



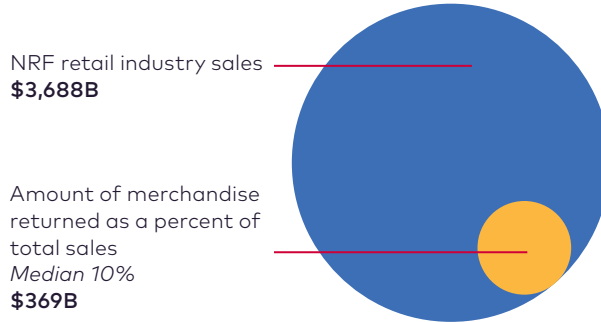
2018 Consumer Returns in the Retail Industry

Introduction

Appriss Retail is pleased to incorporate the return results from the National Retail Federation (NRF) 2018 Organized Retail Crime Survey into the 13th edition of the *Consumer Returns in the Retail Industry* report.

Total merchandise returns account for nearly \$369 billion in lost sales for US retailers. This is close to the market cap value of Facebook (November 2018).

Annual US Merchandise Returns



Industry Issues

- A return is a lost sale. Cash, profits, and margin percentage are reduced.
- Returns increase labor costs due to inspection and re-stocking time.
- Returns cause markdowns, out-of-stocks, and other expenses to increase.
- Higher returns require more working capital to source merchandise.
- How returns are handled impacts consumer perceptions positively or negatively.

Opportunities

- The point-of-return is a real customer service "moment of truth."
- Returns are an opportunity to cross-sell or up-sell a known customer.
- In-store returns are a chance to meet and convert an online buyer.

Buy Online Return In-Store (BORIS) Growth

Omnichannel shopping increases the complexity of returns. Many retailers report seeing more online purchases returned to physical locations.

2017 METRIC



2018 METRICS



Source: National Retail Federation 2018 Organized Retail Crime Survey. November 2018.

Loss from annual merchandise return fraud is estimated at \$18.4 billion, and fraud and abuse combined is estimated at \$24 billion for the US retail industry.

Annual US Returns and Return Fraud

METRIC	MEDIAN RATE ⁽⁴⁾	2018
NRF retail industry sales ⁽¹⁾	100%	\$3,688 ⁽²⁾
Amount of merchandise returned as a percent of total sales	10.0%	\$369
Estimated amount of fraudulent returns as a percent of total returns	5.0%	\$18.4
Estimated amount of return fraud and abuse as a percent of total returns ⁽³⁾	6.5%	\$24

Source: National Retail Federation 2018 Organized Retail Crime Survey. November 2018. All dollars in billions.

⁽¹⁾ The National Retail Federation's US retail industry sales figure includes most traditional retail categories including non-store, auto parts and accessories stores, discounters, department stores, grocery stores, and specialty stores, and exclude sales at automotive dealers, gas stations, and restaurants.

⁽²⁾ Retail sales (in billions) estimated by NRF using 2017 actuals and an estimated growth rate of 4.5%.

⁽³⁾ Return fraud and abuse estimates are derived from trends established in previous years of the *Consumer Returns in the Retail Industry* report. These figures average approximately 1 to 2 percentage points higher than return fraud.

⁽⁴⁾ NRF notes that findings are directional only. All findings are among the responding companies and have not been scaled as a reflection on the retail industry as a whole, or to match firmographics of prior years' surveys.

US Holiday Returns and Return Fraud

METRIC	MEDIAN RATE ⁽⁴⁾	2018
NRF holiday sales ⁽⁵⁾	100%	\$719 ⁽⁶⁾
Amount of merchandise returned as a percent of holiday sales	10.0%	\$72
Estimated amount of fraudulent returns as a percent of holiday returns	9.0%	\$6.5

Source: National Retail Federation 2018 Organized Retail Crime Survey. November 2018. All dollars in billions.

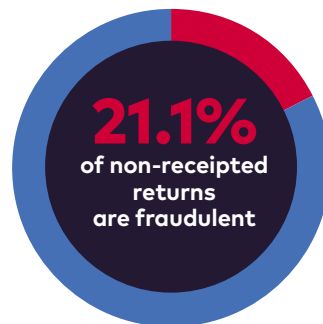
⁽⁵⁾ NRF US holiday sales are defined as retail industry sales in the full months of November and December.

