



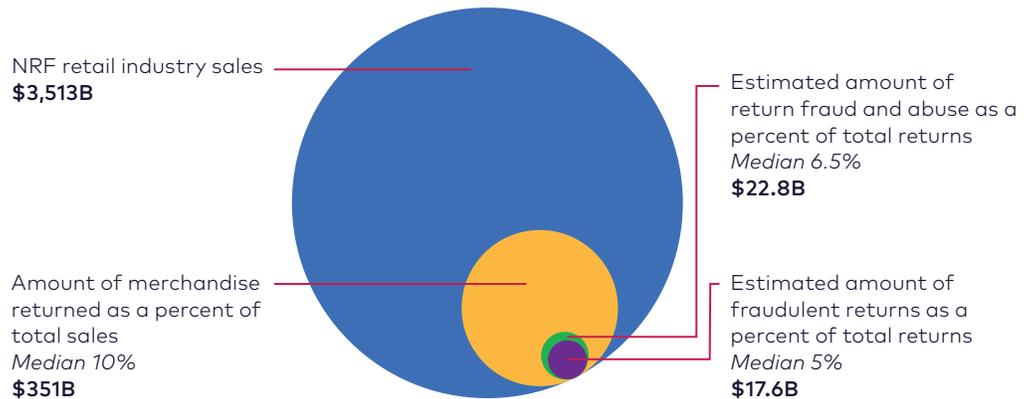
2017 Consumer Returns in the Retail Industry

Introduction

Appriss Retail is pleased to incorporate the return fraud results from the National Retail Federation (NRF) 2017 Organized Retail Crime Survey into the 12th edition of the *Consumer Returns in the Retail Industry* report.

Loss from annual merchandise return fraud is estimated at \$17.6 billion, and fraud and abuse combined is estimated at \$22.8 billion for the US retail industry.

Annual US Merchandise Returns and Return Fraud



METRIC	MEDIAN RATE ⁽⁴⁾	2017
NRF retail industry sales ⁽¹⁾	100%	\$3,513⁽²⁾
Amount of merchandise returned as a percent of total sales	10.0%	\$351
Estimated amount of fraudulent returns as a percent of total returns	5.0%	\$17.6
Estimated amount of return fraud and abuse as a percent of total returns ⁽³⁾	6.5%	\$22.8

Source: National Retail Federation 2017 Organized Retail Crime Survey. November 2017. 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. Sales and returns are reported in billions of dollars.
- ⁽²⁾ Retail sales (in billions) estimated by NRF using 2016 actuals and an estimated growth rate of 3.5%.
- ⁽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 alone.
- ⁽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.

Key Findings

- Total merchandise returns account for more than \$351 billion in lost sales for US retailers. This size is overwhelming; merchandise returns are close to the estimated 2017 federal budget deficit of \$400+ billion.
- Return fraud of 5% is the median and was used to be conservative. The survey average for return fraud is more than double, at 10.8%.

US Holiday Returns and Return Fraud

Retailers lose more than \$3.4 billion to return fraud during the holidays.

METRIC	MEDIAN RATE ⁽³⁾	2017
NRF holiday sales ⁽¹⁾	100%	\$681 ⁽²⁾
Amount of merchandise returned as a percent of holiday sales	10.0%	\$68
Estimated amount of fraudulent returns as a percent of holiday returns	5.0%	\$3.4

Source: National Retail Federation 2017 Organized Retail Crime Survey. November 2017. All dollars in billions.

⁽¹⁾ NRF US holiday sales are defined as retail industry sales in the full months of November and December. Sales and returns reported in billions of dollars.

⁽²⁾ Holiday sales (in billions) estimated by NRF using 2016 actuals and an estimated growth rate of 3.8%.

⁽³⁾ 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.

Key Findings

- According to NRF's 2017 Holiday Planning Playbook, nearly two-thirds of consumers returned at least one item this past holiday season and 27% bought items specifically with the intention to return them later.
- Holiday return fraud of 5% is the median and was used to be conservative. The survey average for holiday return fraud is more than double, at 10.6%.

