



CHARGEBACK ANALYTICS

LEVERAGING DATA SCIENCE TO
PREVENT CHARGEBACKS AND
INCREASE RETENTION



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Introduction

Every business that accepts credit cards for payment has to have a plan for dealing with chargebacks. They affect businesses of every size and industry, and their numbers keep growing every year. No matter how profitable a business may be, chargebacks have the potential to threaten their sustainability. There are 3 ways that chargebacks can damage a company:

The cost of chargebacks - With time, labor, and fees included, the price of a single chargeback can be more than double the amount of the original transaction in dispute.



Chargeback ratios - Payment processors will drop clients whose chargeback rates consistently exceed a certain threshold, usually around 1%. Merchants with excessive chargebacks are forced into relationships with "high risk" payment processors that charge exorbitant fees.



The impact on customers - Almost every chargeback that reaches you represents a dealing with a customer that went awry. Whether a chargeback comes from a previously loyal customer who feels let down or a fraudster targeting weak points in your security, there is almost always something you could have done to prevent it.



The best way to defeat chargebacks is to know the reasons why they are happening so that you can respond to them correctly and fix the root causes in your business operations. The key to this knowledge is chargeback analysis: a rigorous, data-driven approach that examines the reasons, sources, and outcomes of your chargebacks.

In this guide, we will explain how you can understand your customers better, retain more of them, and prevent chargebacks of all varieties by engaging in chargeback analysis.



Chargeback Metrics

Understanding chargeback metrics can be a great benefit to your business, and yet many merchants avoid educating themselves about chargebacks. There are a lot of myths about chargebacks out there. Here are some of the chargeback myths we hear most often:

01

“Fighting chargebacks is too expensive.”

02

“Fighting chargebacks will hurt our reputation with customers.”

03

“Why fight chargebacks? You can’t win.”

04

“Fighting chargebacks isn’t worth it—the ROI isn’t there.”

05

“Fighting chargebacks is too complicated.”

Because of these myths, merchants often ignore chargebacks—to their detriment. The truth of the matter is that chargeback data is a hidden treasure hoard of highly valuable insights into the concerns and issues customers may be having with your business.

When you understand why your customers are disputing your charges, you can take concrete steps to address those reasons, resulting in increased customer retention, better business processes, and faster revenue growth. Every chargeback presents you with an opportunity to strengthen your business.

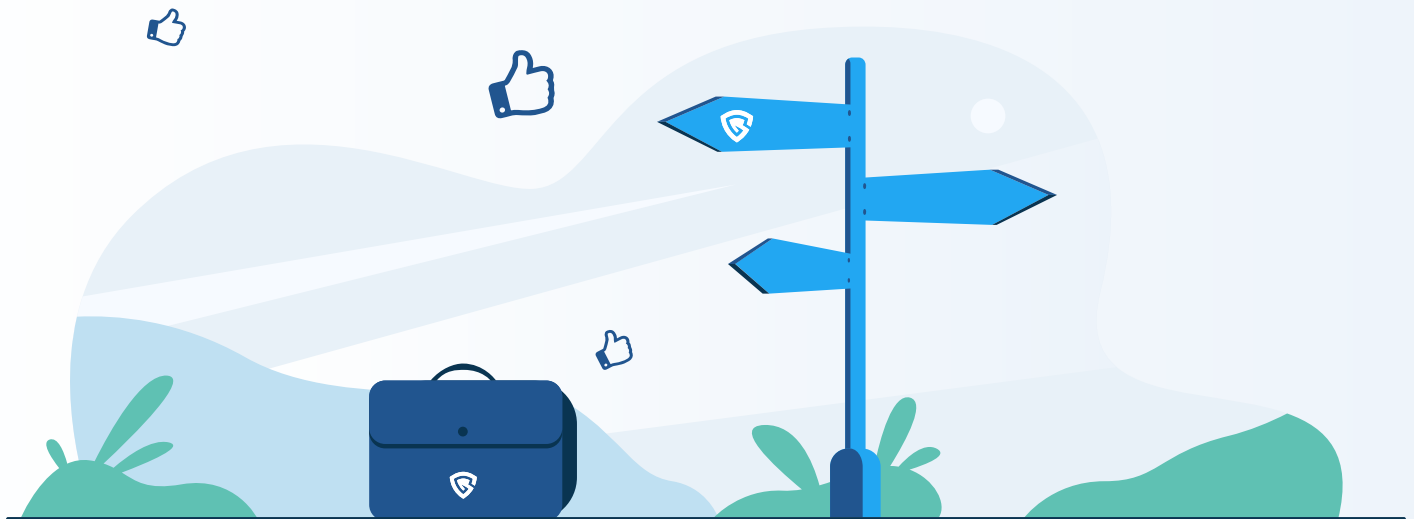
The cost of customer acquisition keeps going up. According to marketing experts, the cost of acquiring a new customer is five times what it takes to retain an existing customer.

If your competition is ignoring their chargebacks, you can gain a material advantage over them by taking the time to analyze and learn from yours.

Chargeback analytics don't just tell you about friction your customers may be experiencing with your company, but can also provide information about their behavior, attitudes, and demographics that aren't captured through the usual marketing channels. This can help you tap into new markets and target audience segments more precisely.

Just as a chef has to keep her knives sharp to prepare food correctly, e-commerce merchants must constantly hone and refine their business processes to keep pace with their competition and operate efficiently. Chargeback metrics are like a whetstone for sharpening the tools of the e-commerce trade. By analyzing them and acting on the insights you glean, you can keep your processes sharp and effective.

