

2015

# Consumer Returns *in the* Retail Industry

ANNUAL RETURN SURVEY



 The Retail  
Equation  
An Appriss Company

**NRF**  
MEMBER

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## Introduction

The Retail Equation (TRE) is pleased to incorporate the results of the National Retail Federation (NRF) 2015 Return Fraud Survey into the *2015 Consumer Returns in the Retail Industry* report. This executive summary document provides return-related information that retailers may use to help compare and improve their business processes. Report objectives included:

- Identify US and Canadian retail industry return metrics—total return amounts, receipted/non-receipted percentages, various examples of fraudulent and abusive returns, and fraud by tender type, as identified by retail respondents.
- Uncover other shortfalls caused by return fraud; for example, lost retail jobs and sales taxes.
- Understand current practices in the retail industry for processing merchandise returns, both brick and mortar and online.
- Compare the relative importance of return fraud and related shrink issues.
- Generate industry discussion regarding best practices for accepting customer returns and controlling return fraud and abuse to maximize profits and minimize losses.

## Consumer Focus

Preventing fraud is only one of the challenges being contemplated at the retail return desk; improving the shopping experience is an equally important trend. Therefore, differentiating the consumer experience during the return process—such as offering “hassle free” returns—is often under consideration as a potential revenue driver. The ability to offer more flexible and lenient returns, while still mitigating the risk of fraud and abuse, is critical.

## Participating Company Demographics

The NRF Return Fraud Survey was conducted by the National Retail Federation during October–November 2015 by polling senior loss prevention executives at 62 retail companies. Executives from all segments of retail including discount stores, department stores, drug stores, supermarkets, and specialty stores completed the survey. Some responses may represent multiple brands within a single company.

The Retail Equation would like to thank all of the retailers who participated in this year’s NRF Return Fraud Survey. You will notice that no retailer names are mentioned, per the NRF and the sponsoring company’s commitment to maintain confidentiality of each organization’s data.

## Annual US Merchandise Returns and Return Fraud

METRIC	2015
NRF retail industry sales <sup>(1)</sup>	\$3,256 <sup>(2)</sup>
Returns as a percent of total sales	8.0%
Amount of merchandise returned	<b>\$260.5</b>
Percent of returns without a receipt	10%
Return fraud as a percent of total returns	3.5%
Estimated amount of fraudulent returns	<b>\$9.12</b>
Return fraud and abuse as a percent of total returns <sup>(3)</sup>	6.1%
Estimated amount of return fraud and abuse <sup>(3)</sup>	<b>\$15.9</b>

Close to the annual revenue of the NFL

Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.  
All dollars in billions.

<sup>(1)</sup> 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.

<sup>(2)</sup> Retail sales (in billions) estimated by NRF.

<sup>(3)</sup> Return fraud and abuse estimates are derived from trends established in previous years of the *Consumer Returns in the Retail Industry* report.

### Key Findings

- NRF notes that this year's survey methodology has changed, and it now uses medians. As such, The Retail Equation feels it is no longer accurately comparable to previous years' data and chose to display 2015 metrics only.
- Total merchandise returns account for over \$260.5 billion in lost sales for US retailers. This size is overwhelming; if merchandise returns were a corporation it would rank #3 on the Fortune 500 list.
- Incorporating return abuse and fraud in merchandise exchange transactions, return fraud and abuse figures average approximately 2 to 3 percentage points higher than return fraud alone. From prior results, this year's return fraud and abuse is estimated at 6.1% of all return dollars, meaning the amount of fraudulent and abusive return dollars is \$15.9 billion.

**ANNUAL MERCHANDISE RETURN FRAUD AND ABUSE IS ESTIMATED BETWEEN \$9.1 AND \$15.9 BILLION FOR THE US RETAIL INDUSTRY.**



## US Holiday Returns and Return Fraud

METRIC	2015
Amount of holiday merchandise returned <sup>(1)</sup>	\$63.05
Returns as a percent of holiday sales	10%
Amount of fraudulent holiday returns	\$2.21
Return fraud as a percent of holiday returns	3.5%

*2% higher  
← than the  
annual rate*

Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.  
All dollars in billions.

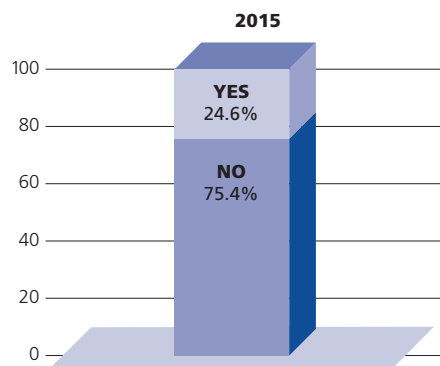
<sup>(1)</sup> NRF US holiday sales are defined as retail industry sales in the full months of November and December.  
Sales and returns reported in billions of dollars.

### Key Findings

- The holiday return rate was 2.0% higher than the annual rate.
- According to an NRF consumer survey, one out of every three gift recipients (38.0%) returned at least one item last holiday season.
- From the same study, 31.9% of people rarely or never include a gift receipt or original receipt when giving a gift, leading to increased potential for non-receipted returns.

## Holiday Return Policies

### DOES YOUR RETURN POLICY CHANGE FOR THE HOLIDAY SEASON?



Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.