⁽⁶⁾ Holiday sales (in billions) estimated by NRF using 2017 actuals and an estimated growth rate of 4.55%.

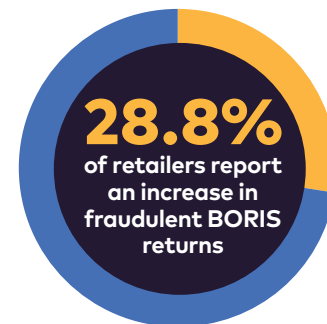
Return Fraud by Receipt and Channel

RETURNS MADE WITHOUT A RECEIPT

(11.8% of returns are non-receipted)



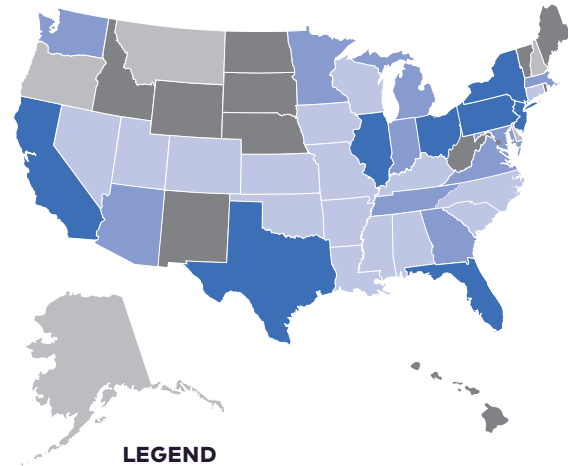
ONLINE TO BRICKS-AND-MORTAR RETURNS



Source: National Retail Federation 2018 Organized Retail Crime Survey. November 2018.

Lost US Sales Tax Impact of Return Fraud and Abuse

MAP OF LOST STATE SALES TAX BY STATE



LEGEND

- \$0 Lost sales tax revenue
- <\$10 Lost sales tax revenue
- \$10–\$24 Lost sales tax revenue
- \$25–\$49 Lost sales tax revenue
- \$50+ Lost sales tax revenue

Sales tax revenue in millions, based on right-hand estimates from table.