Loss Impact of Return Fraud and Abuse for an Example Retailer

CATEGORY	MEDIAN RATE	EXAMPLE COMPANY (\$1 BILLION REVENUE)	RETURN FRAUD AND ABUSE LOSS PER \$100	
			OF SALES	OF RETURNS
Retail sales (in-store and online)	100%	\$1,000,000,000		
Returns	10.0%	\$100,000,000		
Return fraud ⁽¹⁾	5.0%	\$5,000,000	\$0.50	\$5.00
Return fraud and abuse ⁽²⁾	6.5%	\$6,500,000	\$0.65	\$6.50

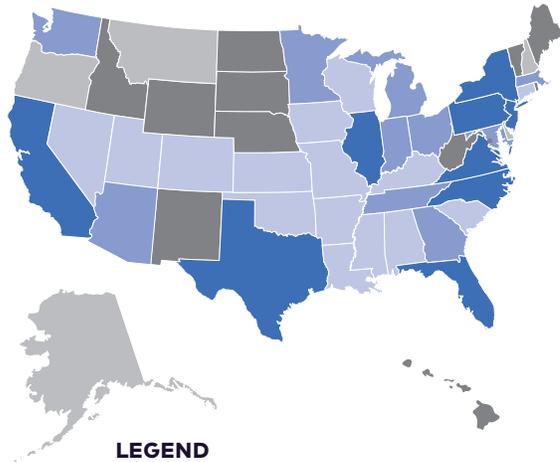
Source: National Retail Federation 2017 Organized Retail Crime Survey. November 2017.

⁽¹⁾ Estimate derived from: National Retail Federation 2017 Organized Retail Crime Survey. November 2017.

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

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.

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 \$1.4 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 \$264 million to \$343 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 \$29,400⁽³⁾ per year, return fraud and abuse is costing retailers and American workers between 596,000 and 775,000 jobs.