### Key Findings

- Among the retailers who adopt different return rules during the holidays, 21.3% enact tighter policies and 3.3% loosen their policies.
- According to an NRF survey released in November 2015, 90.6% of Americans feel retailers' return policies are fair.

### The Retail Equation Conclusions

- Retailers that offer generous return policies all year do not need to make adjustments for the holidays in order to attract customers.



## Financial Summary of Return Fraud and Abuse in the US

CATEGORY	PERCENTAGE RATE	RETAIL INDUSTRY	EXAMPLE COMPANY (\$1 BILLION REVENUE)	RETURN FRAUD AND ABUSE LOSS PER \$100	
				OF SALES	OF RETURNS
Retail Sales	100%	\$3,256,650,000,000	\$1,000,000,000		
Returns	8.00%	\$260,532,000,000	\$80,000,000		
Received	90.0%	\$234,478,800,000	\$72,000,000		
Non-Received	10.0%	\$26,053,200,000	\$8,000,000		
Return Fraud <sup>(1)</sup> (low-end estimate)	3.5%	\$9,118,620,000	\$2,800,000	\$0.28	\$3.50
Return Fraud and Abuse <sup>(2)</sup> (high-end estimate)	6.1%	\$15,892,452,000	\$4,880,000	\$0.49	\$6.10

Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.

<sup>(1)</sup> Low-end estimates derived from: National Retail Federation 2015 Return Fraud Survey. October & November 2015.

<sup>(2)</sup> High-end estimates are derived from trends established in previous years of the *Consumer Returns in the Retail Industry* report.

### The Retail Equation Conclusions

- Non-received returns account for 10% of all returns, but the pie charts on page 8 show the risk of fraud exists in all return situations.
- As online sales continue to grow, most retailers allow customers to return merchandise purchased online in their stores; however, they estimate 1% of those returns are fraudulent.

## Lost US Jobs Impact of Return Fraud and Abuse

AVERAGE ANNUALIZED RETAIL EARNINGS <sup>(1)</sup>	RETAIL JOBS LOST DUE TO RETURN FRAUD	RETAIL JOBS LOST DUE TO RETURN FRAUD AND ABUSE
\$28,911	315,406	549,708

<sup>(1)</sup> Source: U.S. Bureau of Labor Statistics, Retail Trade sector: NAICS 44-45, Earnings and Hours of All Employees table, November 2015.

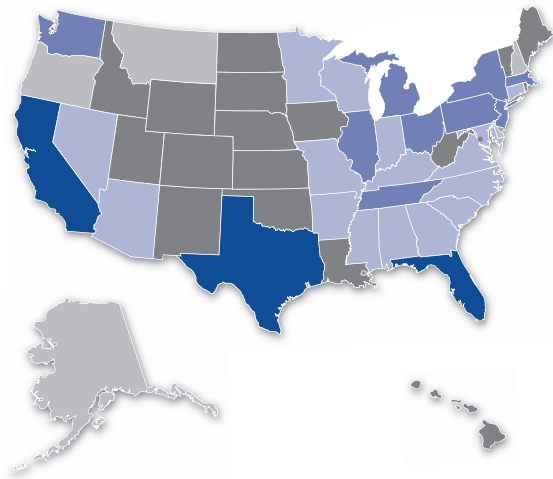
### The Retail Equation Conclusions

- 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.
- The table on the following page details lost retail jobs on a state-by-state level.



## 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 high-end estimates from table.

### The Retail Equation Conclusions

- Because of the significant retail revenue losses caused by return fraud and abuse, states are losing a total of nearly \$552 million to \$962 million in sales tax revenues at a time when state budgets are in need.
- 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 \$134 million to \$233 million lost at the local level due to return fraud.

