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Dispute- Prevention Solutions:

**SMALL FIRMS DEMONSTRATE THE
POWER OF THIRD-PARTY TOOLS**

Dispute-Prevention Solutions: Small Firms Demonstrate The Power Of Third-Party Tools, a PYMNTS and Verifi collaboration, examines how businesses manage disputed card transactions and their systems' effectiveness at limiting losses from disputes and fraud. To gather information about how merchants' procedures for resolving disputed transactions limit misuse of card payments, we surveyed 301 merchants in four business categories — retail, entertainment and gaming, travel and leisure and digital subscription services — from Dec. 7, 2021, to Jan. 7, 2022.

September 2022

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Introduction

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In the business world, bigger is often better. Large companies are typically free to generate economies of scale and higher profit margins that are beyond the reach of smaller rivals. Moreover, they usually have the funding and technology to develop new strategies and products that small companies cannot match, giving them a competitive edge.

But when it comes to processing card transactions — more specifically, resolving disputed transactions — smaller companies may have an advantage over their larger rivals because they rely on off-the-shelf technology and services. Big companies are much more likely to use in-house dispute-resolution tools, which PYMNTS’ data shows are less effective at managing cardholder transaction disputes. Our survey of merchants that sell goods and services via the web or mobile apps shows

that the merchants using third-party dispute-resolution tools experience proportionately fewer disputed transactions and reduced losses from these disputes.

Ninety-three percent of businesses generating between \$20 million and \$100 million in annual sales — the smallest category PYMNTS surveyed — use third-party dispute-management tools, a much higher percentage than the largest businesses in our survey. Just 34% of businesses generating \$1 billion or more in yearly revenue use third-party tools. These smaller companies also report losing a smaller portion of their annual card transaction sales to cardholder disputes — 0.38% of sales for businesses generating between \$20 million and \$100 million, compared to 0.51% of sales for businesses generating more than \$1 billion in sales.

The data points to a clear pattern: When it comes to resolving disputed card transactions, the companies that use widely available third-party tools have an advantage over those that only use the tools they build themselves.

These are just a few of the key findings in Dispute-Prevention Solutions: Small Firms Demonstrate The Power Of Third-Party Tools, a PYMNTS and Verifi collaboration. The report provides actionable insights for merchants about the advantages of using third-party dispute-management tools to reduce disputed card transactions. We surveyed 301 merchants that generated revenue from web-based and mobile apps in four business categories — retail, entertainment and gaming, travel and leisure, and digital subscription services — from Dec. 7, 2021, to Jan. 7, 2022.

This is what we found.



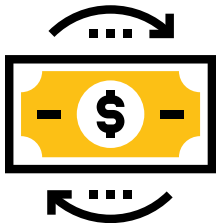
Smaller firms with limited resources rely on third-party tools instead of in-house solutions to manage disputes and chargebacks, and they are reaping the benefits of doing so.

Higher-revenue firms with \$1 billion or more in annual sales are often reluctant to use third-party tools despite their effectiveness, partly because they have more confidence in dispute-management tools developed in-house. Just 34% of businesses generating \$1 billion or more in annual sales are using third-party dispute-resolution tools for card transactions. By comparison, 93% of businesses generating between \$20 million and \$100 million in annual sales use third-party dispute-resolution tools, as do 80% of the businesses surveyed generating between \$100 million and \$500 million in annual sales. This points to an opportunity for large businesses to use third-party tools.



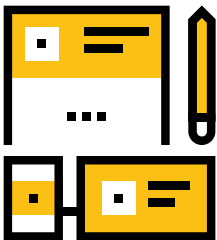
Big companies’ preference for in-house solutions may leave them saddled with dispute-resolution platforms that do not effectively manage disputed card transactions.

PYMNTS’ data indicates that firms incorporating third-party tools into their dispute-resolution platforms are more effective at limiting their losses from cardholder disputes. For example, companies that rely solely on third-party solutions lose 0.32% of annual revenue to card disputes, while those that rely on their proprietary systems lose 0.46% of revenue to disputes. Despite these findings, large companies still prefer their in-house tools to third-party solutions. They may be able to reap financial gains by overcoming this innate bias and implementing third-party platforms.



Businesses count on dispute-resolution tools to help cut losses from disputed transactions and reduce overall operating costs.

Two-thirds of businesses use third-party dispute-resolution tools to help them lower operating costs by reducing the number of disputed transactions. This becomes a higher priority as businesses get larger. Sixty-nine percent of businesses generating \$1 billion or more a year in sales cite the desire to cut costs as a reason for using third-party tools, while 64% of businesses generating between \$20 million and \$100 million in yearly sales say cost-cutting influences their decision to do so.



The prevalence of card transaction disputes is a consistent challenge for all surveyed businesses.

Businesses of all sizes and sectors must contend with disputed card transactions, which means it’s imperative that they have effective tools to resolve these disputes. For example, 42% of merchants with more than \$1 billion in yearly sales say they experienced customer disputes with card payments. At the lower end of the revenue scale, 46% of merchants with annual sales ranging from \$20 million to \$100 million also experienced these disputes. The portion of merchants that must contend with customer disputes is somewhat consistent across all the size categories and industries PYMNTS surveyed.

As businesses' revenues grow, so does the likelihood that they are using proprietary dispute resolution tools.

PYMNTS' data has found that businesses that rely on third-party tools have better results when resolving card disputes and limiting losses from fraudulent transactions. In short, the tools' actual performance runs counter to how companies perceive they work.