STATE	% OF NATIONWIDE RETAIL SALES ⁽¹⁾	SALES	RETURNS
Alabama	1.50%	\$52,697,532,150	\$5,855,281,350
Alaska	0.26%	\$9,134,238,906	\$1,014,915,434
Arizona	2.24%	\$78,694,981,344	\$8,743,886,816
Arkansas	0.91%	\$31,969,836,171	\$3,552,204,019
California	11.90%	\$418,067,088,390	\$46,451,898,710
Colorado	1.70%	\$59,723,869,770	\$6,635,985,530
Connecticut	1.25%	\$43,914,610,125	\$4,879,401,125
Delaware	0.37%	\$12,998,724,597	\$1,444,302,733
Dist. of Columbia	0.15%	\$5,269,753,215	\$585,528,135
Florida	7.30%	\$256,461,323,130	\$28,495,702,570
Georgia	3.01%	\$105,746,381,181	\$11,749,597,909
Hawaii	0.50%	\$17,565,844,050	\$1,951,760,450
Idaho	0.51%	\$17,917,160,931	\$1,990,795,659
Illinois	4.05%	\$142,283,336,805	\$15,809,259,645
Indiana	1.99%	\$69,912,059,319	\$7,768,006,591
Iowa	0.92%	\$32,321,153,052	\$3,591,239,228
Kansas	0.79%	\$27,754,033,599	\$3,083,781,511
Kentucky	1.26%	\$44,265,927,006	\$4,918,436,334
Louisiana	1.33%	\$46,725,145,173	\$5,191,682,797
Maine	0.51%	\$17,917,160,931	\$1,990,795,659
Maryland	1.99%	\$69,912,059,319	\$7,768,006,591
Massachusetts	2.34%	\$82,208,150,154	\$9,134,238,906
Michigan	3.10%	\$108,908,233,110	\$12,100,914,790
Minnesota	1.80%	\$63,237,038,580	\$7,026,337,620
Mississippi	0.89%	\$31,267,202,409	\$3,474,133,601
Missouri	1.97%	\$69,209,425,557	\$7,689,936,173
Montana	0.36%	\$12,647,407,716	\$1,405,267,524
Nebraska	0.62%	\$21,781,646,622	\$2,420,182,958
Nevada	1.14%	\$40,050,124,434	\$4,450,013,826
New Hampshire	0.67%	\$23,538,231,027	\$2,615,359,003
New Jersey	3.12%	\$109,610,866,872	\$12,178,985,208
New Mexico	0.62%	\$21,781,646,622	\$2,420,182,958
New York	5.93%	\$208,330,910,433	\$23,147,878,937
North Carolina	2.89%	\$101,530,578,609	\$11,281,175,401
North Dakota	0.25%	\$8,782,922,025	\$975,880,225
Ohio	3.39%	\$119,096,422,659	\$13,232,935,851
Oklahoma	1.00%	\$35,131,688,100	\$3,903,520,900
Oregon	1.27%	\$44,617,243,887	\$4,957,471,543
Pennsylvania	4.07%	\$142,985,970,567	\$15,887,330,063
Rhode Island	0.34%	\$11,944,773,954	\$1,327,197,106
South Carolina	1.36%	\$47,779,095,816	\$5,308,788,424
South Dakota	0.32%	\$11,242,140,192	\$1,249,126,688
Tennessee	2.10%	\$73,776,545,010	\$8,197,393,890
Texas	7.49%	\$263,136,343,869	\$29,237,371,541
Utah	0.84%	\$29,510,618,004	\$3,278,957,556
Vermont	0.25%	\$8,782,922,025	\$975,880,225
Virginia	2.63%	\$92,396,339,703	\$10,266,259,967
Washington	2.26%	\$79,397,615,106	\$8,821,957,234
West Virginia	0.54%	\$18,971,111,574	\$2,107,901,286
Wisconsin	1.80%	\$63,237,038,580	\$7,026,337,620
Wyoming	0.21%	\$7,377,654,501	\$819,739,389
Total			

