanks to the match between billing and shipping address. The victims get goods they never ordered while the fraudsters walk away with digital gift cards.

## Meeting the Mobile Demand

Mobile commerce, or mCommerce, is growing at a rapid pace and is expected to surpass desktop eCommerce spending by 2021. The holidays are peak mobile shopping season, with 48% of global orders placed from mobile devices. Amongst Gen Xers and millennials in major markets, this figure reaches almost two-thirds of orders.

### Holiday eCommerce Sales By Device

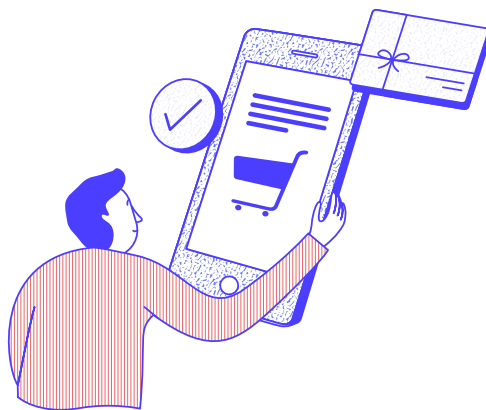


○ Source: salesforce.com

The strongest mobile shopping day of the year is Christmas. This doesn't come as a surprise when you think of all of those last-minute shoppers who need a gift for a loved one, **right now**.

## The Mobile Challenge

All of this means merchants must rise to the challenge and provide a mobile-optimized shopping experience - else they risk losing high-intent customers to the competition. Dedicated apps, mobile-first websites and a frictionless purchase funnel are all things that today's consumers have come to expect. But mCommerce poses unique fraud risks, meaning merchants must fine-tune their fraud review in order to continue to provide their customers with their favorite channels.



### Mobile apps are a safe segment

Mobile apps, a relatively riskier segment throughout most of the year, prove to be very popular with legitimate shoppers during the holiday season. Throughout all sub-seasons, mobile app orders typically experience 70% fewer fraud attempts than the non-season average, putting them on par with desktop orders. Not only is the fraud attempt rate lower, but the actual volume of fraud attempts is lower, too. This makes the mobile app segment a safe and popular choice for most consumers and merchants alike. Taking this into account, merchants may choose to drive mobile app downloads ahead of the holiday season, so that by the time the holidays come around, they'll be able to drive mobile app sales.

### Plan for a careful review of mobile website orders

Mobile website orders are at their all-time high during Cyber Weekend, with a threefold increase in the volume of sales. The fraud rate in this segment remains on par with non-season averages, which indicates a higher volume of fraud attempts hiding in the overall volume of sales. Merchants offering mobile web orders should identify which segments are safer - for example, international orders made on mobile websites are a relatively safe segment.



Though mCommerce poses new fraud risks, its proliferation means merchants must adapt their fraud management to continue to offer customers the experience they expect. Your eCommerce fraud prevention solution needs to be adept at identifying mobile-specific fraud trends. For example, while IP address is a weak indicator of an on-the-move mobile user, cross-referencing BIN country with keyboard language can help corroborate a shopper's identity.

## Key Takeaways

The holiday season is the most profitable time of year for most eCommerce merchants. Below are some actionable tips and best practices based on Riskified's data for achieving a safe and profitable holiday season:

### 1. Analyze your own data

The insights in this guide are representative of merchants from every industry and market. But in the end, your own data will speak volumes about your consumers, their shopping habits and preferences. Find out what your strongest holiday sub-seasons are - and where your sales could use a push - and plan promotions around those dates to drive revenue all season long.

### 2. Optimize and automate

The most efficient way to deal with the intense pressure of the holiday spike is to plan ahead. Customer service and manual review teams will be spread thin, so make sure order processing and fraud review are as automated as possible.

### 3. Go global

Now more than ever, it's time to enable cross-border commerce. Awareness of holiday sales has reached practically every corner of the earth, and customers around the world want in. Tuning your systems to enable cross-border shopping can have a dramatic impact on your sales and brand reputation. Read Riskified's [Cross-Border eCommerce Report](#) to learn more.

### 4. Be mobile-first

Be ready to provide your customers with a superior mobile experience with a mobile-optimized site or app. Mobile app users are a relatively safe segment,

so remember - it's a good idea to drive downloads ahead of the season. Incentivize mobile shopping to expand your reach with good customers. Get familiar with mobile fraud patterns to make this shopping channel safe for yourself and your customers.

## **5. Incentivize advantageous shipping methods**

Customers expect and count on fast fulfillment during this season. Although BOPIS can be a great option, it can lead to long queues with the high volume of orders. Consider offering a small discount for customers who choose drop shipping. This has the potential to expedite the shipping process, while allowing customers to avoid waiting in long lines in-store.

## **6. Provide alternative payment methods**

With so much shopping going on, the last thing you or your customers need is a decline by the credit card company or issuing bank. While these declines are often valid, in up to 70% of cases the shopper can afford to make the purchase. Alternative payment methods can help drive approval rates and grow holiday season revenue

# About us

Riskified turns “shoppers” into “customers” at all stages of the eCommerce path to purchase. Merchants lose billions to legacy fraud solutions, payment failures and high-friction verification. Riskified’s machine learning recognizes legitimate customers and guarantees the income. Merchants can safely approve more orders, expand internationally and fulfill omnichannel flows without friction.

To find out more about our solution, visit our [website](#) or contact us directly: [hello@riskified.com](mailto:hello@riskified.com)