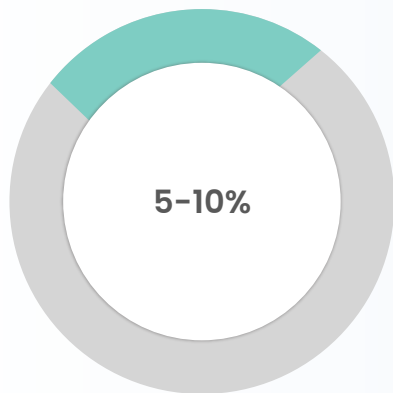
The choice to study chargeback metrics or ignore them can make or break a business.



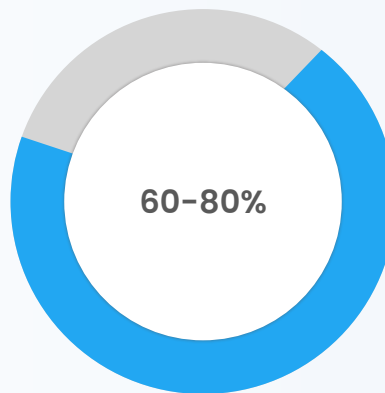
Root Causes of Chargebacks

Chargeback data really is a cache of treasure for a merchant with the right mindset. Through chargebacks, customers are voicing the biggest problems and frustrations they're having with your business. Ignoring chargebacks is a choice to not listen to your customers. Only by studying the data can you understand the reasons why they're disputing transactions and reveal the root causes of your chargebacks.

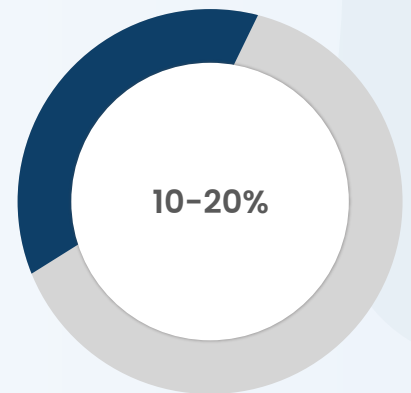
There are three broad categories of chargeback types: True Fraud, Friendly Fraud, and Merchant Error. For a typical merchant, True Fraud accounts for about 5-10% of chargebacks, with 60-80% resulting from Friendly Fraud and the rest attributable to Merchant Error. Each of these categories may encompass a range of different root causes.



True (Criminal) Fraud



Friendly Fraud



Merchant Error



True Fraud

True Fraud refers to the use of stolen cards and compromised payment credentials. If you're not addressing the vulnerabilities that fraudsters are exploiting, the problem will grow, and customers will lose faith in your company.

True Fraud can be addressed with recommended security protocols like AVS/ CVV matching. You can also activate fraud filters in your payment gateway or use third-party fraud prevention tools.

When a stolen card is used to shop at your store, don't be surprised if the victim starts talking about it on social media, making your company look unsafe. Brand loyalty is largely a thing of the past, and customers have many other options for online shopping. Break a customer's trust, and it's unlikely they'll ever come back. The best way to stop True Fraud is to implement seamless and effective security features, but first you must understand exactly where your vulnerabilities lie.



Friendly Fraud

Friendly Fraud can happen in a variety of ways. Essentially, it refers to a legitimate transaction that the customer later finds some reason to dispute. Friendly Fraud can be the merchant’s fault, especially when there’s a breakdown in the customer service process. If the customer can’t reach you, or you aren’t willing to resolve whatever issue they’re having, it’s all too easy for them to contact their bank instead and demand a chargeback.

Other times, the customer is simply confused. They get their credit card statement, see a charge that they don’t recognize, and “investigate” by proceeding directly to a transaction dispute. Merchants sometimes exacerbate this problem by not bothering to review and update the merchant information that gets printed on bank statements. It should never be a challenge for a customer to connect the charge on their statement with your company name.

Then there are those customers who perpetrate Friendly Fraud intentionally, gaming the system to get their money back on products that they’ve bought and used. Sometimes they’ll even go for the hat trick by getting a refund, a chargeback, and keeping the item they bought. Scammers share information online about vulnerable merchants and exploitable loopholes, and a business that doesn’t protect itself will get victimized many times over.



Merchant Error

Merchant Error covers a wide variety of customer service, quality control, and communication issues that can lead to chargebacks. Deceptive billing practices are the number one culprit, especially with merchants that use trial offers or various shady tactics to get customers on the hook for recurring transactions. When the terms and conditions aren't explained properly, the customer feels deceived and disputes the charge.

Another common problem is when a merchant's marketing efforts and ad copy set unrealistic expectations for the products or services they're selling. If you're old enough to remember the X-ray specs that were advertised in the back of comic books, imagine how many chargebacks the company selling them would get hit with today—they didn't really let you see through things! Once again, when a customer feels like you're trying to trick them, a chargeback is to be expected.

Fulfillment is another area that breeds chargebacks. When you're slow to ship orders, customers can't track shipments, or there's no communication about delays or other issues, customers give up on you and go calling their banks.

Ultimately, customer service is what ties all of these disparate chargeback reasons together. If your customer service department is easy to reach, maintains accessible hours, and works proactively to solve customers' issues to their satisfaction, that will go a long way toward reducing merchant error chargebacks across the board.



Understand Your Customers

The average chargeback contains over forty different data points that can be analyzed. The more you examine a chargeback, the more you can learn about who your customers are and why they act and respond the way they do. One key question can reveal many things about a disputing customer and whether it's worth spending the time and resources to acquire more customers like them: where did that customer come from?

