

Recovering Revenue: A Merchant's Guide to Automated Chargeback Management

August 2024

As the payments landscape evolves, businesses also have the opportunity to address their dispute resolution strategies to mitigate chargebacks.



- 01 Chargebacks pose a multifaceted challenge for merchants, impacting their financial health, operational efficiency and brand reputation. As the cost and prevalence of chargebacks continue to rise, the need for innovative solutions is increasingly pressing.
- 02 Automated dispute resolution tools are transforming the way merchants handle the complexities of chargebacks, streamlining processes, boosting efficiency and delivering results — for both merchants and their customers.
- 03 In the digital-first economy, consumers demand seamless experiences across all touch points, including dispute resolution. Strategies leveraging advanced automated tools improve the likelihood of merchants meeting these expectations — and inspire customer loyalty.

Chargebacks pose a growing threat to merchant profitability. As payment methods have diversified away from cash, the volume of transaction disputes has grown, exposing the limitations of traditional dispute resolution management. These manual processes strain resources and jeopardize both revenue and customer relationships. However, for businesses of all sizes, the integration of digital automation into chargeback management offers an opportunity to improve dispute resolution outcomes, ultimately contributing to a healthier bottom line and a more positive customer experience.

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Chargebacks: A Growing Concern for Merchants Worldwide

Chargebacks pose a multifaceted challenge for merchants, impacting their financial health, operational efficiency and brand reputation. As the cost and prevalence of chargebacks continue to rise, the need for innovative solutions is increasingly pressing.

The reasons for chargebacks are complex.

The reasons why cardholders file [disputes and chargebacks](#) range from finding unfamiliar charges on their bills to merchant error to simply being unable to remember transactions and merely suspecting them to be fraudulent. In addition, one major and troubling cause is the problem of false chargeback claims, or so-called friendly fraud, a form of first-party fraud in which customers misuse the chargeback process to dispute purchases they authorized for merchandise they actually received. This complexity makes it highly important that merchants have strong chargeback management and recordkeeping in place to resolve disputes quickly and accurately, minimizing the difficulties for either side.

The [travel, retail and software sectors](#) are particularly affected by disputed transactions, with an average cost of \$76 per dispute. The financial pressure on merchants continues to mount as 76% of eCommerce chargeback managers globally report consistent or increasing year-over-year [chargeback rates](#). This increase spotlights systemic drawbacks of their current transaction dispute processes.

Chargebacks impose a hefty financial toll on merchants.

[Chargebacks cost merchants](#) an estimated \$54.5 billion annually, with costs extending far beyond the loss of sales revenues. Often, customers who file chargebacks may keep the original merchandise, eliminating the possibility of resale. In addition, some banks assess chargeback processing fees ranging up to \$100 per incident. Both managing and disputing chargebacks have substantial administrative costs to businesses as well. Over the long term, chargebacks can strain relationships with banks and even damage a merchant's reputation, with corresponding implications for growth.

Small businesses bear a disproportionate burden in chargeback disputes.

Nearly one-third of [small businesses](#) in the United States face frequent chargebacks, and more than half acknowledge their detrimental impact. Managing disputes through [traditional methods](#) — communication, paperwork and investigation — further exacerbates this burden. With 55% of global eCommerce chargeback managers juggling [multiple systems](#) simply to address chargebacks, scarce resources are diverted from core business functions, a practice that only amplifies the strain on businesses.

The demand for innovative chargeback solutions continues to grow among merchants.

A recent report noted that [process inefficiencies](#) are directly losing money for merchants by discouraging them from contesting chargebacks. This occurs even though 73% of merchants believe at least 20% of their chargebacks are first-party fraud. Recent PYMNTS Intelligence research shows that 95% of U.S. eCommerce merchants express interest in [innovating tools](#) to combat friendly and chargeback fraud within the next year. This sentiment is echoed globally, with 65% of eCommerce chargeback managers recognizing the potential of [automation and artificial intelligence](#) (AI) to revolutionize dispute resolution. The demand for a centralized platform to consolidate chargeback management is also prominent, with half of these managers calling for such a solution.

Rethinking Chargeback Management: The Advantages of Automation

Automated dispute resolution tools are transforming the way merchants handle the complexities of chargebacks, streamlining processes, boosting efficiency and delivering results — for both merchants and their customers.

Automation offers a much-needed upgrade of chargeback dispute resolution.

84% ● ● ●

Estimated potential time savings for merchants using [automated chargeback dispute resolution tools](#) versus using traditional methods

Automated solutions are modernizing dispute management with tailored mitigation strategies. Leveraging AI and machine learning (ML), these tools optimize evidence collection and streamline dispute responses. This not only accelerates [recovery of funds](#) but also drastically reduces the time merchants spend on manual dispute management tasks, with potential [time savings](#) of up to 84%. Awareness among merchants is growing — reflected in the nearly 16% compound annual growth rate (CAGR) projected for the [global chargeback management software market](#). However, broader awareness could drive deeper adoption, benefiting a much larger share of merchants.

Automated dispute resolution delivers tangible results.

While adoption rates differ across industries, those more readily able to integrate these solutions, such as the gaming and leisure (41%) and clothing and fashion (36%) segments, report relatively higher [win rates](#) — the share of chargeback disputes [won by merchants](#). These technologies are young, and merchants are still gaining experience with their use. Still, early applications offer a glimpse at the potential for [data-driven dispute management](#) to improve outcomes and recover revenue. Although challenges vary across industries and from business to business, traditional dispute management solutions consistently fall short in tailoring effective mitigation strategies. Recognizing this gap, eCommerce chargeback managers increasingly view [automation](#) as key to achieving greater efficiency and improved financial recovery.