Just 34% of firms generating more than \$1 billion in revenue use third-party dispute-resolution tools, compared to 93% of firms generating between \$20 million and \$100 million in revenue.

The larger businesses PYMNTS surveyed are more likely to rely on in-house solutions and are also more likely to declare their dispute-management tools effective. Sixty-six percent of companies generating \$1 billion in annual sales use in-house dispute-resolution tools, as do just 6.7% of the companies generating between \$20 million and \$100 million in annual sales.

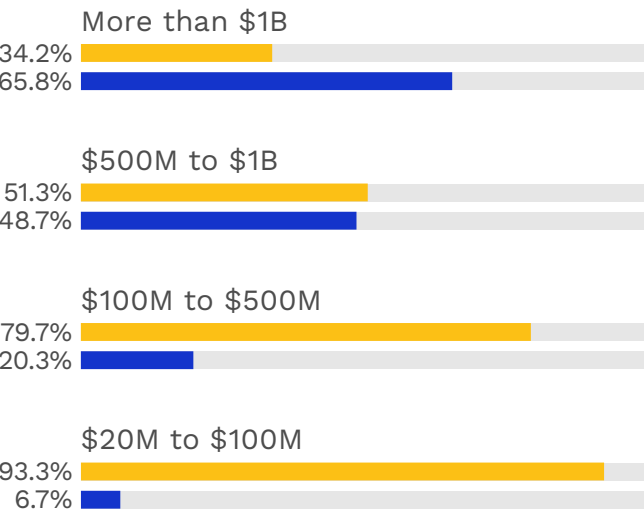
Twenty-seven percent of the businesses generating \$1 billion or more in annual sales say their dispute-management tools are very or extremely effective. By comparison, 21% of businesses generating annual revenues between \$20 million and \$100 million — the revenue category that relies least upon in-house tools — rate their dispute-management tools as very or extremely effective.

Small companies are more likely to declare that their third-party tools are ineffective despite their strong performance when compared to large companies' in-house tools. Thirty percent of companies generating between \$20 million and \$100 million in annual revenue say their tools are slightly or not at all effective, while 22% of companies generating \$1 billion or more in sales say their tools are not effective.

FIGURE 1A:
Usage of third-party tools

Share of businesses that use third-party tools to prevent cardholder disputes, by revenue

- Firms that use third-party tools
- Firms that do not use third-party tools

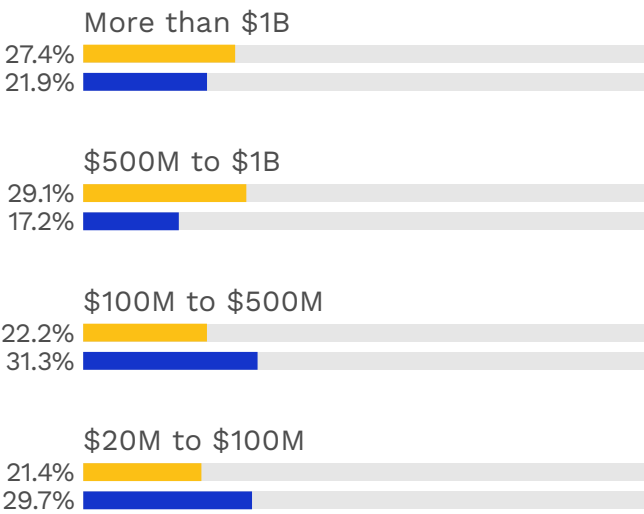


Source: PYMNTS
Dispute-Prevention Solutions: Small Firms Demonstrate The Power Of Third-Party Tools, September 2022
N = 301: Whole sample, fielded December 7, 2021 – January 7, 2022

FIGURE 1B:
Usage of third-party tools

Share of businesses that rate their dispute-resolution tools as highly or somewhat effective, by revenue

- Very or extremely effective systems
- Slightly or not at all effective systems



Source: PYMNTS
Dispute-Prevention Solutions: Small Firms Demonstrate The Power Of Third-Party Tools, September 2022
N = 301: Whole sample, fielded December 7, 2021 – January 7, 2022



Finding the right mix of third-party and in-house solutions

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PYMNTS' data shows that large companies' views on the effectiveness of their dispute-resolution platforms may be misplaced. The businesses that employ third-party tools experience a lower portion of disputed card transactions and a lower share of revenue lost to disputes.

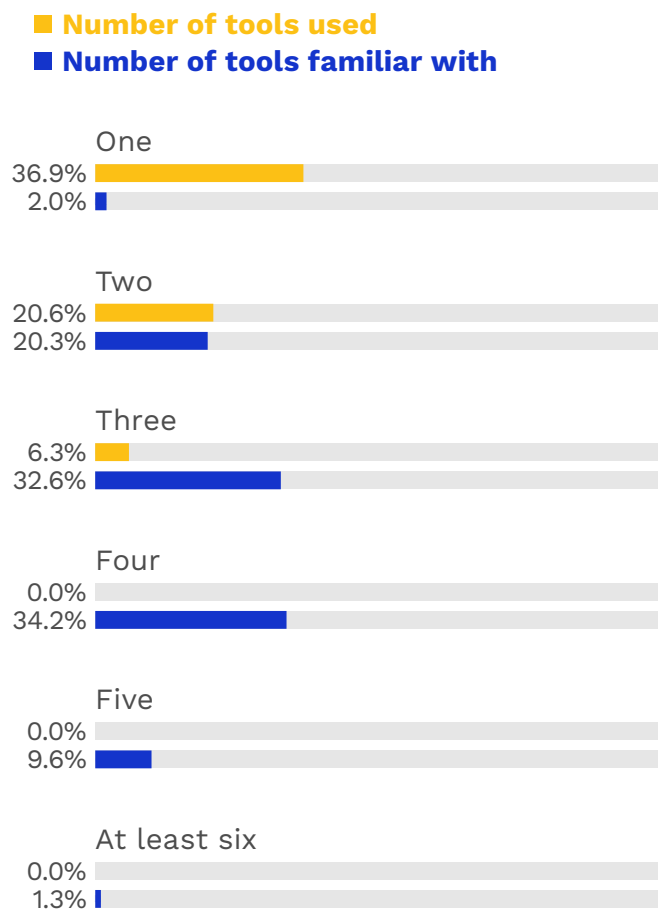
Ninety-eight percent of all businesses are familiar with at least two third-party dispute-management tools, and 78% are familiar with at least three. Still, widespread awareness is not enough to persuade some large businesses that they could do a better job resolving disputed card transactions by using third-party dispute-resolution tools instead of in-house platforms.