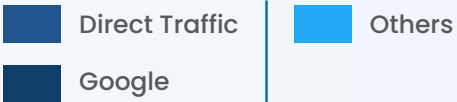


Traffic Source

Typically, there are many different websites sending customers your way. Some may be marketing channels you've invested in; others may be organic sources. Either way, tracing a chargeback to its traffic source can give you valuable information.

If you plot out all your chargebacks across their various sources and find that one source is responsible for a higher portion of chargebacks than the others, it may be a good idea to stop soliciting leads from that source. This kind of analysis tells you which of your marketing channels are working and can help you see if different ads or marketing campaigns are setting unrealistic expectations among your customers.

Traffic Analysis



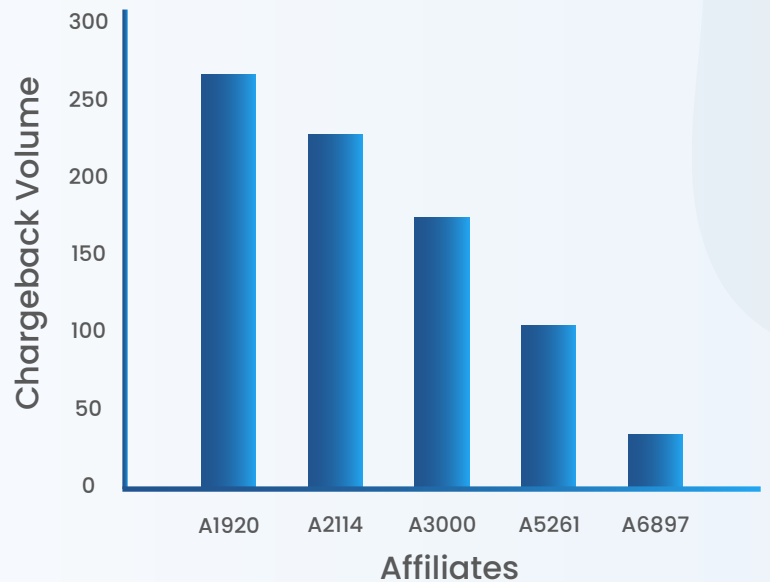


Affiliate

Affiliate marketing can be a great way to increase sales in a cost-effective way, but it can also be dangerous if the affiliate doesn't actually know what they're doing. The risk increases as your number of affiliates goes up. In a large affiliate network, there's a higher chance of a bad apple in the barrel creating problems for you.

Run the numbers and compare the ratio of transactions to chargebacks for each affiliate. If, for example, an affiliate is responsible for 1% of sales transactions but 10% of your chargebacks, it's time to cut that affiliate loose.

Affiliate Analysis



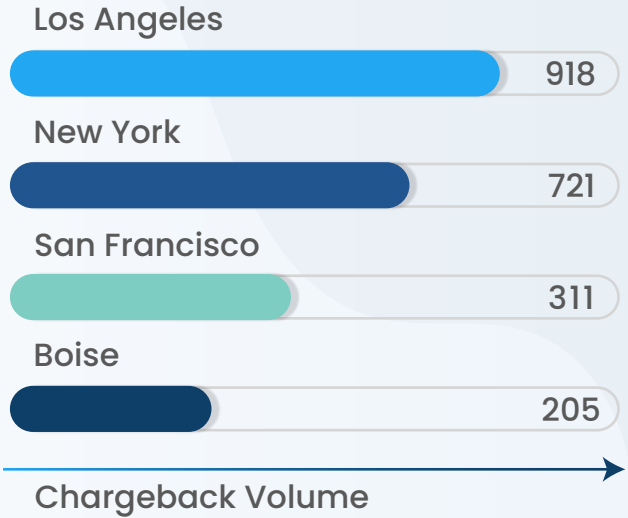
Location

One of the great things about e-commerce is that you can sell to anyone, anywhere in the world—but if you're going to venture into international markets, you can't treat every customer as if they're just like the people you're familiar with. Some countries might be bad for your chargeback rate.

You can break this down even further and examine chargeback rates by state and city, too. If your chargebacks are geographically clustered, something is up. It may take further analysis to understand why expectations differ in these areas, but in the meantime, you can stop working those channels until you figure out what the issue is.



City Analysis

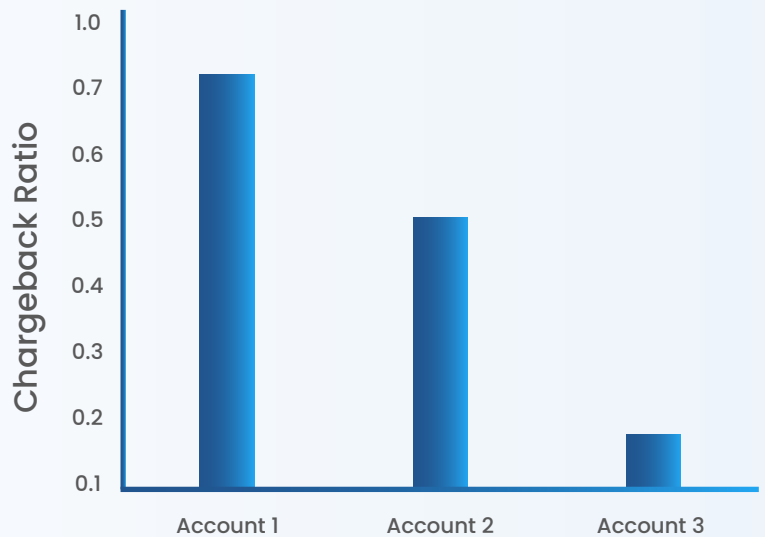


Merchant Account

For merchants who do business under multiple brands or DBA entities, it can be helpful to look at the chargeback rate for each merchant account.