STATE	% OF NATIONWIDE RETAIL SALES <sup>(1)</sup>	SALES	RETURNS
Alabama	1.50%	\$48,849,750,000	\$4,247,804,348
Alaska	0.26%	\$8,467,290,000	\$736,286,087
Arizona	2.24%	\$72,948,960,000	\$6,343,387,826
Arkansas	0.91%	\$29,635,515,000	\$2,577,001,304
California	11.90%	\$387,541,350,000	\$33,699,247,826
Colorado	1.70%	\$55,363,050,000	\$4,814,178,261
Connecticut	1.25%	\$40,708,125,000	\$3,539,836,957
Dist. Of Columbia	0.15%	\$4,884,975,000	\$424,780,435
Delaware	0.37%	\$12,049,605,000	\$1,047,791,739
Florida	7.30%	\$237,735,450,000	\$20,672,647,826
Georgia	3.01%	\$98,025,165,000	\$8,523,927,391
Hawaii	0.50%	\$16,283,250,000	\$1,415,934,783
Idaho	0.51%	\$16,608,915,000	\$1,444,253,478
Illinois	4.05%	\$131,894,325,000	\$11,469,071,739
Indiana	1.99%	\$64,807,335,000	\$5,635,420,435
Iowa	0.92%	\$29,961,180,000	\$2,605,320,000
Kansas	0.79%	\$25,727,535,000	\$2,237,176,957
Kentucky	1.26%	\$41,033,790,000	\$3,568,155,652
Louisiana	1.33%	\$43,313,445,000	\$3,766,386,522
Maine	0.51%	\$16,608,915,000	\$1,444,253,478
Maryland	1.99%	\$64,807,335,000	\$5,635,420,435
Massachusetts	2.34%	\$76,205,610,000	\$6,626,574,783
Michigan	3.10%	\$100,956,150,000	\$8,778,795,652
Minnesota	1.80%	\$58,619,700,000	\$5,097,365,217
Mississippi	0.89%	\$28,984,185,000	\$2,520,363,913
Missouri	1.97%	\$64,156,005,000	\$5,578,783,043
Montana	0.36%	\$11,723,940,000	\$1,019,473,043
Nebraska	0.62%	\$20,191,230,000	\$1,755,759,130
Nevada	1.14%	\$37,125,810,000	\$3,228,331,304
New Hampshire	0.67%	\$21,819,555,000	\$1,897,352,609
New Jersey	3.12%	\$101,607,480,000	\$8,835,433,043
New Mexico	0.62%	\$20,191,230,000	\$1,755,759,130
New York	5.93%	\$193,119,345,000	\$16,792,986,522
North Carolina	2.89%	\$94,117,185,000	\$8,184,103,043
North Dakota	0.25%	\$8,141,625,000	\$707,967,391
Ohio	3.39%	\$110,400,435,000	\$9,600,037,826
Oklahoma	1.00%	\$32,566,500,000	\$2,831,869,565
Oregon	1.27%	\$41,359,455,000	\$3,596,474,348
Pennsylvania	4.07%	\$132,545,655,000	\$11,525,709,130
Rhode Island	0.34%	\$11,072,610,000	\$962,835,652
South Carolina	1.36%	\$44,290,440,000	\$3,851,342,609
South Dakota	0.32%	\$10,421,280,000	\$906,198,261
Tennessee	2.10%	\$68,389,650,000	\$5,946,926,087
Texas	7.49%	\$243,923,085,000	\$21,210,703,043
Utah	0.84%	\$27,355,860,000	\$2,378,770,435
Vermont	0.25%	\$8,141,625,000	\$707,967,391
Virginia	2.63%	\$85,649,895,000	\$7,447,816,957
Washington	2.26%	\$73,600,290,000	\$6,400,025,217
West Virginia	0.54%	\$17,585,910,000	\$1,529,209,565
Wisconsin	1.80%	\$58,619,700,000	\$5,097,365,217
Wyoming	0.21%	\$6,838,965,000	\$594,692,609
Total			