Large businesses prefer their own systems over third-party tools, partly because the users tend to believe their systems are effective at resolving disputes. Forty-five percent of the companies using in-house systems say their dispute-management tools are very or extremely effective. By comparison, 36% of companies that use third-party solutions, either exclusively or in conjunction with an in-house tool, believe their systems are highly effective.

Businesses that use third-party tools and one additional tool have 0.52% of their card transactions disputed, compared to the 0.61% of card transactions disputed at businesses that use only in-house solutions. Those that use only third-party tools experience the lowest share of disputed transactions, at 0.39%.

FIGURE 2A:
Better results from third-party tools

Share of firms that use or are familiar with dispute resolution tools

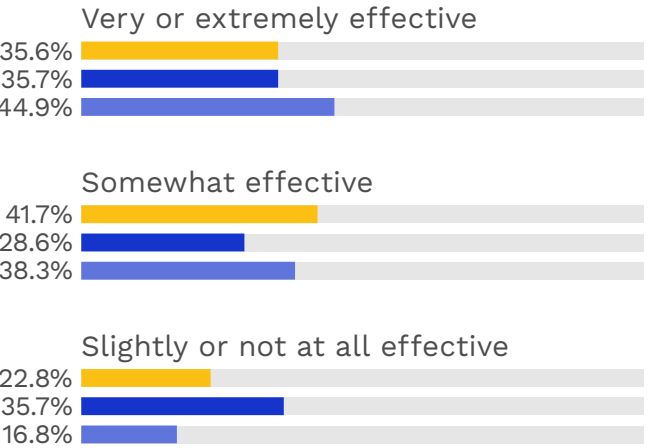


Source: PYMNTS
Dispute-Prevention Solutions: Small Firms Demonstrate The Power Of Third-Party Tools, September 2022
N = 301: Whole sample, fielded December 7, 2021 – January 7, 2022

FIGURE 2 B:
Better results from third-party tools

Portion of firms that rate their dispute resolution tools as very or extremely effective, by usage of proprietary and third-party dispute resolution tools

- Tools provided by third parties and at least one additional tool
- Third-party tools
- Firms that do not use third-party tools

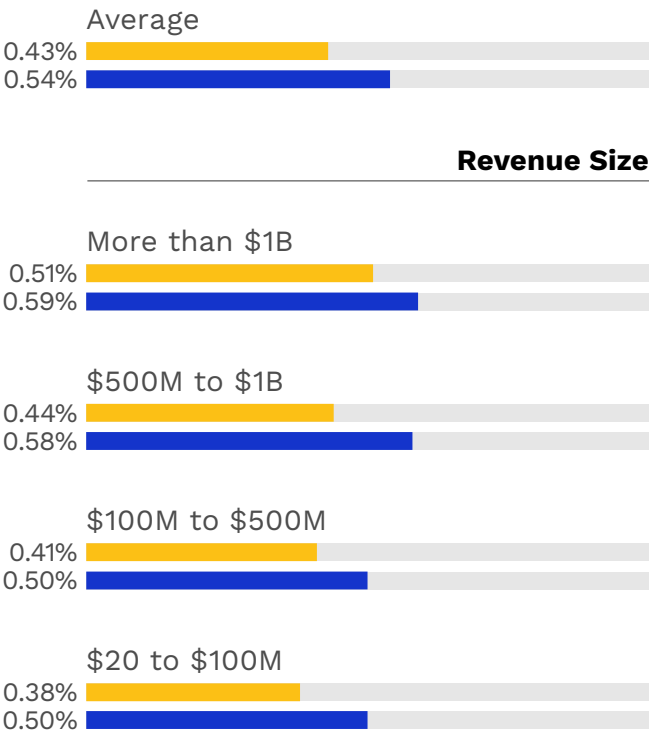


Source: PYMNTS
Dispute-Prevention Solutions: Small Firms Demonstrate The Power Of Third-Party Tools, September 2022
N = 301: Whole sample; N = 290: Firms that experienced disputes in the last 12 months, fielded December 7, 2021 – January 7, 2022