When one entity has a higher rate than the others, that’s telling you something about how customers perceive that particular store or brand.

Merchant Account Risk Analysis



Increase Retention Rate

As we've already seen, increasing your retention rate is vital. It's much easier and cheaper to hold on to your existing customers than it is to bring in new ones to replace them.

How can you accomplish this? We believe there are three pillars of customer retention: Product, Value, and Service. You need to make each of yours as strong as you can, and chargeback analysis can show you how by giving you insights into issues your customers may be having with your product quality, pricing, and customer service.

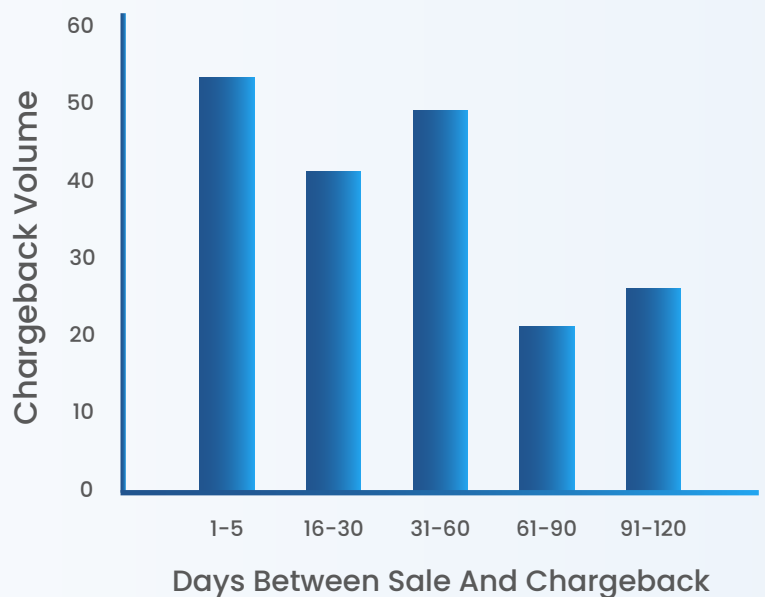


Chargeback Lag Time

The lag time between a transaction and its chargeback can be revealing. This lag time is often a product of your refund policy. If you have a 30-day time limit to return a product and request a refund, you can expect to see chargebacks increase after that 30-day limit, as customers realize they're no longer eligible for a refund and get their banks involved instead. There's an easy way to remedy this: extend your return period.

(Issuers impose time limits on transaction disputes too, but these are usually 120 days or more.)

Sale To Chargeback Lag Time



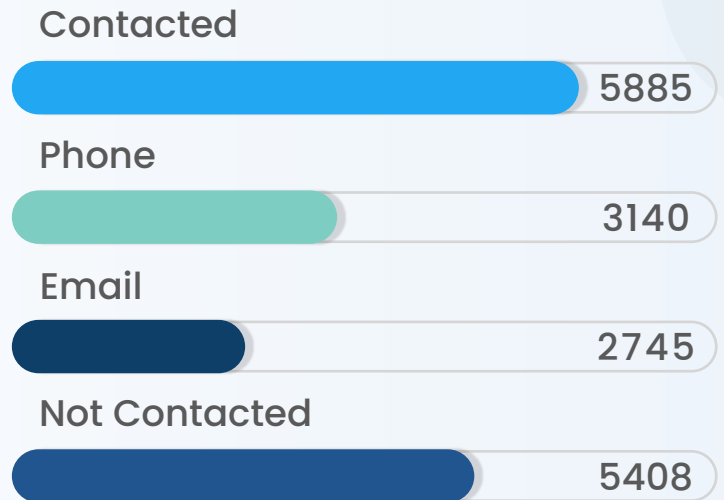


Customer Contact

You should always encourage customers to reach out to you with any problem they might be having, so that they don't go to their bank first and proceed directly to a dispute. However, many customers who reach out to the merchant first still end up disputing the charge. Why is that? Usually, it's because the merchant doesn't respond in a timely fashion, doesn't make the customer feel heard, or doesn't notify them about a refund that may be in the works.

Attentive, proactive customer service that really listens, moves quickly to process refunds, and provides clear and prompt communication about the steps they're taking to resolve customer issues is essential to strong chargeback defense and customer retention.

Customer Contact Analysis



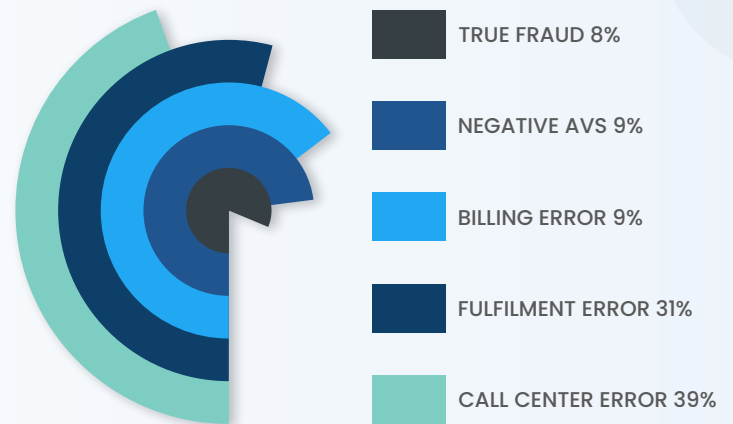


Legitimate Chargebacks

Some chargebacks are entirely legitimate, made for the very reasons chargebacks were invented in the first place. These are almost always true fraud or merchant error chargebacks. They may be the result of fulfilment errors (failure to ship on time, expedite requests ignored, returns not tracked), system issues, conflicts with your terms and conditions or store policies, or duplicate billings after cancellation requests.