STATE	% OF NATIONWIDE RETAIL SALES ⁽¹⁾	SALES	RETURNS	STATE SALES TAX RATE ⁽²⁾	RETURN FRAUD ESTIMATE ⁽⁴⁾		RETURN FRAUD/ABUSE ESTIMATE ⁽⁵⁾	
					LOST RETAIL REVENUE	LOST SALES TAX REVENUE	LOST RETAIL REVENUE	LOST SALES TAX REVENUE
Alabama	1.50%	\$55,320,000,000	\$6,146,666,667	4.000%	\$307,333,333	\$12,293,333	\$399,533,333	\$15,981,333
Alaska	0.26%	\$9,588,800,000	\$1,065,422,222	0.000%	\$53,271,111	\$0	\$69,252,444	\$0
Arizona	2.24%	\$82,611,200,000	\$9,179,022,222	5.600%	\$458,951,111	\$25,701,262	\$596,636,444	\$33,411,641
Arkansas	0.91%	\$33,560,800,000	\$3,728,977,778	6.500%	\$186,448,889	\$12,119,178	\$242,383,556	\$15,754,931
California	11.90%	\$438,872,000,000	\$48,763,555,556	6.000%	\$2,438,177,778	\$146,290,667	\$3,169,631,111	\$190,177,867
Colorado	1.70%	\$62,696,000,000	\$6,966,222,222	2.900%	\$348,311,111	\$10,101,022	\$452,804,444	\$13,131,329
Connecticut	1.25%	\$46,100,000,000	\$5,122,222,222	6.350%	\$256,111,111	\$16,263,056	\$332,944,444	\$21,141,972
Delaware	0.37%	\$13,645,600,000	\$1,516,177,778	0.000%	\$75,808,889	\$0	\$98,551,556	\$0
Dist. of Columbia	0.15%	\$5,532,000,000	\$614,666,667	6.000%	\$30,733,333	\$1,844,000	\$39,953,333	\$2,397,200
Florida	7.30%	\$269,224,000,000	\$29,913,777,778	6.000%	\$1,495,688,889	\$89,741,333	\$1,944,395,556	\$116,663,733
Georgia	3.01%	\$111,008,800,000	\$12,334,311,111	4.000%	\$616,715,556	\$24,668,622	\$801,730,222	\$32,069,209
Hawaii	0.50%	\$18,440,000,000	\$2,048,888,889	4.000%	\$102,444,444	\$4,097,778	\$133,177,778	\$5,327,111
Idaho	0.51%	\$18,808,800,000	\$2,089,866,667	6.000%	\$104,493,333	\$6,269,600	\$135,841,333	\$8,150,480
Illinois	4.05%	\$149,364,000,000	\$16,596,000,000	6.250%	\$829,800,000	\$51,862,500	\$1,078,740,000	\$67,421,250
Indiana	1.99%	\$73,391,200,000	\$8,154,577,778	7.000%	\$407,728,889	\$28,541,022	\$530,047,556	\$37,103,329
Iowa	0.92%	\$33,929,600,000	\$3,769,955,556	6.000%	\$188,497,778	\$11,309,867	\$245,047,111	\$14,702,827
Kansas	0.79%	\$29,135,200,000	\$3,237,244,444	6.500%	\$161,862,222	\$10,521,044	\$210,420,889	\$13,677,358
Kentucky	1.26%	\$46,468,800,000	\$5,163,200,000	6.000%	\$258,160,000	\$15,489,600	\$335,608,000	\$20,136,480
Louisiana	1.33%	\$49,050,400,000	\$5,450,044,444	4.450%	\$272,502,222	\$12,126,349	\$354,252,889	\$15,764,254
Maine	0.51%	\$18,808,800,000	\$2,089,866,667	5.500%	\$104,493,333	\$5,747,133	\$135,841,333	\$7,471,273
Maryland	1.99%	\$73,391,200,000	\$8,154,577,778	6.000%	\$407,728,889	\$24,463,733	\$530,047,556	\$31,802,853
Massachusetts	2.34%	\$86,299,200,000	\$9,588,800,000	6.250%	\$479,440,000	\$29,965,000	\$623,272,000	\$38,954,500
Michigan	3.10%	\$114,328,000,000	\$12,703,111,111	6.000%	\$635,155,556	\$38,109,333	\$825,702,222	\$49,542,133
Minnesota	1.80%	\$66,384,000,000	\$7,376,000,000	6.875%	\$368,800,000	\$25,355,000	\$479,440,000	\$32,961,500
Mississippi	0.89%	\$32,823,200,000	\$3,647,022,222	7.000%	\$182,351,111	\$12,764,578	\$237,056,444	\$16,593,951