<sup>(1)</sup> Source: National Retail Federation

<sup>(2)</sup> Source: Federation of Tax Administrators





STATE SALES TAX RATE <sup>(2)</sup>	LOW-END ESTIMATE <sup>(4)</sup>			HIGH-END ESTIMATE <sup>(5)</sup>		
	RETURN FRAUD	LOST SALES TAX REVENUE	LOST RETAIL JOBS IN STATE <sup>(3)</sup>	RETURN FRAUD/ABUSE	LOST SALES TAX REVENUE	LOST RETAIL JOBS IN STATE <sup>(3)</sup>
4.000%	\$148,673,152	\$5,946,926	5,941	\$259,116,065	\$10,364,643	10,355
0.000%	\$25,770,013	\$0	784	\$44,913,451	\$0	1,367
5.600%	\$222,018,574	\$12,433,040	7,347	\$386,946,657	\$21,669,013	12,805
6.500%	\$90,195,046	\$5,862,678	3,592	\$157,197,080	\$10,217,810	6,260
6.500%	\$1,179,473,674	\$76,665,789	36,067	\$2,055,654,117	\$133,617,518	62,860
2.900%	\$168,496,239	\$4,886,391	5,980	\$293,664,874	\$8,516,281	10,422
6.350%	\$123,894,293	\$7,867,288	3,755	\$215,930,054	\$13,711,558	6,545
5.750%	\$14,867,315	\$854,871	540	\$25,911,607	\$1,489,917	942
0.000%	\$36,672,711	\$0	1,129	\$63,915,296	\$0	1,968
6.000%	\$723,542,674	\$43,412,560	25,206	\$1,261,031,517	\$75,661,891	43,930
4.000%	\$298,337,459	\$11,933,498	11,185	\$519,959,571	\$20,798,383	19,494
4.000%	\$49,557,717	\$1,982,309	1,722	\$86,372,022	\$3,454,881	3,001
6.000%	\$50,548,872	\$3,032,932	1,996	\$88,099,462	\$5,285,968	3,478
6.250%	\$401,417,511	\$25,088,594	14,020	\$699,613,376	\$43,725,836	24,435
7.000%	\$197,239,715	\$13,806,780	8,050	\$343,760,647	\$24,063,245	14,031
6.000%	\$91,186,200	\$5,471,172	3,908	\$158,924,520	\$9,535,471	6,812
6.500%	\$78,301,193	\$5,089,578	3,096	\$136,467,794	\$8,870,407	5,396
6.000%	\$124,885,448	\$7,493,127	4,978	\$217,657,495	\$13,059,450	8,677
4.000%	\$131,823,528	\$5,272,941	4,904	\$229,749,578	\$9,189,983	8,546
5.500%	\$50,548,872	\$2,780,188	1,917	\$88,099,462	\$4,845,470	3,341
6.000%	\$197,239,715	\$11,834,383	6,615	\$343,760,647	\$20,625,639	11,529
6.250%	\$231,930,117	\$14,495,632	7,790	\$404,221,062	\$25,263,816	13,576
6.000%	\$307,257,848	\$18,435,471	12,054	\$535,506,535	\$32,130,392	21,009
6.875%	\$178,407,783	\$12,265,535	7,076	\$310,939,278	\$21,377,075	12,333
7.000%	\$88,212,737	\$6,174,892	3,512	\$153,742,199	\$10,761,954	6,121
4.225%	\$195,257,407	\$8,249,625	7,604	\$340,305,766	\$14,377,919	13,252
0.000%	\$35,681,557	\$0	1,435	\$62,187,856	\$0	2,500
5.500%	\$61,451,570	\$3,379,836	2,554	\$107,101,307	\$5,890,572	4,451
6.850%	\$112,991,596	\$7,739,924	3,702	\$196,928,210	\$13,489,582	6,453
0.000%	\$66,407,341	\$0	2,157	\$115,738,509	\$0	3,759
7.000%	\$309,240,157	\$21,646,811	9,356	\$538,961,416	\$37,727,299	16,306
5.125%	\$61,451,570	\$3,149,393	2,348	\$107,101,307	\$5,488,942	4,092
4.000%	\$587,754,528	\$23,510,181	18,116	\$1,024,372,178	\$40,974,887	31,574
4.750%	\$286,443,607	\$13,606,071	10,987	\$499,230,286	\$23,713,439	19,148
5.000%	\$24,778,859	\$1,238,943	958	\$43,186,011	\$2,159,301	1,670
5.750%	\$336,001,324	\$19,320,076	12,977	\$585,602,307	\$33,672,133	22,617
4.500%	\$99,115,435	\$4,460,195	3,557	\$172,744,043	\$7,773,482	6,199
0.000%	\$125,876,602	\$0	4,526	\$219,384,935	\$0	7,888
6.000%	\$403,399,820	\$24,203,989	15,253	\$703,068,257	\$42,184,095	26,585
7.000%	\$33,699,248	\$2,358,947	1,198	\$58,732,975	\$4,111,308	2,088
6.000%	\$134,796,991	\$8,087,819	5,311	\$234,931,899	\$14,095,914	9,256
4.000%	\$31,716,939	\$1,268,678	1,339	\$55,278,094	\$2,211,124	2,334
7.000%	\$208,142,413	\$14,569,969	7,408	\$362,762,491	\$25,393,374	12,912
6.250%	\$742,374,607	\$46,398,413	26,103	\$1,293,852,886	\$80,865,805	45,494
4.700%	\$83,256,965	\$3,913,077	2,975	\$145,104,997	\$6,819,935	5,184
6.000%	\$24,778,859	\$1,486,732	902	\$43,186,011	\$2,591,161	1,573
5.000%	\$260,673,593	\$13,033,680	9,735	\$454,316,834	\$22,715,842	16,966
6.500%	\$224,000,883	\$14,560,057	6,787	\$390,401,538	\$25,376,100	11,829
6.000%	\$53,522,335	\$3,211,340	2,205	\$93,281,783	\$5,596,907	3,842
5.000%	\$178,407,783	\$8,920,389	7,399	\$310,939,278	\$15,546,964	12,896
4.000%	\$20,814,241	\$832,570	787	\$36,276,249	\$1,451,050	1,371
		\$552,233,291			\$962,463,736	

<sup>(3)</sup> Calculated from state retail employment, source: National Retail Federation, PricewaterhouseCoopers LLP, The Economic Impact of the U.S. Retail Industry, October 2014 and retail earnings, source: U.S. Bureau of Labor Statistics.

<sup>(4)</sup> Low-end estimates derived from: National Retail Federation 2015 Return Fraud Survey, October & November 2015.

<sup>(5)</sup> High-end estimates are 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?

	2015
Return of stolen merchandise (shoplifting)	91.9%
Employee return fraud or collusion with external sources	77.4%
Return of merchandise purchased with fraudulent or stolen tender	75.8%
Wardrobing or renting (returns of used, non-defective merchandise)	72.6%
Returns made by organized retail crime groups	71.0%
Returns using e-receipts	33.9%
Returns using counterfeit receipts	25.8%

← Top growth area

Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.

### Key Findings

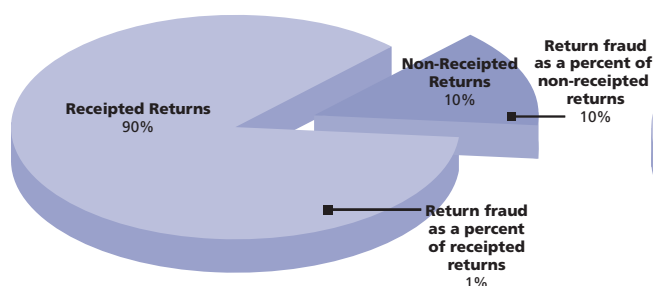
- In 2015, 9 out of 10 retailers reported the return of stolen merchandise.
- Return fraud as a result of employee actions or ORC groups affect more than 70% of retailers.