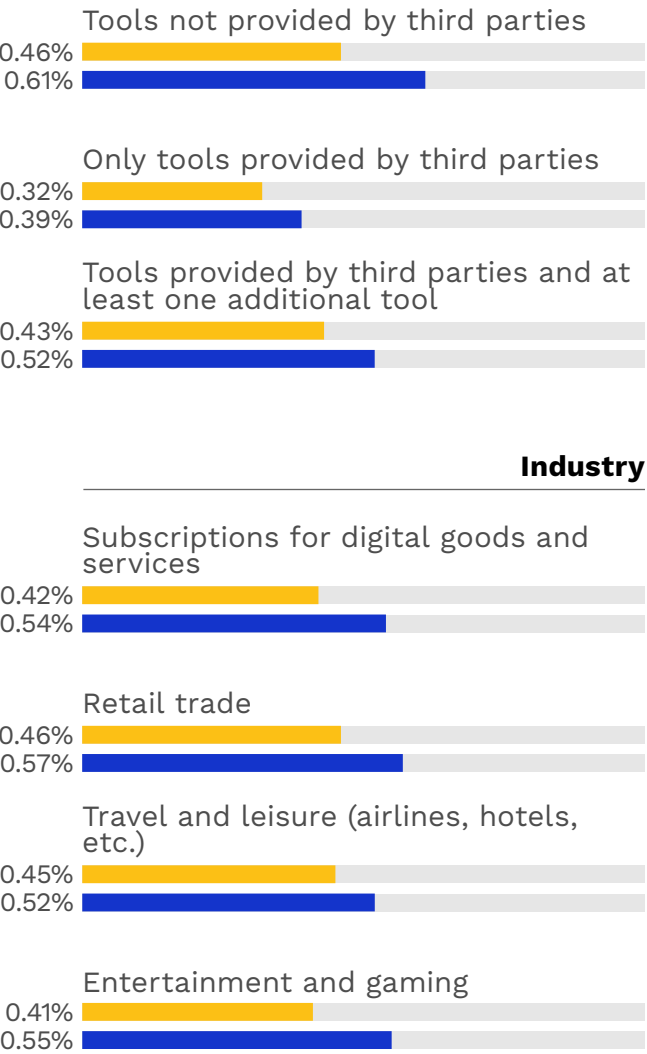
FIGURE 2 C:
Better results from third-party tools

Share of businesses' card transactions subjected to disputes and revenues lost to disputed card transactions, by revenue, usage of third-party tools and industry

- Percentage of organizations' annual revenues lost to disputes in the last 12 months
- Percentage of organizations' transactions disputed in the last 12 months



Procedures used to help manage and prevent disputes and chargebacks



Source: PYMNTS
Dispute-Prevention Solutions: Small Firms Demonstrate The Power Of Third-Party Tools, September 2022
N = 301: Whole sample; N = 290: Firms that experienced disputes in the last 12 months, fielded December 7, 2021 – January 7, 2022



What features are important to businesses in dispute-resolution tools?

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Businesses across all size categories surveyed say they need third-party dispute-resolution tools that help them achieve several goals, including reduced operating costs and improved customer experiences while also preventing disputed transactions from affecting operations.

When respondents were asked to cite the benefits they derive from third-party tools, they cited several, including the ability to meet their compliance obligations with the card brand and to avoid unnecessary fees from acquirers or processors. For example, 69% of businesses with \$1 billion or more in annual sales say the third-party tools help improve the customer experience. Fifty-eight percent of businesses with \$1 billion or more in sales say third-party tools help reduce the effect of disputed card transactions on their operations.

The smallest companies surveyed — those generating annual sales between \$20 million and \$100 million — cite a similar range of benefits. Sixty-four percent of the smallest companies surveyed say third-party tools helped lower operating costs, and 56% say such tools helped them provide better shopping experiences to customers.

Half of the businesses PYMNTS surveyed also say dispute-resolution tools help them improve customer relationships, and nearly half say these tools foster customer trust.