Missouri	1.97%	\$72,653,600,000	\$8,072,622,222	4.225%	\$403,631,111	\$17,053,414	\$524,720,444	\$22,169,439
Montana	0.36%	\$13,276,800,000	\$1,475,200,000	0.000%	\$73,760,000	\$0	\$95,888,000	\$0
Nebraska	0.62%	\$22,865,600,000	\$2,540,622,222	5.500%	\$127,031,111	\$6,986,711	\$165,140,444	\$9,082,724
Nevada	1.14%	\$42,043,200,000	\$4,671,466,667	6.850%	\$233,573,333	\$15,999,773	\$303,645,333	\$20,799,705
New Hampshire	0.67%	\$24,709,600,000	\$2,745,511,111	0.000%	\$137,275,556	\$0	\$178,458,222	\$0
New Jersey	3.12%	\$115,065,600,000	\$12,785,066,667	6.625%	\$639,253,333	\$42,350,533	\$831,029,333	\$55,055,693
New Mexico	0.62%	\$22,865,600,000	\$2,540,622,222	5.125%	\$127,031,111	\$6,510,344	\$165,140,444	\$8,463,448
New York	5.93%	\$218,698,400,000	\$24,299,822,222	4.000%	\$1,214,991,111	\$48,599,644	\$1,579,488,444	\$63,179,538
North Carolina	2.89%	\$106,583,200,000	\$11,842,577,778	4.750%	\$592,128,889	\$28,126,122	\$769,767,556	\$36,563,959
North Dakota	0.25%	\$9,220,000,000	\$1,024,444,444	5.000%	\$51,222,222	\$2,561,111	\$66,588,889	\$3,329,444
Ohio	3.39%	\$125,023,200,000	\$13,891,466,667	5.750%	\$694,573,333	\$39,937,967	\$902,945,333	\$51,919,357
Oklahoma	1.00%	\$36,880,000,000	\$4,097,777,778	4.500%	\$204,888,889	\$9,220,000	\$266,355,556	\$11,986,000
Oregon	1.27%	\$46,837,600,000	\$5,204,177,778	0.000%	\$260,208,889	\$0	\$338,271,556	\$0
Pennsylvania	4.07%	\$150,101,600,000	\$16,677,955,556	6.000%	\$833,897,778	\$50,033,867	\$1,084,067,111	\$65,044,027
Rhode Island	0.34%	\$12,539,200,000	\$1,393,244,444	7.000%	\$69,662,222	\$4,876,356	\$90,560,889	\$6,339,262
South Carolina	1.36%	\$50,156,800,000	\$5,572,977,778	6.000%	\$278,648,889	\$16,718,933	\$362,243,556	\$21,734,613
South Dakota	0.32%	\$11,801,600,000	\$1,311,288,889	4.500%	\$65,564,444	\$2,950,400	\$85,233,778	\$3,835,520
Tennessee	2.10%	\$77,448,000,000	\$8,605,333,333	7.000%	\$430,266,667	\$30,118,667	\$559,346,667	\$39,154,267
Texas	7.49%	\$276,231,200,000	\$30,692,355,556	6.250%	\$1,534,617,778	\$95,913,611	\$1,995,003,111	\$124,687,694
Utah	0.84%	\$30,979,200,000	\$3,442,133,333	4.700%	\$172,106,667	\$8,089,013	\$223,738,667	\$10,515,717
Vermont	0.25%	\$9,220,000,000	\$1,024,444,444	6.000%	\$51,222,222	\$3,073,333	\$66,588,889	\$3,995,333
Virginia	2.63%	\$96,994,400,000	\$10,777,155,556	5.000%	\$538,857,778	\$26,942,889	\$700,515,111	\$35,025,756
Washington	2.26%	\$83,348,800,000	\$9,260,977,778	6.500%	\$463,048,889	\$30,098,178	\$601,963,556	\$39,127,631
West Virginia	0.54%	\$19,915,200,000	\$2,212,800,000	6.000%	\$110,640,000	\$6,638,400	\$143,832,000	\$8,629,920
Wisconsin	1.80%	\$66,384,000,000	\$7,376,000,000	5.000%	\$368,800,000	\$18,440,000	\$479,440,000	\$23,972,000
Wyoming	0.21%	\$7,744,800,000	\$860,533,333	4.000%	\$43,026,667	\$1,721,067	\$55,934,667	\$2,237,387
Total						\$1,128,605,346		\$1,467,186,949