Legitimate chargebacks can provide you with some of the best metrics for improvement, because they almost always tie back to real (and fixable) problems with your security, customer service, or business operations. When a chargeback shows you where a breakdown or flaw in your processes have occurred, waste no time in addressing it.

Legitimate Chargeback



Prevent Future Chargebacks

The primary objective of chargeback analysis is to learn why your chargebacks are occurring so you can prevent future chargebacks from occurring for the same reasons. Done correctly, chargeback analysis will inform a chargeback defense strategy that points toward clear operational changes you can make to shore up the vulnerabilities and avoid the mistakes that led customers to dispute your transactions.



Fraud Type

Fraud comes in many varieties, with different safeguards applicable for each situation. If more than 5% of your chargebacks are attributable to true fraud, you should be making better use of fraud prevention tools, which use algorithms to detect signs of fraud much more quickly and consistently than manually reviewing transactions for fraud indicators. If you're already using anti-fraud tools and more than 5% of your chargebacks are true fraud, you may need to adjust the settings on those tools. Many merchants avoid using all the available fraud filters because they're worried about false positives screening out legitimate orders. You must find the sweet spot in your settings that lets real orders through while effectively stopping the fraudsters.

Friendly fraud may occur because of issues with your product or business operations, or because you're targeting bad sets of customers who are being purposely deceitful. Breaking down the data from your friendly fraud chargebacks can indicate where the problem lies.

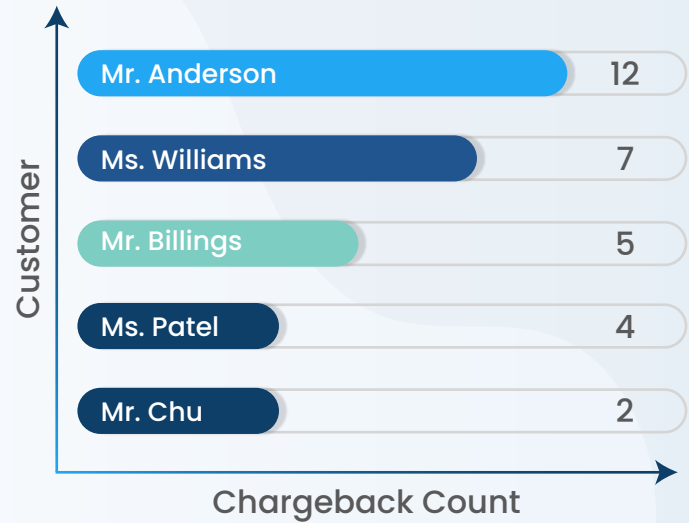


Repeat Offenders

Chargeback analysis can show you if the same customers are responsible for multiple chargebacks. It's important to track and monitor repeat offenders. Sometimes customers submit multiple disputes because they've just noticed multiple charges, as in a recurring billing situation, or because the merchant has failed to notify them of changes to the billing process. But some customers are very intentional about disputing multiple charges per merchant, and they'll keep doing it if you don't stop them. Friendly fraudsters frequently retarget the same merchants they've been able to take advantage of in the past. This is especially common in industries like online gaming, or where purchased items can be resold easily. Blocking future transactions from known (or even suspected) friendly fraudsters is a foolproof way to put a stop to their chargebacks. If you have repeat offenders, create a blacklist and don't be afraid to use it.



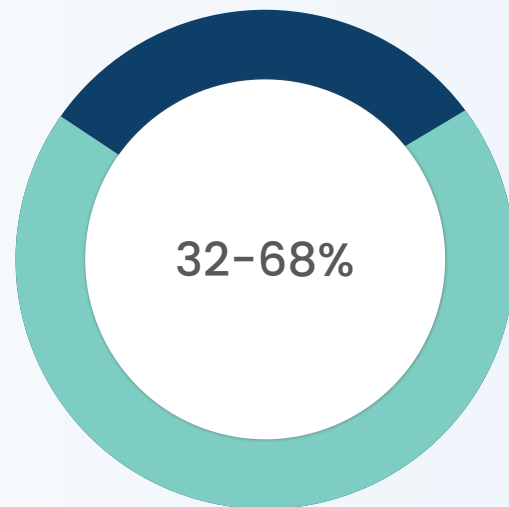
Repeat Offender Analysis



Store Analysis

Merchants who sell online but maintain a brick-and-mortar retail presence must be aware of their specific vulnerabilities. You may find that some store locations have better or worse customer service than others, leading to more disputes at those locations. By tracking disputes by store, you can identify the ones in need of improvement.