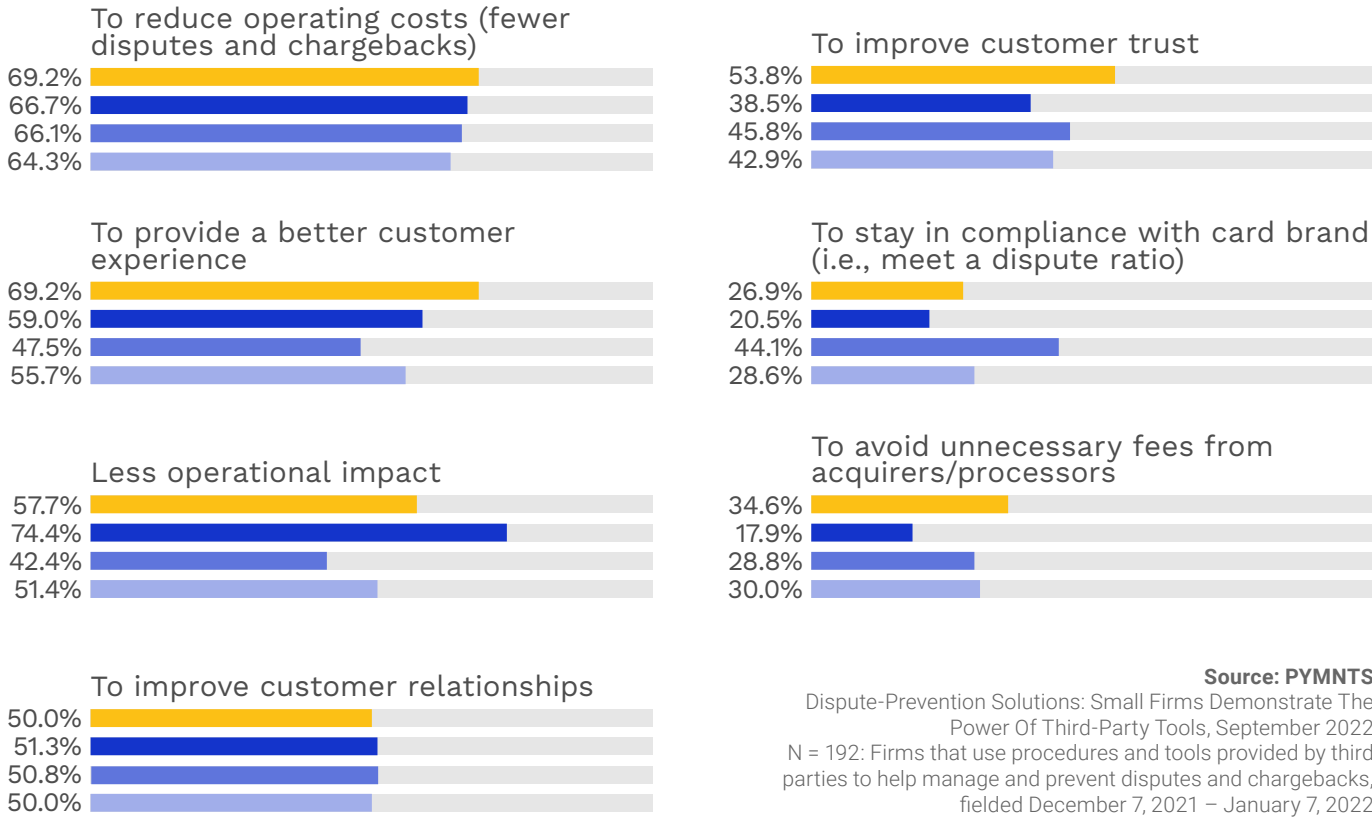
Businesses also identify other features and functions of dispute-resolution tools as important parts of their efforts to manage disputed card transactions. Fifty-eight percent of businesses generating \$1 billion or more in annual sales say third-party tools offer alerts and notifications as features included in the tools. The smaller a business is, the more likely it is to identify these features among the tools they use.

Many dispute-resolution tools also offer merchants the ability to represent disputed transactions. In a representment, the merchant submits evidence to the card processing or card issuing bank that a disputed transaction was legitimate and that the bank should reverse the chargeback that voided the transaction. Seventy-three percent of businesses with \$1 billion or more in sales say this feature is part of their dispute-resolution efforts, and 27% of businesses with at least \$1 billion in revenue identify this type of function via self-service tools.

FIGURE 3A:
Why businesses want third-party dispute-resolution tools

Share of businesses citing select reasons for using third-party dispute-resolution tools, by annual revenue