⁽¹⁾ Source: National Retail Federation

⁽²⁾ Source: Federation of Tax Administrators

⁽³⁾ Source: U.S. Bureau of Labor Statistics, Retail Trade sector: NAICS 44-45, Earnings and Hours of All Employees table, October 2018.

⁽⁴⁾ Estimate derived from: National Retail Federation 2018 Organized Retail Crime Survey, November 2018.

⁽⁵⁾ Estimate derived from trends established in previous years of the *Consumer Returns in the Retail Industry* report.

Key Findings

- Because of the significant retail revenue losses caused by return fraud and abuse, states are losing a total of \$1.1 billion to \$1.5 billion in sales tax revenues.
- For simplicity, this table lists only state tax rates; the myriad county and local taxes are not individually calculated. It is estimated there are another \$276 million to \$359 million lost at the local level due to return fraud.
- Retailers must offset the negative business impact of return fraud and abuse by increasing prices to consumers and by reducing costs—which too often means a loss of jobs. At an average retail salary of just over \$30,366⁽³⁾ per year, return fraud and abuse is costing retailers and American workers between 607,400 and 789,600 jobs.

Examples of Return Fraud

Which examples of return fraud have your company experienced in the past year?

Of the retailers that allow Buy Online Return In-Store (BORIS) returns, 86% are seeing the same or more fraud.

RETURN FRAUD EXAMPLES	2018
Return of stolen merchandise (shoplifting)	77.3%
Employee return fraud or collusion with external sources	63.6%
Return of merchandise purchased with fraudulent or stolen tender	59.1%
Returns made by organized retail crime groups	48.5%
Wardrobing or renting (returns of used, non-defective merchandise)	31.8%

Source: National Retail Federation 2018 Organized Retail Crime Survey. November 2018.

Key Findings

- Shoplifting and returning those stolen items took the top spot, impacting many retailers surveyed (77%); this situation requires consideration because of its potential for significant impact on fraud and shrink.
- Return fraud as a result of both employee actions or ORC groups affects about 60% of retailers.

Financial Summary of Return Fraud and Abuse in the US

For every \$100 in returns, \$5.00 is lost to return fraud.

CATEGORY	MEDIAN RATE	RETAIL INDUSTRY	EXAMPLE COMPANY (\$1 BILLION REVENUE)	LOSS PER \$100	
				OF SALES	OF RETURNS
Retail sales (in-store and online)	100%	\$3,688,850,000,000	\$1,000,000,000		
Returns	10.0%	\$368,885,000,000	\$100,000,000		
Return fraud ⁽¹⁾	5.0%	\$18,444,250,000	\$5,000,000	\$0.50	\$5.00
Return fraud and abuse ⁽²⁾	6.5%	\$23,977,525,000	\$6,500,000	\$0.65	\$6.50

Source: National Retail Federation 2018 Organized Retail Crime Survey. November 2018.

⁽¹⁾ Estimate derived from: National Retail Federation 2018 Organized Retail Crime Survey. November 2018.

⁽²⁾ Estimate derived from trends established in previous years of the *Consumer Returns in the Retail Industry* report.

Return Rate by Retail Category

RETAIL CATEGORY	BLENDED RETURN RATE ⁽¹⁾
Apparel	12.78%
Auto Parts	22.58%
Beauty	6.19%
Department Stores	12.52%
Drug/Pharmacies	2.14%
Footwear	9.41%
Hard Goods	12.27%
Home Improvement	11.84%
Housewares	12.28%
Sporting Goods	9.03%
NRF Survey Median ⁽²⁾⁽³⁾	10.0%

⁽¹⁾ Retail category rates derived from Appriss Retail analysis of 40,000 stores in the specialty and general merchandise retail segments. Appriss Retail reviews data direct from ecommerce and POS T-Logs—so all returns, exchanges, on-line returns, employee sale returns, and other refund scenarios are considered to build a blended return rate.

⁽²⁾ Source: National Retail Federation 2018 Organized Retail Crime Survey. November 2018.

⁽³⁾ The NRF survey median return rate (10.0%) is lower than the blended return rate in several of the retail categories because it includes retailers outside of these select categories, like grocery stores.

Returns, Shrink, and Total Loss

In the competitive world of retail, it is essential to understand how returns and return fraud reduce net sales and contribute to inventory shortage (shrink) and total loss. This information can be used by loss prevention professionals to compare their own program results, with an eye toward developing best practices and reducing losses from this source.

Omnichannel/BORIS Transactions

Preventing fraud is only one of the challenges at the retail return desk; improving the shopping experience is an equally important trend. Additionally, the increase in buy-online-return-in-store (BORIS) returns is driving new demands—such as offering “frictionless” returns. The ability to offer more flexible and lenient returns, while still mitigating the risk of fraud and abuse, is ever more critical.

Respondent Profile

Those responding to the National Retail Federation 2018 Organized Retail Crime Survey reflect a variety of categories, number of stores, and annual sales. Overall, 48% of responding companies have at least 500 stores and 69% have sales of \$1 billion or more.

For a copy of the National Retail Federation 2018 Organized Retail Crime Survey that generated portions of this executive summary report, please contact Bob Moraca, National Retail Federation, VP-Loss Prevention at moracar@nrf.com.

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