### The Retail Equation Conclusions

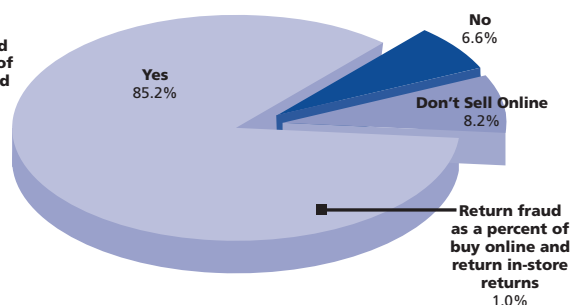
- For the 4th year in a row, shoplifting and returning those stolen items took the top spot, impacting almost every retailer surveyed (92%), implying that this situation needs to be examined because of its potential significant negative impact on fraud and shrink.
- Fraudulent e-receipted returns were 86% higher in 2015.

## Analysis of Return Fraud by Receipt and Channel

### PERCENT OF RETURNS WITH/WITHOUT A RECEIPT THAT RETAILERS SUSPECT ARE FRAUDULENT



### DO YOU ALLOW CUSTOMERS TO RETURN MERCHANDISE PURCHASED ONLINE TO YOUR BRICK-AND-MORTAR STORES?



Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.

### The Retail Equation Conclusions

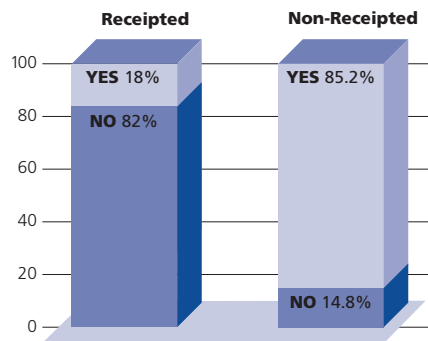
- While the risk of fraud exists in all merchandise returns, fraud occurs 10 times more often if items are returned without a receipt.





## Current Return Processes

### DOES THE CUSTOMER NEED AN ID TO MAKE A RETURN?



Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.

### Key Findings

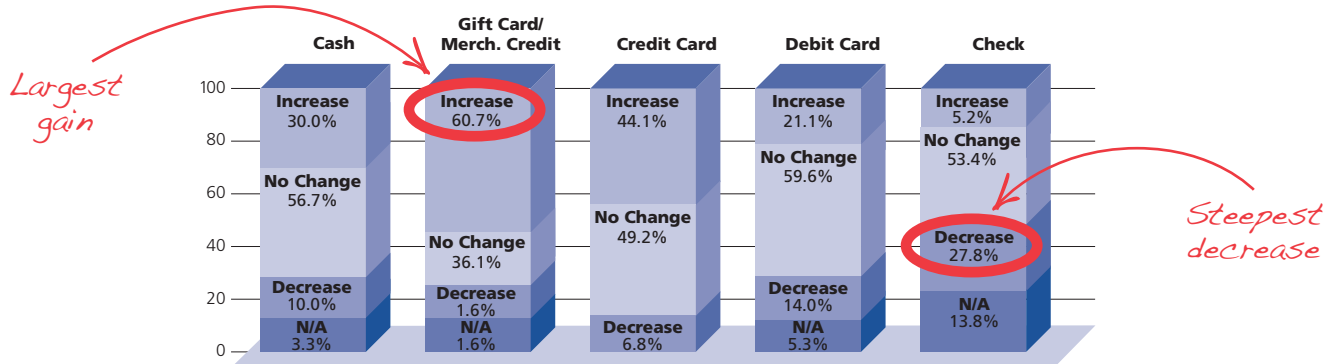
- Consumers can make returns without ever showing ID at only 16.4% of retailers.
- Among retailers who require identification, most (85%) require it for non-receipted returns.

### The Retail Equation Conclusions

- Retailers appear to trust receipts despite the ease with which they can be falsified.

## Return Fraud by Tender Type

### COMPARED TO THE PREVIOUS YEAR, IN WHICH TENDER TYPES HAS YOUR COMPANY ENCOUNTERED A CHANGE IN RETURN FRAUD?



Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.

### Key Findings

- The majority of retailers reported that fraudulent returns involving cash, debit card, and checks were similar to last year.
- Retailers reported a 5.5% increase in fraudulent PayPal transactions.

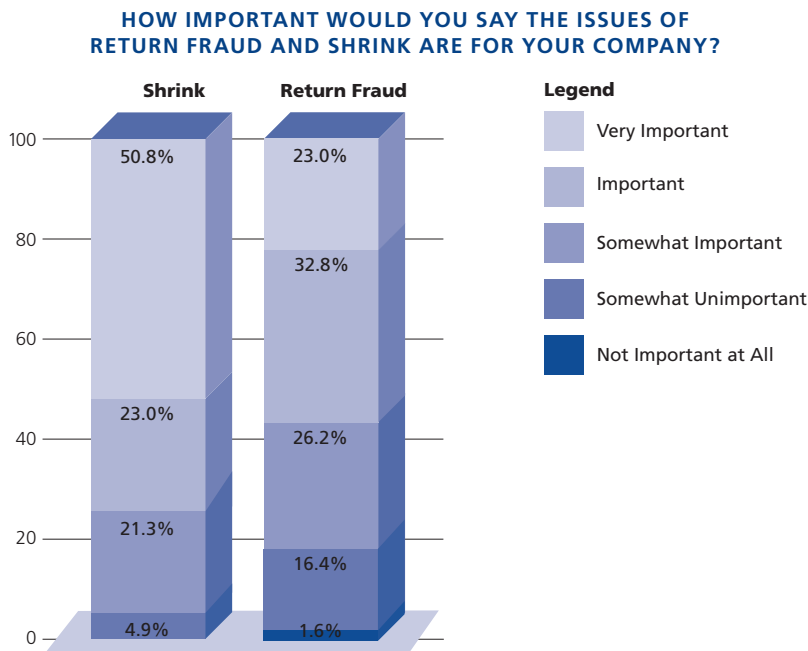
### The Retail Equation Conclusions

- All tender types are susceptible to return fraud; therefore, all tenders should be considered when developing a solution for fraudulent and abusive returners.
- Gift cards/merchandise credits are especially vulnerable because of their role in non-receipted return refunds and the ease with which they can be converted to cash through online auctions, in-store kiosks, and pawn shops.