- More than \$1B
- \$500M to \$1B
- \$100M to \$500M
- \$20M to \$100M

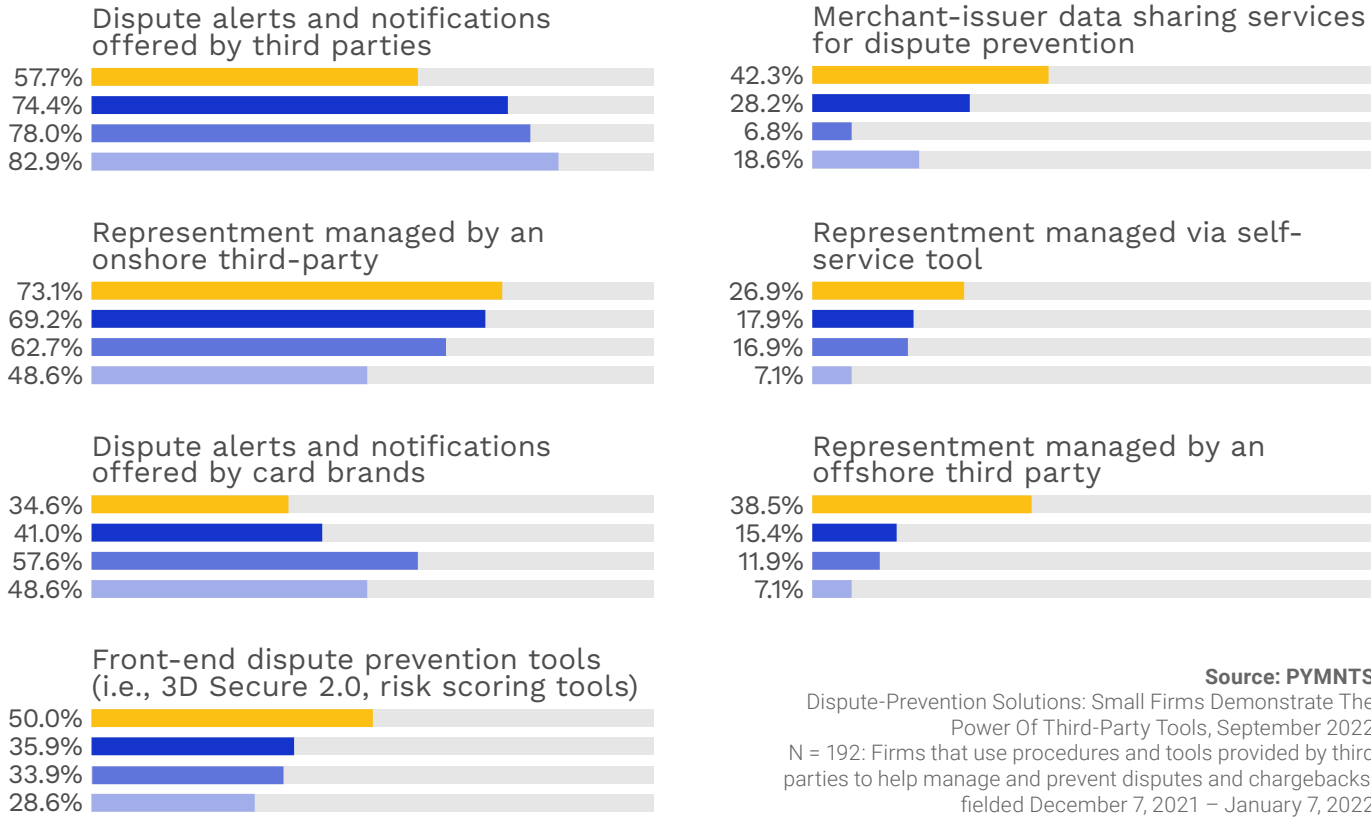


Source: PYMNTS
Dispute-Prevention Solutions: Small Firms Demonstrate The Power Of Third-Party Tools, September 2022
N = 192: Firms that use procedures and tools provided by third parties to help manage and prevent disputes and chargebacks, fielded December 7, 2021 – January 7, 2022

FIGURE 3B:
Why businesses want third-party dispute-resolution tools

Share of businesses citing use of dispute-management tools provided by third parties, by annual revenue

- More than \$1B
- \$500M to \$1B
- \$100M to \$500M
- \$20M to \$100M



Source: PYMNTS
Dispute-Prevention Solutions: Small Firms Demonstrate The Power Of Third-Party Tools, September 2022
N = 192: Firms that use procedures and tools provided by third parties to help manage and prevent disputes and chargebacks, fielded December 7, 2021 – January 7, 2022

The many causes of disputed or disrupted card transactions

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Disputes and disruptions with card payments are a regular occurrence for most businesses, seen consistently across all size ranges and industry categories. Forty-four percent of the businesses surveyed say they experienced customer disputes with their card payments. In addition, merchants have card transactions disrupted, leading to disputes related to processing errors, declined payment authorizations and fraud at roughly equal shares across the size and industry categories PYMNTS surveyed.

Thirty-two percent of merchants generating \$1 billion or more in yearly sales and 38% of merchants generating between \$20 million and \$100 million in annual sales had to contend with processing errors in their card transactions. Similarly, 23% of digital goods and services subscription merchants and 24% of entertainment and gaming companies had to contend with fraudulent card transactions.

The frequency of disputed or disrupted transactions underscores how important it is for businesses to employ effective tools for resolving and preventing these issues.