Building Revenue and Loyalty Through Seamless Dispute Resolution

In the digital-first economy, consumers demand seamless experiences across all touch points, including [dispute resolution](#). Strategies leveraging advanced automated tools improve the likelihood of merchants meeting these expectations — and inspire customer loyalty.

Consumers demand convenient dispute resolution tools.


[Speed and convenience](#) are two of the primary reasons consumers cite for increasingly bypassing merchants and filing disputes directly with their banks. This preference is driven by the ease of disputing transactions with card issuers and the growing use of banking apps. Indeed, banking apps have risen to the preferred resolution channel for 41% of consumers, rising to nearly 72% among those under age 35.

Some banks' convenient chargeback processes, however, can be a double-edged sword, also making it easier for some consumers to commit [friendly fraud](#) by simply filing chargebacks through their banking apps instead of talking directly with merchants. Merchants' adoption of automated dispute resolution thus offers a two-pronged solution that not only eases the process of resolving consumers' genuine disputes but also discourages the misuse of dispute resolution for charges they authorized.


Automated dispute resolution tools are a win for customers and merchants.

With nearly 75% of consumers considering [disputes](#) a [viable alternative](#) to merchant refunds, a proactive and convenient [merchant dispute process](#) is crucial. This can encourage customers to begin the process, when appropriate, with merchants themselves instead of their banks. [High satisfaction rates](#) (above 80%) with bank-mediated disputes further set a benchmark for merchants to meet. Differentiation between [third-party and first-party fraud](#) is one of the biggest challenges in chargebacks, and advanced, automated dispute resolution systems offer efficiency and accuracy in identifying both. These systems can thus cultivate customer loyalty while preventing needless or unjustified chargebacks.

Taking Action: A Merchant's Playbook for Automated Chargeback Success



“ The biggest challenges businesses face when it comes to chargebacks are 1) not having the time or resources to fight a dispute, 2) not having the right analytics or tools to understand the nature of disputes, 3) lacking the expertise to put together the right dispute package, and 4) not calculating the win rate correctly to measure their true ROI. Automated dispute resolution tools coupled with subject matter expertise are absolutely game-changing when it comes to merchants recovering revenue.”

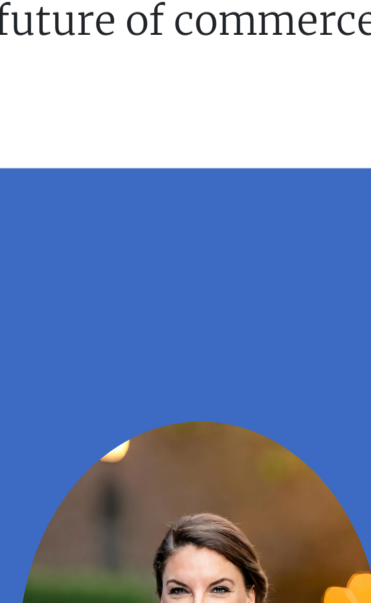
Suresh Dakshina
Co-founder & Strategist


Chargeback management has long been a thorn in the side of merchants, particularly for smaller businesses with fewer resources. With dispute volumes growing and consumers gravitating toward digital ease and convenience, the inadequacy of traditional resolution methods has become more pronounced. However, the rise of user-friendly automated digital solutions offers merchants a timely reprieve. These tools promise not only efficiency but also an opportunity to turn dispute handling into a competitive advantage, fostering customer trust and driving growth in the digital marketplace.


PYMNTS Intelligence prescribes the following actionable roadmap for merchants:

- **Conduct a comprehensive audit of current chargeback management processes.** Thoroughly examine each step of your company's dispute resolution workflow, from initial detection to final resolution. Pinpoint areas of inefficiency, such as manual data entry or delays in response times and quantify the associated costs in terms of both time and financial resources.
- **Leverage the expertise and resources of payment processors.** Inquire about their fraud detection tools, chargeback management services and best practices for optimizing transaction descriptors. Collaborate with them to proactively address potential issues and minimize the risk of future disputes.
- **Evaluate and select AI-powered chargeback management tools.** Consider factors such as scalability, ease of integration with existing systems and industry-specific features. Prioritize solutions that offer real-time fraud detection, automated evidence collection and personalized response capabilities to streamline the dispute process and improve outcomes.
- **Redesign the customer dispute journey.** Implement a mobile-first interface that empowers customers to easily initiate, track and resolve disputes. Integrate this interface with your customer relationship management (CRM) platform to centralize customer data and provide a holistic view of each interaction, enabling more personalized and efficient support.
- **Establish a continuous feedback loop between chargeback management and fraud prevention.** Analyze dispute patterns and outcomes to identify root causes and emerging trends. Leverage this data to refine your company's fraud detection models, adjust authorization rules and implement targeted prevention measures that proactively reduce chargeback risk.

The future of commerce is digital. Effective, automated chargeback management is key to staying ahead.



“ As the payments landscape changes, merchants of all sizes don't just need help running and growing their businesses, too. One of the most effective ways to do this is through automated systems that address disputes. This can help merchants avoid unnecessary chargebacks, which negatively impact bottom lines. American Express has offered digital receipts to help significantly reduce disputes for several years now, and tools like Accelerated Disputes Resolution make it easier for merchants, partners and vendors to get faster and less work-intensive resolutions on disputes. These tools back both our Card Members and our merchants for a more transparent and informed payments experience.”

Alison Betts
Vice President, Global Merchant Processing & Disputes


Acknowledgment

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