## Impact of Return Fraud and Abuse vs. Shrink

Beyond reporting metrics, a significant goal of this survey is to understand how retailers view and manage return fraud and abuse. How strategic is return fraud compared to something very well known like shrink?



Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.

### Key Findings

- 55.8% say return fraud is important or very important.

### The Retail Equation Conclusions

- Fewer than half of retailers rated their return policies as “effective” in deterring fraud.
- Shrink will always be a key metric and has historically been a large focus for LP teams.
- Return fraud and shrink are highly correlated. In fact, in a study of TRE clients, retailers averaged 0.32% absolute shrink reduction and 12.95% relative reduction to shrink.
- When working on returns problems, dig deep to find the real metrics. Only with a true return rate, and understanding of consumers, can you begin to size and solve your return and shrink issues.



## Annual Canadian Merchandise Returns and Return Fraud

METRIC	2014
RCC retail industry sales <sup>(1)</sup>	\$354.1 <sup>(2)</sup>
Returns as a percent of total sales <sup>(3)</sup>	8.0%
Amount of merchandise returned	<b>\$28.3</b>
Return fraud as a percent of total returns <sup>(4)</sup>	4.2%
Estimated amount of fraudulent returns	<b>\$1.2</b>
Return fraud and abuse as a percent of total returns <sup>(5)</sup>	6.1%
Estimated amount of return fraud and abuse	<b>\$1.7</b>

← Approx.  
10% of  
US  
amounts

All dollars in billions.

<sup>(1)</sup> The Retail Council of Canada's retail industry sales figure includes traditional retail categories and food & convenience stores, and excludes automotive & gasoline. Sales and returns are reported in billions of dollars.

<sup>(2)</sup> 2014 retail sales (in billions) reported by RCC in *Retail Fast Facts*, November 2015.

<sup>(3)</sup> Returns as a percent of total sales is estimated from US figures.

<sup>(4)</sup> Return fraud figure reported in the *2012 Canadian Retail Security Survey* from RCC and PwC.

<sup>(5)</sup> Return fraud and abuse estimates are derived from trends established in previous years of the *Consumer Returns in the Retail Industry* report.

## Financial Summary of Return Fraud and Abuse in Canada

CATEGORY	PERCENTAGE RATE	RETAIL INDUSTRY	EXAMPLE COMPANY (\$1 BILLION REVENUE)	RETURN FRAUD AND ABUSE LOSS PER \$100	
				OF SALES	OF RETURNS
Retail Sales	100%	\$354,130,000,000	\$1,000,000,000		
Returns <sup>(1)</sup>	8.0%	\$28,330,400,000	\$80,000,000		
Receipted <sup>(1)</sup>	90.0%	\$25,497,360,000	\$72,000,000		
Non-Receipted <sup>(1)</sup>	10.0%	\$2,833,040,000	\$8,000,000		
Return Fraud <sup>(2)</sup> (low-end estimate)	4.2%	\$1,189,876,800	\$3,360,000	\$0.34	\$4.20
Return Fraud and Abuse <sup>(3)</sup> (high-end estimate)	6.1%	\$1,728,154,400	\$4,880,000	\$0.49	\$6.10

<sup>(1)</sup> Percent is estimated from US figures. Source: National Retail Federation 2015 Return Fraud Survey, October & November 2015. For statistical reasons, the 2015 figures use a median and are therefore not directly comparable to previous years.

<sup>(2)</sup> Low-end estimates are derived from return fraud figure reported in the *2012 Canadian Retail Security Survey* from RCC and PwC.

<sup>(3)</sup> High-end estimates are derived from trends established in previous years of the *Consumer Returns in the Retail Industry* report.

**ANNUAL MERCHANDISE RETURN FRAUD AND ABUSE IS ESTIMATED BETWEEN \$1.2 AND \$1.7 BILLION FOR THE CANADIAN RETAIL INDUSTRY.**

## Lost Canadian Sales Tax Impact of Return Fraud and Abuse

### *The Retail Equation Conclusions*

- Because of the significant retail revenue losses caused by return fraud and abuse, federal and provincial governments are losing a total of \$221 million to \$320 million in sales tax revenues.

