

Payment Protection

CompSource, Tool King battle consumer concerns about identity theft

Technology can be a great friend, or at times an enemy that hinders business growth. For retailers that sell on line, both statements are true—especially when it comes to supporting Web-based payment options. On-line merchants CompSource and Tool King hope to avoid payment pitfalls with a new option that promises to protect their on-line shoppers and attract credit-cautious consumers.

While the Internet has opened up new ways of reaching out to customers, at the same time it has also increased public awareness of identity theft and credit-card fraud—two issues that can easily deter the would-be, cautious shopper.

And what about the estimated 10 million American households that have no credit cards? On-line checkout options for these shoppers previously were limited by credit-dependent cyberstores.

But new alternative payment options—from Bill Me Later to PayPal—are quickly being added by savvy on-line retailers, including Cleveland-based CompSource and Lakewood, Colo.-based Tool King. These new solutions are helping them to achieve their goals of reaching out to security-conscious or credit-card-less customers.

In May 2005, the merchants learned about another method to reach these shoppers. The newest solution, from Ottawa, Ontario-based MODASolutions is called SECURE-eBill. This alternative payment solution permits Internet shoppers to pay for goods or services through their electronic checking accounts—a process very similar to on-line bill payment.

“We know that on-line banking is available at a large number of financial institutions. We wanted a way to leverage that,” explained Marwan Forzley, president and CEO of MODASolutions.



CompSource e-shoppers have the option of using a secure on-line bank account to complete their purchase.

Forzley said SECURE-eBill targets the country's 84 million on-line banking users, of which slightly more than half pay bills electronically. By using this payment option at checkout, shoppers receive an eBill from the merchant and use their on-line bank account to complete the purchase.

During checkout, the shopper inputs his e-mail address, name and phone number. Once he clicks on the SECURE-eBill option, his transaction is complete. Shortly thereafter, the consumer receives an eBill from the merchant. This eBill prompts the shopper to log on to his bank's Web site and pay for the order. The process is no different than paying other bills on line, such as utility or credit-card bills. (Should the shopper not respond to this e-mail invoice, the merchant typically sends a reminder. Lacking follow-through payment by the shopper, the transaction is canceled.)

Once a shopper pays the eBill, funds move from the consumer's bank account to the merchant's bank account. Information about the transaction is also posted to the SECURE-eBill gateway for processing. These payments are authenticated and processed through Mentor, Ohio-based Cardinal Commerce—a provider of payment-authentication services.

Once the transaction information is processed, the results are posted to the merchant's back-office servers. Finally, the retailer ships the goods to the consumer along with a receipt.

CompSource: In January 2006, computer hardware and software seller CompSource added SECURE-eBill as a payment choice—a complement to its existing credit and PayPal options. The Web-based solution was so easily integrated that the retailer was able to include it as a

payment option in less than two weeks.

Even though a mere 1% to 4% of customers choose this option, CompSource president Dean Bellone said he's pleased with the program that has added \$2,000 or more in sales per month.

"We have also noticed a larger repeat transaction because, more often than not, a SECURE-eBill customer will come back to our site and purchase again," he said.

Bellone also said he liked MODASolutions' guarantee that approved transactions are nonfraudulent. Further, MODASolutions affords CompSource the luxury of not needing to deal directly with a shopper's checking-account data.

"Only about 5% of SECURE-eBill customers abandon a purchase and out of that 5%, about 3% of that is fraud," Bellone said.

Since CompSource.com opted against accepting paper checks due to rising incidence of check fraud, "We looked at it as a win-win to have the ability to help a customer who wants to pay [through their bank account]," he added.

Tool King's on-line toolkit: When on-line tool seller Tool King tapped MODASolutions to support on-line payments, it was pleasantly surprised to find the solution contributed to increases in average-transaction sizes. More specifically, the company reported the average sale at ToolKing.com to be 20% higher through SECURE-eBill than through other payment methods. (The site already accepted major credit cards, PayPal and Bill Me Later options.)

"Of all our transactions, 5% to 10% are going through SECURE-eBill," said Don Cohen, managing partner at Tool King.

"They have overachieved our expectations," he noted. "The service is attracting more higher-end customers. Another benefit is that the transaction cost [associated with these payments] is lower than [those filtered through] our traditional methods of payment."

Tool King launched the payment option in October 2005. And similar to CompSource, Cohen said the implementation was quick and painless.

"We had one of our software developers working with their people, and it went very smoothly," Cohen said.

Forzley said alternative-payment choices that rival



Tool King's new payment option reduces fraudulent purchases, attracts higher-end customers and has lower transaction costs.

credit should become commonplace for on-line retailers. Further, he estimated that 10% to 15% of on-line purchases would eventually be made through such non-credit payment options.

"While credit cards will still be the main payment option, over time you'll see the alternative-payments market will take a larger piece of the overall pie," Forzley said. These payment options will continue to gain traction, even as consumers grow more comfortable providing their credit-card data over the Internet.

So is this payment option fraud-foolproof? Of course not. But Forzley said if a customer's bank account is hacked and a SECURE-eBill transaction processed, the consumer need only report the fraudulent withdrawal to the bank, which covers the debt and investigates.

SECURE-eBill's solution is fraud-resistant, given that the only customer data the payment-solution provider stores is the e-mail address, not user's bank account. If a retailer is scammed, MODASolutions guarantees that it will cover the transaction cost. **RTQ**

—Debbie Howell
(dhowell@chainstoreage.com)