Store Analysis



OOPi - Order Online Pick-up Inside



OOPS - Order Online Product Shipped





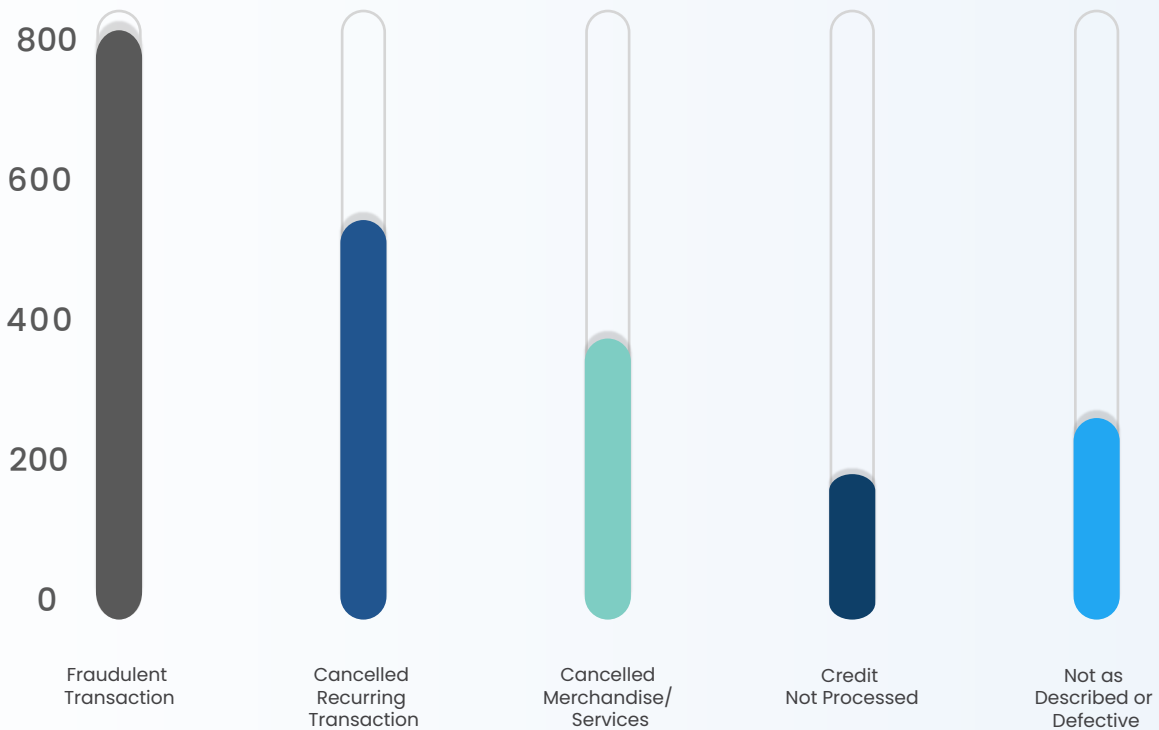
Reason Code

The reason code is the most relevant data point in any chargeback, as it indicates exactly what evidence will be required to refute it. It also allows you to categorize, quantify, and track chargebacks by type. Analyzing your win/loss ratio for different reason codes will show you if there are certain chargeback categories you aren't fighting effectively.

Keep in mind that reason codes aren't always truthful or accurate, because the banks tend to take whatever the customer is claiming and match it to the closest applicable reason code.

Reason Code Analysis

Top 5 Reason Codes

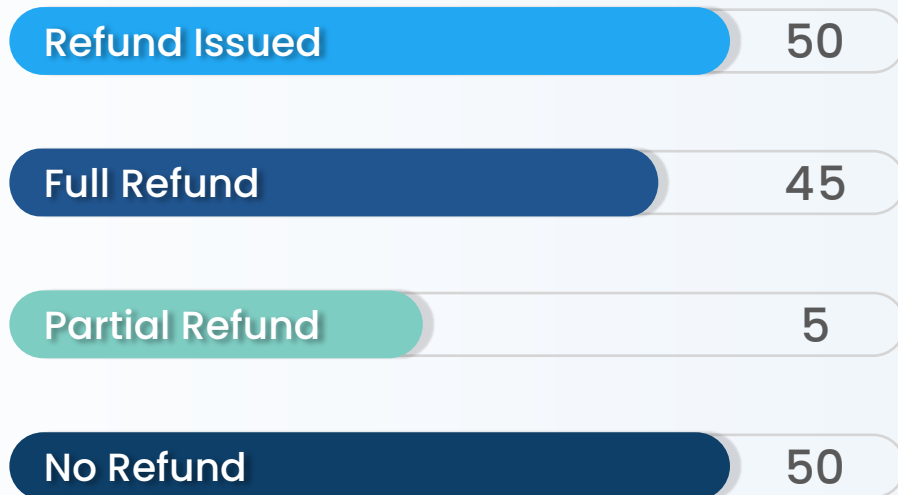




Refund vs Non-Refund

Most customers, when they dispute a transaction, just want to get their money back. Many chargebacks can be stopped cold simply by issuing a refund. However, customers cannot always verify when the merchant has initiated the refund process. Delays and miscommunications can lead them to conclude that a promised refund is never coming, so they call their bank and demand a chargeback. This can be seen in the data as chargebacks occurring after the refund process has been initiated. You can prevent this by communicating proactively with customers about pending refunds, providing them with authorization numbers and other information that will reassure them that a refund is forthcoming.

Refund Analysis



Increase Recovery Rates

Fighting chargebacks is a time-consuming endeavor for merchants. Programs like Visa Claims Resolution have helped to streamline the process but navigating them can increase demands on merchants' time and labor. That's why it's important to analyze your win/loss ratio and ensure that you're using your chargeback-fighting time effectively.