PROVINCE	% OF NATIONWIDE RETAIL SALES <sup>(1)</sup>	SALES	
Newfoundland and Labrador	1.76%	\$8,882,000,000	
Prince Edward Island	0.40%	\$2,005,000,000	
Nova Scotia	2.76%	\$13,915,000,000	
New Brunswick	2.28%	\$11,528,000,000	
Quebec	21.41%	\$108,137,000,000	
Ontario	34.99%	\$176,719,000,000	
Manitoba	3.57%	\$18,034,000,000	
Saskatchewan	3.79%	\$19,143,000,000	
Alberta	15.56%	\$78,582,000,000	
British Columbia	13.12%	\$66,273,000,000	
Yukon	0.13%	\$661,000,000	
Northwest Territories	0.15%	\$774,000,000	
Nunavut	0.07%	\$355,000,000	
Total			

<sup>(1)</sup> Source: Retail Council of Canada

<sup>(2)</sup> Source: Retail Council of Canada

## Lost Canadian Jobs Impact of Return Fraud and Abuse

AVERAGE ANNUALIZED RETAIL EARNINGS <sup>(1)</sup>	RETAIL JOBS LOST DUE TO RETURN FRAUD	RETAIL JOBS LOST DUE TO RETURN FRAUD AND ABUSE
\$19,611	94,048	136,594

<sup>(1)</sup> Source: Government of Canada, Statistics Canada, CANSIM Table 282-0069. November 2015 and Weekly Hours of Hourly Paid Employees, Average, by Industry (Retail Trade) 2014.

### *The Retail Equation Conclusions*

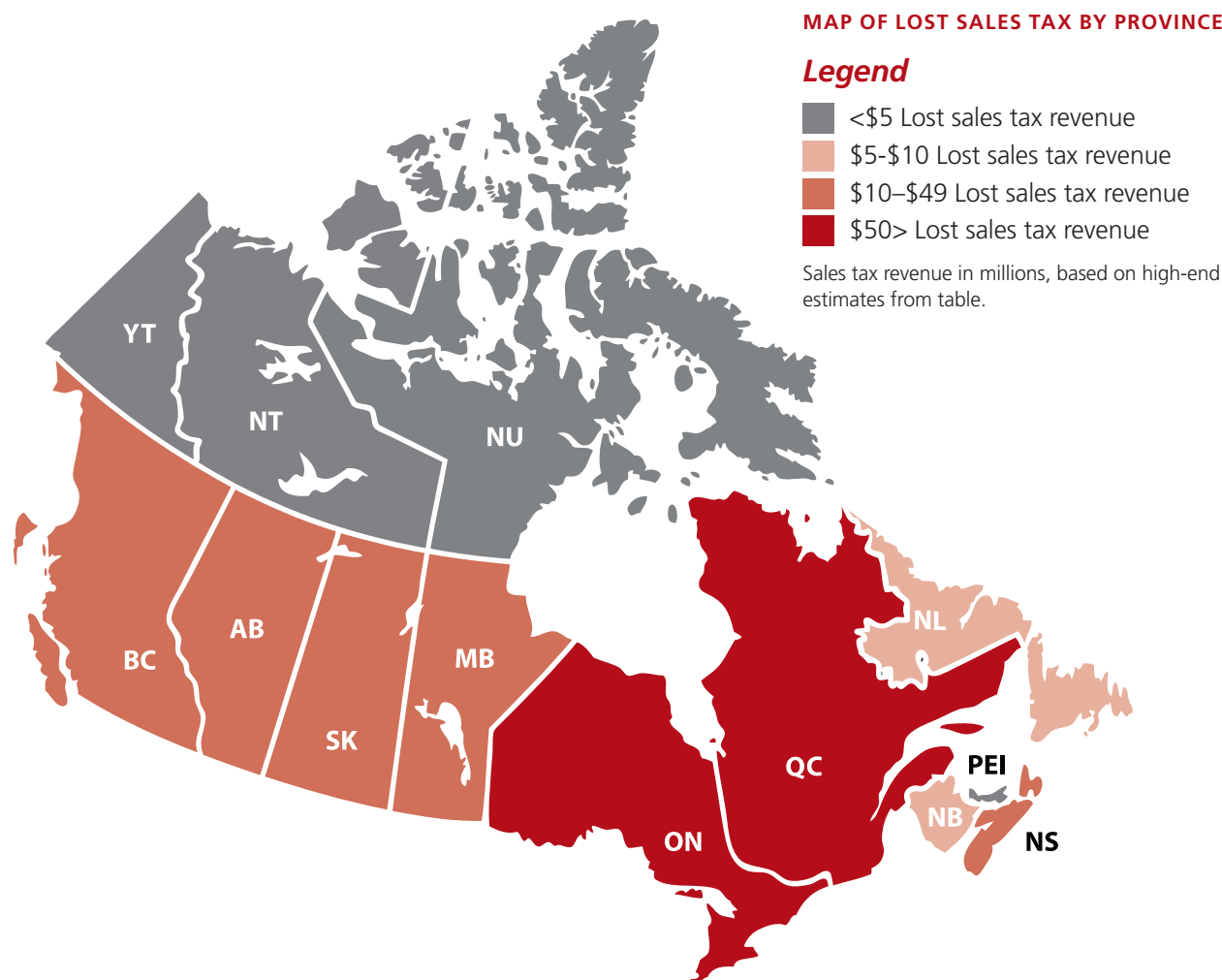
- Retailers must offset the negative business impact of return fraud and abuse by increasing prices to consumers and by reducing costs—which too often means a loss of jobs.