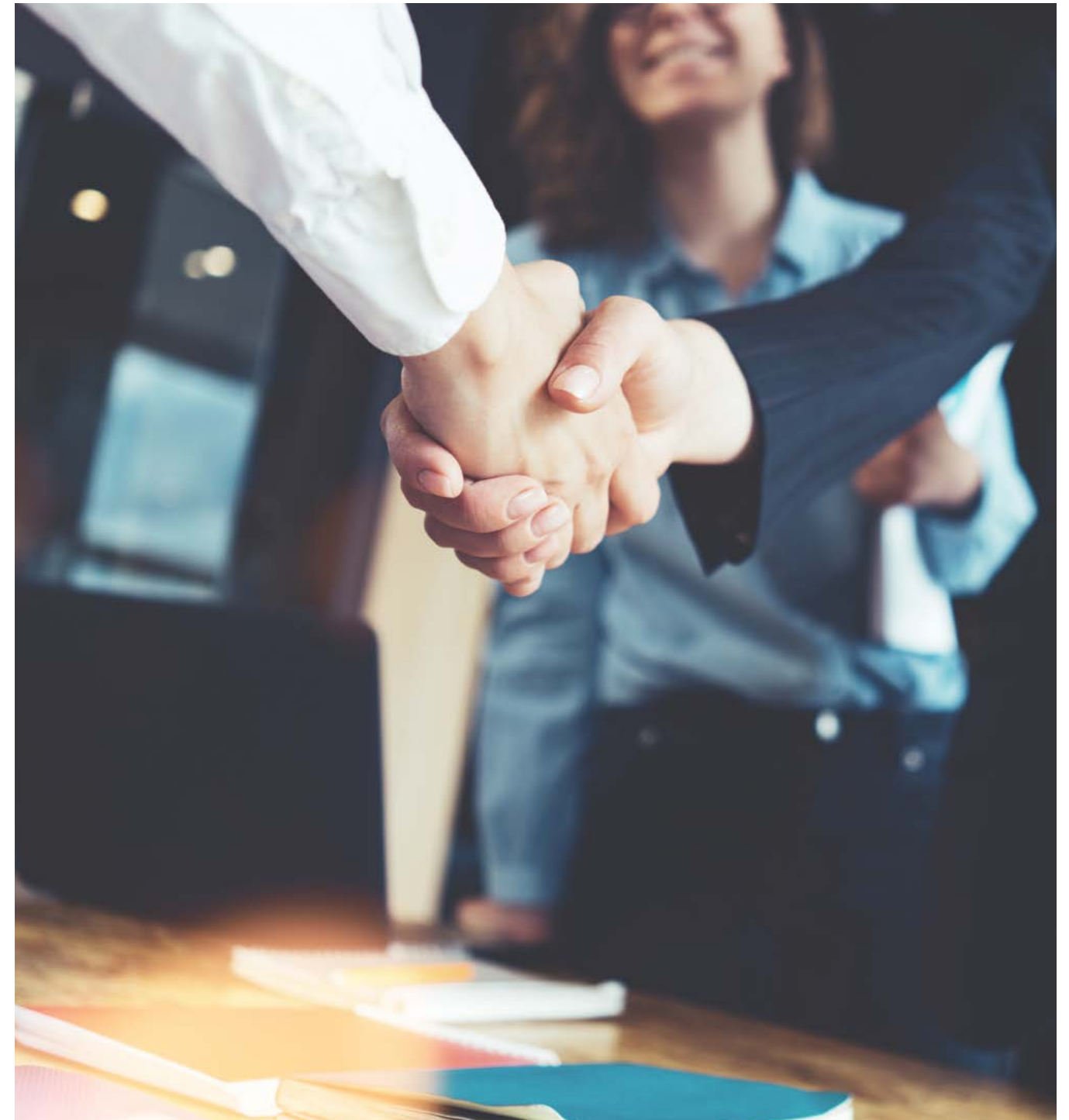
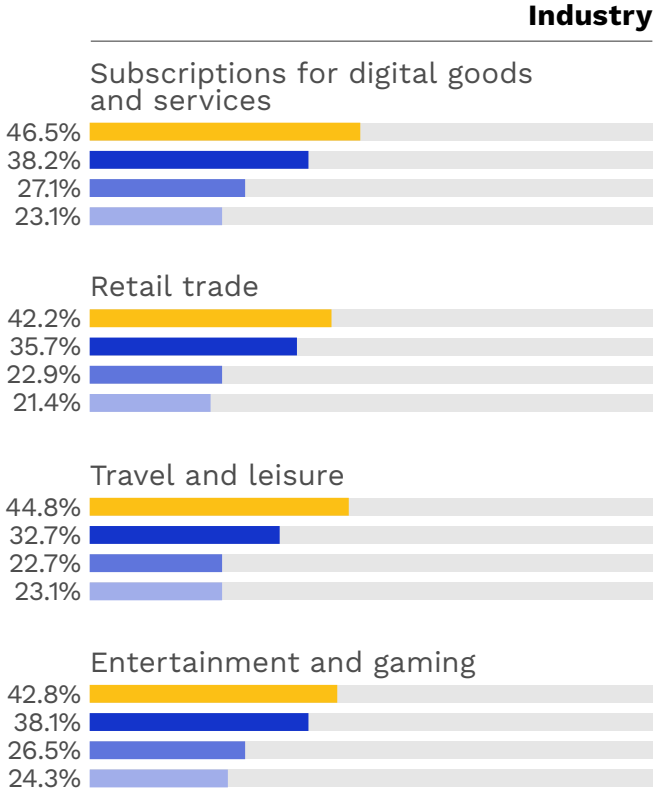
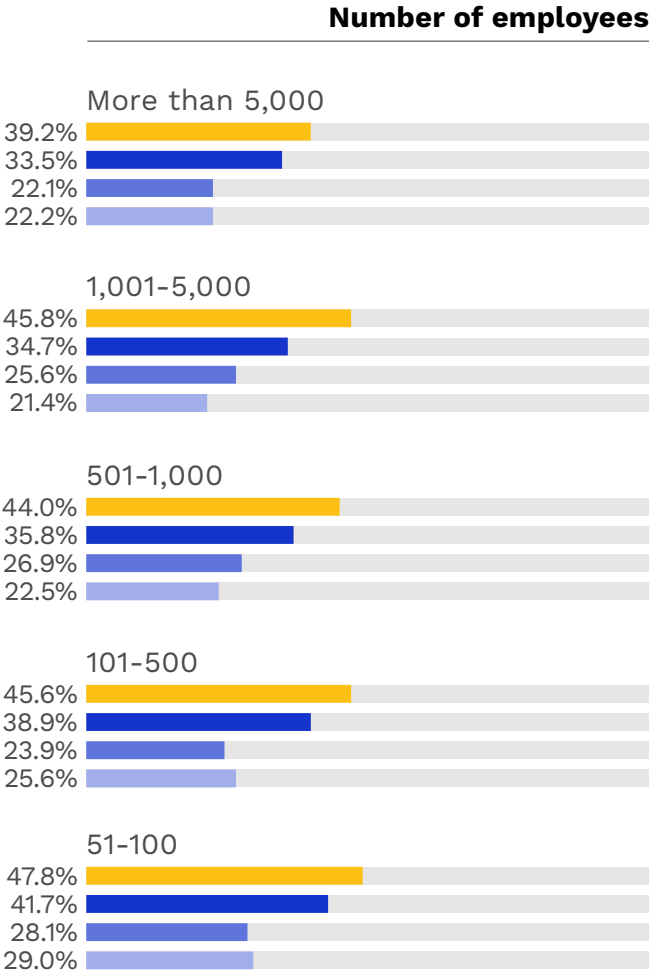
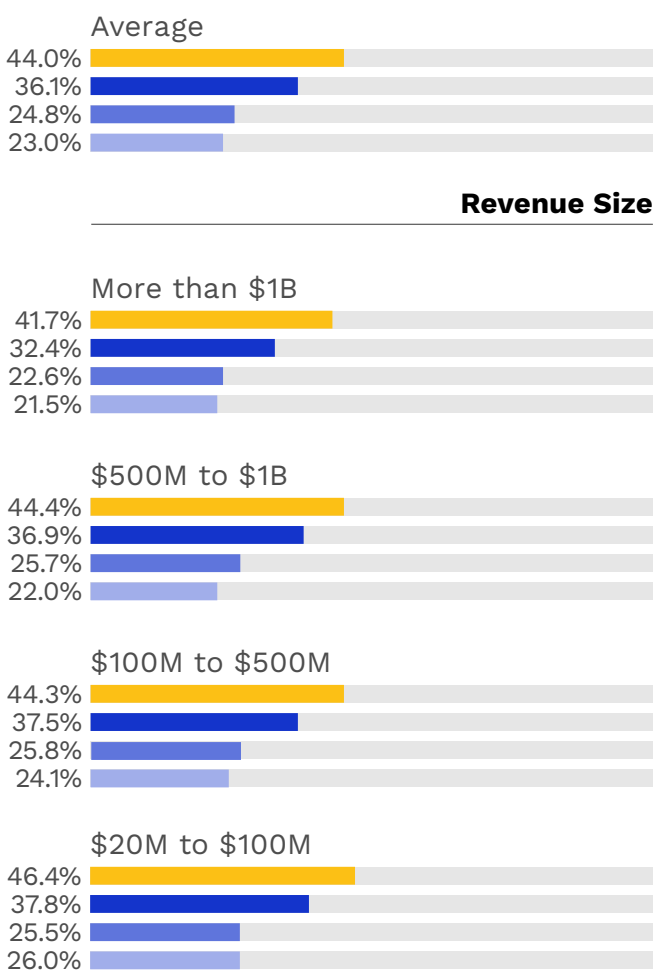


