

# Calculate the cost of fraud and abuse to your business

It can be hard to figure out where to start tackling the problem of fraud on your site. At Sift, we always recommend starting with the basics: the cost to your business.

## Calculate the cost of fraud and abuse will help you:

- Understand the overall health of your business
- Measure your team's success
- Get buy-in for resources and solutions
- Figure out how well your fraud solutions are working

**Remember:**  
Every business is different. We encourage you to choose the elements that fit your own unique situation.

## Content fraud cost

As a marketplace or community with user-generated content, engagement metrics are all-important. But fraud can heavily affect daily and monthly users — which means it pays to prevent fraud before it impacts your community.

To get a handle on how many users are being exposed to bad content (your "exposure rate"), take a sample of listings or posts and identify which ones are fake or spammy. Note that your sample size needs to be large enough to derive a meaningful result.

CALCULATE YOUR EXPOSURE DATA			
Number of spammy or fake content places	Total number of content piece you sampled	Total impressions on your site	Exposure rate

Next, get a sense of the monetary impact of dealing with content fraud:

MANUAL REVIEW COST			
Reviewer salary (average) \$ per hour	Hours spent per call / email / chat message (average)	Number of calls / emails / chat messages in the past month	Total

CUSTOMER SUPPORT COST			
Customer support salary (average) \$ per hour	Hours spent per call / email / chat message (average)	Number of calls / emails / chat messages in the past month	Total

Off-platform transactions are typically a sign of scammers — and it can also cut into your profits. To get a rough estimate, take a sample of messages sent and analyze how many contain suspicious words. You could also collect data from customer support to see how many complaints there have been.

MONEY LOST TO OFF-PLATFORM TRANSACTIONS		
Number of transactions conducted off-platform	Average fee you charge per transaction	Total

## Account takeover cost

Account takeover (ATO) carries operational costs, customer churn costs, and more. Remember that fraudsters take over an account as a means to an end. They often use good accounts to commit payment fraud, create fake listings, send abusive messages, or post spammy comments. When calculating the cost of ATO, you should think of the costs below AND payment / content costs, depending on what type of fraud you're experiencing.

ATO OPERATIONAL COSTS				
Engineering / PM / Ops salary (average) \$ per hour	Hours per ATO incident (average)	# of ATO incidents in the past month	Cost of infrastructure	Total

Operational costs are only one factor to consider. Perhaps even more important is to think about how ATO affects your customer base - and influences whether they use your service less, or even leave the platform altogether.

CUSTOMER CHURN COSTS		
Lifetime Value (LVT) of a customer	Number of customers churning due to ATO every month	Total

### Payment fraud cost

Chargeback fees may be the most obvious cost of payment fraud, but they aren't the only one. We'll walk you through some of the additional costs.

TRUE COST OF CHARGEBACKS				
Total chargebacks in the past month \$	Total chargeback fees in the past month	Total cost of merchandise lost (if applicable)	Total cost of shipping lost goods (if applicable)	Total
	×	×	+	=

COST OF MANUAL REVIEW AND FRAUD MANAGEMENT				
Reviewer salary (average) \$ per hour	Hours the team spent performing manual review over the past month	Development costs (estimated)	IT resources devoted of fraud (estimated)	Total
	×	+	+	=

Measuring false positives can be challenging. To discover how much they cost your business, you could track the number of customers who call, email, or message to say they were incorrectly blocked - then multiply by the average value of each order.

REPORTED FALSE POSITIVES		
Number of customers who call / email / message to say they were incorrectly blocked	Average value of each order	Total
	×	=

But not every false positive is reported. What about the customers who don't contact you? One approach for measuring false positives is to choose a time period for testing (let's say a month). During that time, automatically accept a small percentage of orders (for example, 1%) that would usually be blocked. Then, evaluate what percentage of those orders don't actually result in a chargeback.

**Note:** we only recommend this approach for companies whose chargeback rates are under control.

YOUR FALSE POSITIVE RATE		
Number that DO NOT result in a chargeback	Number of orders you let through (that would usually be blocked)	False positive rate
	÷	=

Then, take your false positive rate, multiply it by the number of orders received in the past month and the average order value... and you'll get a sense of how much false positives are costing you.

COST OF FALSE POSITIVES			
False positive rate	Number of orders in the past month	Average order value	Total
	×	×	=

### Intangible cost

Not all fraud costs are easily quantifiable. When thinking about the total cost, it's important to take into account:

#### Brand damage

- **Negative PR:** This is tough to measure, but you may consider looking at negative social media sentiment and article mentions.
- **Lost brand value:** For example, Yahoo lost approximately \$350 million in the Verizon deal because of its data breaches.
- Legal fees (if applicable)
- Compliance fines or additional audits

#### Opportunity costs

- What else could engineers, customer support reps, and other employees have been doing with the time spent tackling fraud?
- For example, customer support agents could have spent their time making customers happier, rather than doing manual review.
- On the risk side, folks could focus on developing processes, improving products, and creating strategies.

### Next steps

- Set goals around how much fraud you'd like to stop and how you might get there.
- Assess your budget for handling fraud.
- Evaluate what tools and workflows you want to put in place to curb fraud.
- Work with your business to understand which teams are impacted and how, or if, they want and need to be involved in solving the fraud problem.