⁽¹⁾ Source: National Retail Federation

⁽²⁾ Source: Federation of Tax Administrators

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
4.000%	\$292,764,068	\$11,710,563	\$380,593,288	\$15,223,732
0.000%	\$50,745,772	\$0	\$65,969,503	\$0
5.600%	\$437,194,341	\$24,482,883	\$568,352,643	\$31,827,748
6.500%	\$177,610,201	\$11,544,663	\$230,893,261	\$15,008,062
6.000%	\$2,322,594,936	\$139,355,696	\$3,019,373,416	\$181,162,405
2.900%	\$331,799,277	\$9,622,179	\$431,339,059	\$12,508,833
6.350%	\$243,970,056	\$15,492,099	\$317,161,073	\$20,139,728
0.000%	\$72,215,137	\$0	\$93,879,678	\$0
5.750%	\$29,276,407	\$1,683,393	\$38,059,329	\$2,188,411
6.000%	\$1,424,785,129	\$85,487,108	\$1,852,220,667	\$111,133,240
4.000%	\$587,479,895	\$23,499,196	\$763,723,864	\$30,548,955
4.000%	\$97,588,023	\$3,903,521	\$126,864,429	\$5,074,577
6.000%	\$99,539,783	\$5,972,387	\$129,401,718	\$7,764,103
6.250%	\$790,462,982	\$49,403,936	\$1,027,601,877	\$64,225,117
7.000%	\$388,400,330	\$27,188,023	\$504,920,428	\$35,344,430
6.000%	\$179,561,961	\$10,773,718	\$233,430,550	\$14,005,833
6.500%	\$154,189,076	\$10,022,290	\$200,445,798	\$13,028,977
6.000%	\$245,921,817	\$14,755,309	\$319,698,362	\$19,181,902
5.000%	\$259,584,140	\$12,979,207	\$337,459,382	\$16,872,969
5.500%	\$99,539,783	\$5,474,688	\$129,401,718	\$7,117,094
6.000%	\$388,400,330	\$23,304,020	\$504,920,428	\$30,295,226
6.250%	\$456,711,945	\$28,544,497	\$593,725,529	\$37,107,846
6.000%	\$605,045,740	\$36,302,744	\$786,559,461	\$47,193,568
6.875%	\$351,316,881	\$24,153,036	\$456,711,945	\$31,398,946
7.000%	\$173,706,680	\$12,159,468	\$225,818,684	\$15,807,308
4.225%	\$384,496,809	\$16,244,990	\$499,845,851	\$21,118,487
0.000%	\$70,263,376	\$0	\$91,342,389	\$0
5.500%	\$121,009,148	\$6,655,503	\$157,311,892	\$8,652,154
6.850%	\$222,500,691	\$15,241,297	\$289,250,899	\$19,813,687
0.000%	\$130,767,950	\$0	\$169,998,335	\$0
6.761%	\$608,949,260	\$41,169,440	\$791,634,039	\$53,520,272
5.125%	\$121,009,148	\$6,201,719	\$157,311,892	\$8,062,234
4.000%	\$1,157,393,947	\$46,295,758	\$1,504,612,131	\$60,184,485
4.750%	\$564,058,770	\$26,792,792	\$733,276,401	\$34,830,629
5.000%	\$48,794,011	\$2,439,701	\$63,432,215	\$3,171,611
5.750%	\$661,646,793	\$38,044,691	\$860,140,830	\$49,458,098
4.500%	\$195,176,045	\$8,782,922	\$253,728,859	\$11,417,799
0.000%	\$247,873,577	\$0	\$322,235,650	\$0
6.000%	\$794,366,503	\$47,661,990	\$1,032,676,454	\$61,960,587
7.000%	\$66,359,855	\$4,645,190	\$86,267,812	\$6,038,747
6.000%	\$265,439,421	\$15,926,365	\$345,071,248	\$20,704,275
4.500%	\$62,456,334	\$2,810,535	\$81,193,235	\$3,653,696
7.000%	\$409,869,695	\$28,690,879	\$532,830,603	\$37,298,142
6.250%	\$1,461,868,577	\$91,366,786	\$1,900,429,150	\$118,776,822
4.700%	\$163,947,878	\$7,705,550	\$213,132,241	\$10,017,215
6.000%	\$48,794,011	\$2,927,641	\$63,432,215	\$3,805,933
4.445%	\$513,312,998	\$22,816,213	\$667,306,898	\$29,661,077
6.500%	\$441,097,862	\$28,671,361	\$573,427,220	\$37,272,769
6.000%	\$105,395,064	\$6,323,704	\$137,013,584	\$8,220,815
5.000%	\$351,316,881	\$17,565,844	\$456,711,945	\$22,835,597
4.000%	\$40,986,969	\$1,639,479	\$53,283,060	\$2,131,322
		\$1,074,434,971		\$1,396,765,463

⁽³⁾ Source: U.S. Bureau of Labor Statistics, Retail Trade sector: NAICS 44-45, Earnings and Hours of All Employees table, October 2017.

⁽⁴⁾ Estimate derived from: National Retail Federation 2017 Organized Retail Crime Survey. November 2017.

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

Examples of Return Fraud

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

The top 5 examples show significant response rates year-over-year, implying that they are serious, on-going issues that add to the cost of merchandise returns for retailers.