FIGURE 4:
The source of the trouble plaguing card transactions

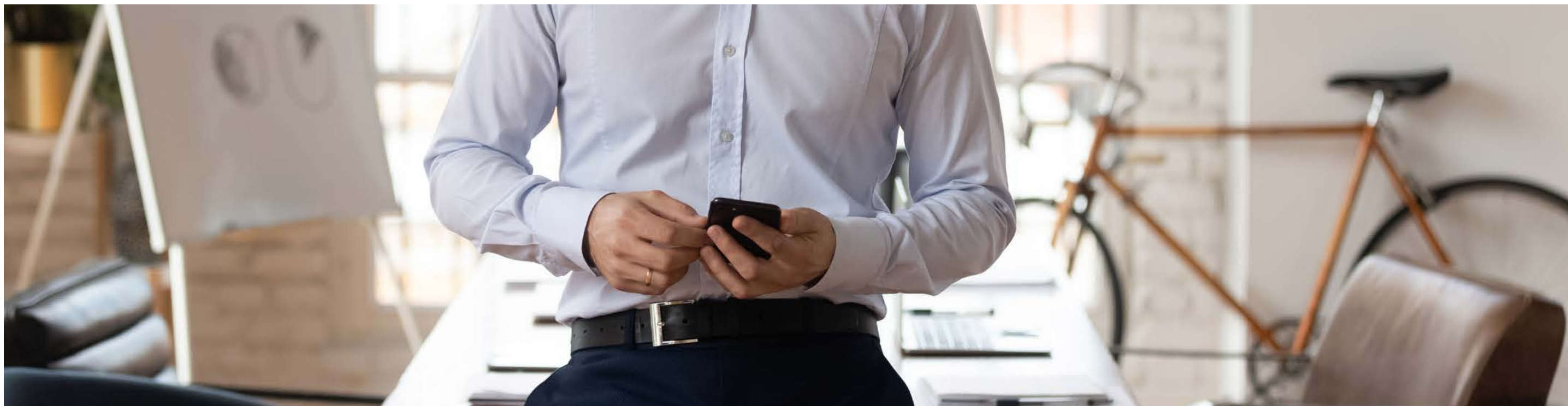
Share of companies experiencing select causes for disputed or disrupted transactions, by company size and industry

- Consumer disputes
- Processing error
- Payment authorization/decline
- Fraud



Source: PYMNTS
Dispute-Prevention Solutions: Small Firms Demonstrate The Power
Of Third-Party Tools, September 2022
N = 301: Whole sample, fielded December 7, 2021 – January 7, 2022





Conclusion

Businesses face a seemingly never-ending challenge in managing card transactions and clamping down on fraud, with the goal of making their operations more efficient. Merchants need effective tools in place to accomplish this. PYMNTS' findings suggest that smaller merchants may have set the trend with their reliance on third-party tools, which are clearly more effective than the in-house solutions developed by large companies.

Methodology

Dispute-Prevention Solutions: Small Firms Demonstrate The Power Of Third-Party Tools, a PYMNTS and Verifi collaboration, is based on a survey of 301 merchants conducted from Dec. 7, 2021, to Jan. 7, 2022. Merchants were asked about the tools they use to resolve disputed card transactions. Those merchants generated revenue from web-based and mobile app sales and spanned four business categories: retail, entertainment and gaming, travel and leisure, and digital subscription services.

About

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PYMNTS is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations at the cutting edge of this new world.



Since 2005, Verifi has been a leader in the payments industry, providing innovative, end-to-end payment solutions that protect against fraud, prevent and resolve disputes, and recover revenue lost to chargebacks. In 2019, Verifi was acquired by Visa, combining technologies to provide enhanced fraud and dispute-management solutions on a global scale. Verifi creates strategic, adaptive technologies for sellers, payment facilitators, acquirers, and issuers, building sustaining partnerships to deliver value, increase profits, and promote brand growth. Visit: verifi.com.

Dispute-Prevention Solutions

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