When a merchant fights a chargeback, they submit compelling evidence and a cover letter to their acquirer for representment of the charge. If the acquirer finds the evidence satisfactory, they'll represent the charge to the issuer, but that doesn't mean the case is over. The issuer still has to review the evidence and decide whether or not to accept it—they are the final judge. If the issuer rejects the evidence, the case goes to pre-arbitration and the merchant must either submit new evidence or accept the loss. Rather than write off chargebacks as a cost of doing business, you can learn to fight them effectively by analyzing your recovery rates and determining what factors lead to success or failure. A chargeback management company can also analyze this and other data to achieve the highest possible recovery rate for your chargebacks.



Issuers and Acquirers

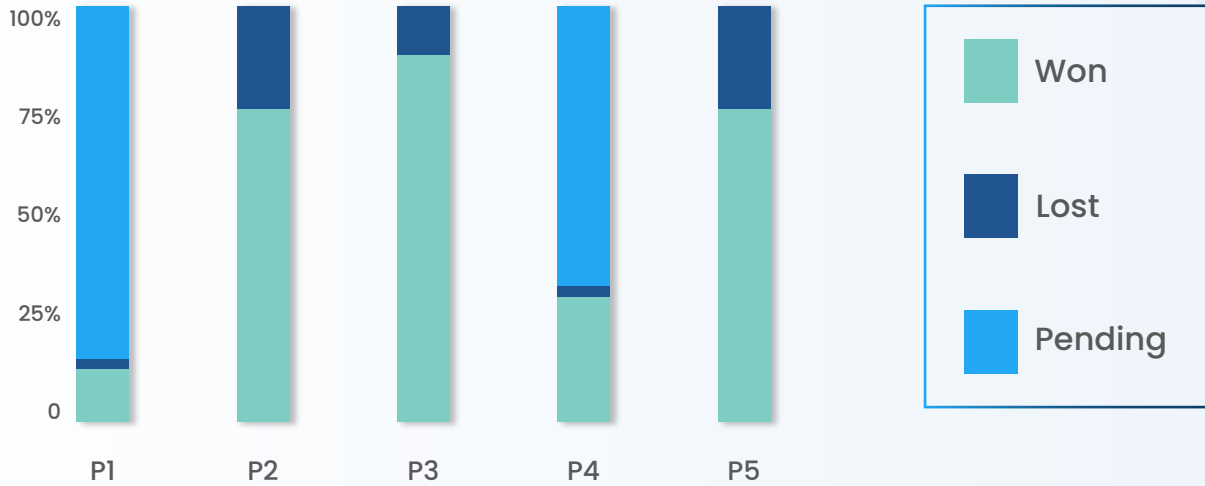
Analysis can reveal if your recovery rate correlates with which banks were involved in making the decision to uphold the chargeback. If you have a lower success rate with certain banks, you may need to reconsider the sort of evidence you are sending them or communicate with them to see if there are other factors leading to disputes.

While the card networks set the rules, the issuers still get to interpret them, and that can give them considerable flexibility in their decisions. Some issuers always seem to favor their customers over merchants. You might dispute chargebacks from two different issuers with the same reason code and evidence and get two completely different decisions back. You might choose to engage in A/B testing to see what evidence works for different issuers.

Acquirer behavior can vary as well. Some acquirers, due to staff shortages or other problems, might not always submit your representment packages on time, even if you upload your evidence well before the deadline. If you're not getting a good win rate with an acquirer, it may be wise to reach out to them to ask for their input on how to win more of your disputes.