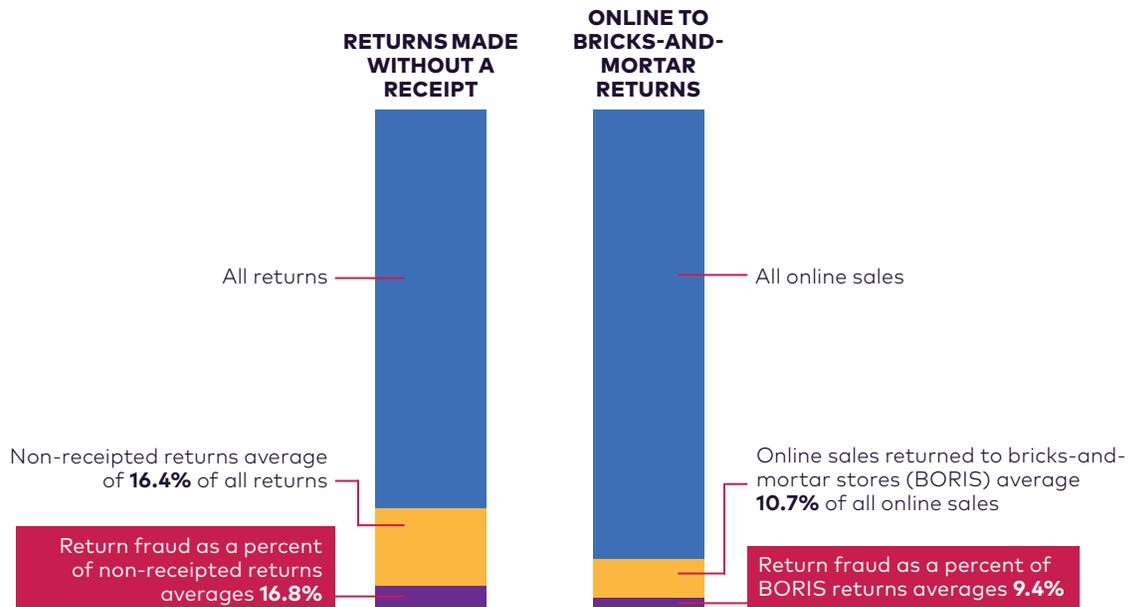
RETURN FRAUD EXAMPLES	2017
Return of stolen merchandise (shoplifting)	68.3%
Employee return fraud or collusion with external sources	65.1%
Return of merchandise purchased with fraudulent or stolen tender	57.1%
Returns made by organized retail crime groups	54.0%
Wardrobing or renting (returns of used, non-defective merchandise)	39.7%
Returns using counterfeit receipts	28.6%
Returns using e-receipts	19.1%
Other	3.2%
None of the above	11.1%

Source: National Retail Federation 2017 Organized Retail Crime Survey. November 2017.

Key Findings

- Shoplifting and returning those stolen items took the top spot, impacting many retailers surveyed (68%); 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 more than 50% of retailers.

Analysis of Return Fraud by Receipt and Channel



Source: National Retail Federation 2017 Organized Retail Crime Survey. November 2017.

Return Rate by Retail Category

Most multi-channel retailers allow Buy-Online-Return-In-Store (BORIS) returns; however, they estimate an average of 9.4% of those returns are fraudulent.

RETAIL CATEGORY	BLENDED RETURN RATE ⁽¹⁾
Apparel	12.69%
Auto Parts	22.78%
Beauty	7.04%
Department Stores	13.90%
Drug/Pharmacies	1.98%
Footwear	9.63%
Hard Goods	11.70%
Home Improvement	11.76%
Housewares	12.53%
Sporting Goods	8.92%
NRF Survey Median ⁽²⁾⁽³⁾	10.0%

⁽¹⁾ Retail category blended return rates are 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 2017 Organized Retail Crime Survey. November 2017.

⁽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 critical 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 and contrast their own program results, with an eye toward developing best practices and reducing losses from this source.

Multi-Channel Consumer Focus

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 “hassle free” 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 2017 Organized Retail Crime Survey reflect a variety of categories, number of stores, and annual sales. Overall, the group mostly mirrors the 2016 survey population, with fewer drug stores and pharmacies and more supermarkets and grocery stores. Some large, multi-brand retailers reported figures collectively in 2017.

For a copy of the National Retail Federation 2017 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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Americas +1 949 262 5100

Europe/Middle East/Africa +44 (0)20 7430 0715

Asia/Pacific +1 949 262 5100



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