



## Case Study

### MasterCard SecureCode Case Study: eTronics

etronics.com

eTronics is one of the top ten, largest

Internet consumer electronics retailers. Founded in 1999, the young company already services over 200,000 customers and 300,000 orders annually, and generates over \$65 million in yearly sales. eTronics serves consumers and small businesses, and prides itself on its competitive prices, comprehensive product selection, customer convenience, and high-quality service. eTronics has been consistently profitable since inception.

#### Fraud:

##### The Million-Dollar Headache

Soon after launching, eTronics found itself confronting a classic e-tailer conundrum: how do you know the online shopper is the true cardholder? Just a few months after its initial launch, eTronics was facing credit card chargeback costs of over a million dollars per year.

Fortunately, at about the same time, MasterCard had been working continuously on an answer to the fraud issue—culminating in the launch of the MasterCard® SecureCode™ cardholder authentication solution in September 2002. Like MasterCard, Mayer Balsler, Vice President of eTronics, was also an early anti-fraud crusader. Prior to the official launch of MasterCard SecureCode, he had begun to investigate

**MasterCard**  
**SecureCode**™

both internal and external solutions to get the company's chargeback costs under control.

First, eTronics implemented a rigorous, multi-level anti-fraud process involving both systemic and manual checks on billing and shipping information. Under this predominantly manual system, orders that do not meet certain criteria are kicked out, and eTronics painstakingly evaluates each of these orders with the customer and the issuing bank. In many cases, the higher-ticket orders are the ones most likely to require scrutiny.

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Needless to say, eTronics' internal anti-fraud process has been cumbersome and costly for the 50-person outfit. So eTronics quickly began to look outside for help. The company investigated a number of possibilities—for example, one solution that required buyers to register their Social Security numbers—but every solution fell short in one way or another. In most cases, eTronics felt that the proposed remedy would alienate or confuse customers, thereby depressing order completion and simply substituting one problem for another. In addition, these various options suffered from lack of brand awareness and offered no opportunity to gain a payment guarantee from the card issuer should a dispute arise.

**MasterCard SecureCode:  
A Recognized Leader, A Real Solution**

After trying a number of sub-optimal options, a viable solution emerged. Cardinal Commerce, a MasterCard licensed, compliant technology vendor



offering a merchant e-commerce platform solution called Cardinal



Centinel, introduced eTronics to the brand-new MasterCard® SecureCode™ solution. The MasterCard option made good business sense, according to Balsler: “For me it was a no-brainer. The product came from a recognized brand that consumers were comfortable with. It was much more cost efficient. And it was easy to implement.” Even though MasterCard SecureCode was still relatively new to the market, Balsler felt it was a sensible investment. “ROI is the name of the game,” he emphasizes.

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eTronics implemented MasterCard SecureCode in the spring of 2003. Now, the company no longer has to worry about fully-authenticated transactions that are processed using MasterCard SecureCode. Enrolled cardholders simply enter their SecureCode at the time of purchase, and behind the scenes the cardholder’s issuing bank generates the electronic version of a signed sales receipt. This equivalent of a signed sales receipt is called an Accountholder Authentication Value, or AAV. The AAV binds the cardholder to the electronic transaction and protects online merchants, like eTronics, from chargebacks attributed to “cardholder not authorized” or “cardholder not recognized” transactions. In doing this, MasterCard SecureCode enables online merchants, like eTronics, to receive a payment guarantee similar to the one that they have enjoyed with physical, point-of-sale transactions for the past 35 years. eTronics does not bear any operational or chargeback costs for fully-authenticated MasterCard SecureCode transactions.

### **A Promising Future for Online Merchants**

So what is the impact thus far? Balsler says it’s too soon to tell, because MasterCard SecureCode is just getting started, and it will take a little while for the solution to come into widespread use. However, he is optimistic and enthusiastic. “We’re expecting rapid ROI with MasterCard SecureCode,” Balsler states. “With this solution, we expect to get more orders out, get orders out faster—and get more orders, period.”

Every day, more and more MasterCard issuing banks and their cardholders are signing up for MasterCard SecureCode—and as a result, eTronics is looking forward to the day when the majority of cardholders are authenticated by their issuers at the time of purchase, thereby minimizing their fraud and chargeback exposure. “MasterCard SecureCode is a real headache saver!” Balsler exclaims. “I wish every customer already used it. All banks should be participating.”

Balsler and eTronics are about to get their wish. The MasterCard International Operations Committee (IOC) recently endorsed a mandate for Issuers to implement support for MasterCard SecureCode by November 1, 2004. To comply with the mandate, MasterCard Issuers must

1. Implement SecureCode directly or through a third party;
2. Take steps to educate cardholders about MasterCard SecureCode and actively encourage their enrollment in and use of the service on an ongoing basis; and
3. Report to MasterCard quarterly on progress relative to cardholder enrollment and usage.

Note: The mandate explicitly excludes regions with a merchant-only liability shift (Europe, Asia/Pacific, and SAMEA).

As interest in MasterCard SecureCode continues to spread, we can expect to see online merchants like eTronics teaming up with MasterCard card Issuers to co-market the solution to consumers and make registration even easier and more convenient. As they say in the electronics business, “stay tuned!”

For more information on how to become a MasterCard SecureCode merchant or licensed technology provider, please visit [www.securecodemerchant.com](http://www.securecodemerchant.com), send an e-mail to [securecodemerchant@mastercard.com](mailto:securecodemerchant@mastercard.com), or contact your MasterCard Representative.

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