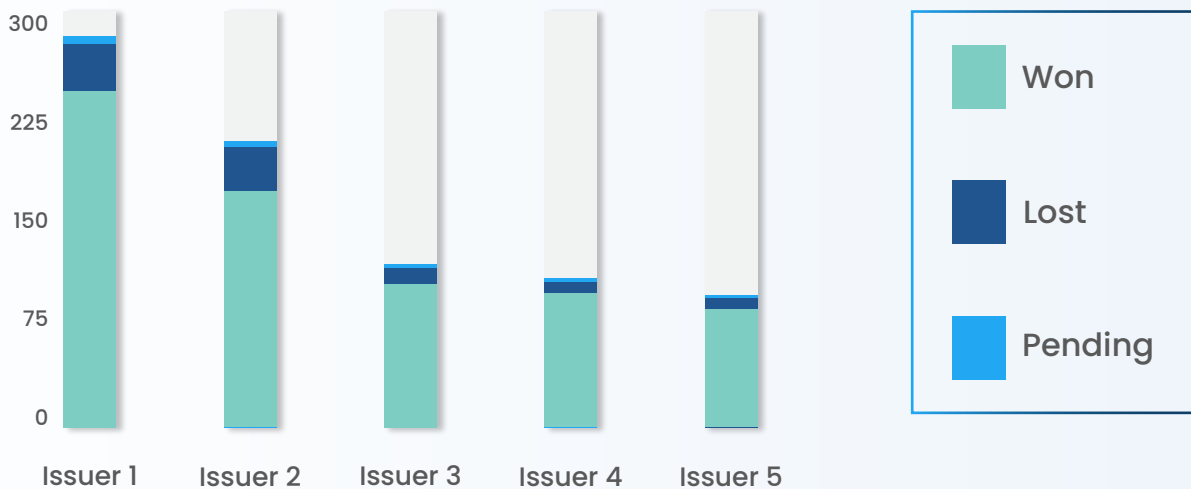
Processor Analysis

Top 5 Processors



Issuer Analysis

Top 5 Issuer

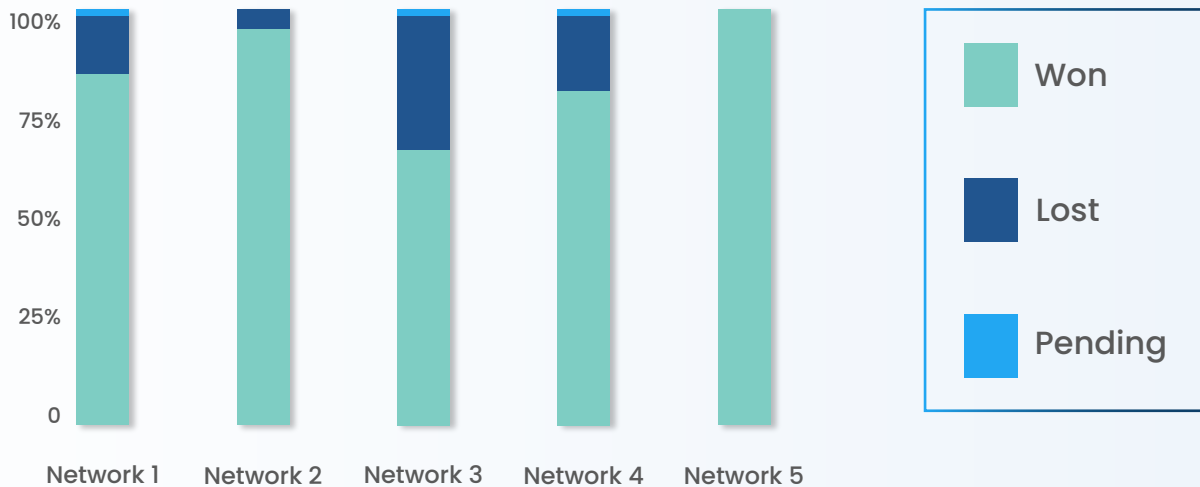




Card Type

Visa, Mastercard, and the other card networks all have slightly different rules regarding chargebacks, reason codes, and the appropriate standards of evidence for countering disputes. The right approach for one card network may require some adjustment to be found acceptable by another. If your win/loss rate differs across networks, you may need to fine-tune the evidence you're submitting. Don't get locked into a cookie-cutter formula for your representations; tailor your response as much as you believe necessary.

Card Type Analysis



Reason Code

If there are certain reason codes that you never seem to be able to fight effectively, you may be making some fundamental errors in your selection of compelling and evidence to submit. Reason codes tell you what kind of evidence you need to successfully represent a chargeback, but reason codes may not always accurately reflect what is actually going on between the merchant and the disputing customer.

The most commonly encountered reason codes are the ones related to fraud and unauthorized charges. When a large number of your chargebacks fall under the latter category, it may indicate problems with how you're confirming and notifying customers of transactions. An emailed invoice or text confirmation may give customers a chance to deal with authorization issues directly with you instead of going to their bank.

Merchant error issues are often incorrectly categorized as fraud by customers who don't know better, and the issuing bank duly stamps a "fraud" reason code on the chargeback. The issuer may then uphold the chargeback if they review your site and find no easy way for the customer to inquire about unrecognized charges. In this way, your own policies can reinforce your vulnerability to improperly categorized chargebacks.

Reason Code Analysis

Top 5 Reason Code



Your Next Steps

To derive meaningful results from chargeback analysis, you need the right tools and resources, a system for analysis, and experienced analysts. You also need at least six months of data, and at minimum 30 to 50 data points to analyze.

Done right, chargeback analysis can paint a picture of your business that clearly outlines your vulnerabilities and shows you where you need to make improvements. It's likely that very few of your competitors are bothering to engage in chargeback analysis because they don't realize it's a hidden treasure hoard of valuable data. By analyzing chargebacks and acting on your findings you can gain a significant competitive edge—retaining more customers, lowering your cost per acquisition, avoiding excessive fees, and increasing profits.

The average business in e-commerce loses between 5% and 15% of their revenue to fraud and chargebacks each month. This is a problem that grows if left unaddressed. Fraudsters will take you for everything they can if you show yourself to be an easy mark, especially if you sell products that can be resold easily. No matter how profitable your enterprise, these are not losses you can simply afford to write off.

The average e-commerce business loses 2.9% of its revenue to payment fraud.

Merchant Risk Council, 2023 Global Ecommerce Payments and Fraud Report



Where many businesses stumble is in trying to devise a chargeback strategy that fits their company. Enterprise companies find it challenging to engage their resources in disputing chargebacks on time, tracking the analytics to determine the true source of chargebacks and not to mention the time needed to engage their resources in learning the ever-changing dispute mandates. On the other end smaller businesses has to wear many hats and chargeback defense can feel overwhelming—so it doesn't really get done at all.

This is where chargeback management firms can step in to fill the gap, providing an outsourced solution that can take care of analyzing and dealing with chargebacks, and giving the merchant the tools they need to make operational and policy changes that will have a real positive impact on their chargeback rate.

About Chargeback Gurus

Chargeback Gurus helps businesses protect and recover revenue by providing innovative chargeback management solutions, AI analytics and insights powered by our proprietary FPRONE platform.

By understanding our clients' needs and fully aligning with their goals, we help them reduce chargebacks and increase recovery rates to maximize revenue. Our technology solutions use powerful data science and AI analytics—combined with deep industry expertise—to deliver hundreds of millions of dollars in recovered revenue to our clients.

Schedule your consultation today to learn how Chargeback Gurus can increase your profitability by eliminating your fraud and chargeback challenges.

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