RETURNS	COMBINED TAX RATE <sup>(2)</sup>	LOW-END ESTIMATE <sup>(3)</sup>		HIGH-END ESTIMATE <sup>(4)</sup>	
		RETURN FRAUD	LOST SALES TAX REVENUE	RETURN FRAUD/ABUSE	LOST SALES TAX REVENUE
\$772,347,826	13.000%	\$32,438,609	\$4,217,019	\$47,113,217	\$6,124,718
\$174,347,826	14.000%	\$7,322,609	\$1,025,165	\$10,635,217	\$1,488,930
\$1,210,000,000	15.000%	\$50,820,000	\$7,623,000	\$73,810,000	\$11,071,500
\$1,002,434,783	13.000%	\$42,102,261	\$5,473,294	\$61,148,522	\$7,949,308
\$9,403,217,391	14.975%	\$394,935,130	\$59,141,536	\$573,596,261	\$85,896,040
\$15,366,869,565	13.000%	\$645,408,522	\$83,903,108	\$937,379,043	\$121,859,276
\$1,568,173,913	13.000%	\$65,863,304	\$8,562,230	\$95,658,609	\$12,435,619
\$1,664,608,696	10.000%	\$69,913,565	\$6,991,357	\$101,541,130	\$10,154,113
\$6,833,217,391	5.000%	\$286,995,130	\$14,349,757	\$416,826,261	\$20,841,313
\$5,762,869,565	12.000%	\$242,040,522	\$29,044,863	\$351,535,043	\$42,184,205
\$57,478,261	5.000%	\$2,414,087	\$120,704	\$3,506,174	\$175,309
\$67,304,348	5.000%	\$2,826,783	\$141,339	\$4,105,565	\$205,278
\$30,869,565	5.000%	\$1,296,522	\$64,826	\$1,883,043	\$94,152
			\$220,658,197		\$320,479,762

<sup>(3)</sup> Low-end estimates are derived from return fraud figure reported in the 2012 Canadian Retail Security Survey from RCC and PwC.

<sup>(4)</sup> High-end estimates are 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 <sup>(1)</sup>
Apparel	10.5%
Auto Parts	21.0%
Beauty	5.21%
Children's Apparel	9.88%
Department Stores	14.05%
Footwear	9.56%
Hard Goods	12.33%
Home Improvement	11.35%
Housewares	12.29%
Sporting Goods	9.25%
Women's Apparel	11.13%
<b>NRF Survey Median<sup>(2)</sup></b>	<b>8.0%</b>

<sup>(1)</sup> Retail category rates derived from TRE analysis of 34,000 stores in the specialty and general merchandise retail segments. TRE reviews return data direct from POS T-Logs—so all returns, exchanges, online returns, employee sale returns, and every other refund scenario is considered to build an actual return rate.

<sup>(2)</sup> Source: National Retail Federation 2015 Return Fraud Survey. October & November 2015.

### Key Findings

- The NRF survey median return rate (8.0%) is lower than the TRE blended return rate in several of the retail categories because the NRF survey included retailers outside of these select categories, like grocery and drug stores, which helped lower the median return rate.

## Return Reasons from Around the World

RETURN REASON <sup>(1)</sup>	\$ US (BILLIONS)
Defective/poor quality	\$162.0
Bought wrong item	\$99.3
Buyer's remorse	\$88.7
Better price elsewhere	\$83.4
Gift returns	\$64.1
Wrong size on item	\$62.4
Return fraud	\$28.2
Didn't match description	\$6.1
Late delivery of item	\$4.6
Other	\$43.8
<b>Total</b>	<b>\$642.6</b>

*Global return fraud is approximately twice as large as in US & Canada*

<sup>(1)</sup> Source: IHL Group/Order Dynamics "Hefty Returns" WWD. July 4, 2015.

### Key Findings

- While the bulk of this booklet focused on returns and return fraud, this separate study looks at consumers' return reasons. Interestingly, return fraud is still a significant line item on a global scale and aligns well with NRF and The Retail Equation's estimates.
- In the "US Retail Fraud Survey 2015" conducted by Retail Knowledge, return fraud cost retailers an average of 0.31% of sales in 2015, right in line with metrics in the table on page 5.



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## Summary

The eleventh *Consumer Returns in the Retail Industry* report represents the eighth year that The Retail Equation sponsored the National Retail Federation (NRF) Return Fraud Survey as a means to present a single source of metrics to the US retail market. The goal is to understand the extent of annual merchandise return fraud and abuse, which is estimated to be between \$9.1 and \$15.9 billion in the United States. By raising awareness of the problem, we hope to stimulate a dialogue that will lead to best practices and solutions.

Additionally, this is the fourth year we have included return fraud and abuse estimates for the Canadian retail market, as calculated from statistics compiled by the Retail Council of Canada (RCC). Annual merchandise return fraud and abuse in the Canadian retail market is estimated between \$1.2 and \$1.7 billion.

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). The results within offer the industry's best look into the subject of merchandise return policies and procedures, as well as potential fraud and abuse. This information can be used by loss prevention professionals to compare and contrast their own program results to those reported here, with an eye toward reducing losses from this source.

When considering solutions, remember that broad policy-based initiatives impact every shopper; potentially adversely affecting good customers as well as abusers, and consumer satisfaction may suffer as a result. Ultimately, implementing the right solution, combined with employee training that encourages diligent attention to the issue at the store level, will help result in reduced return fraud and abuse—leading to lower return rates, lower shrink, increased net sales, higher profits, and improved customer satisfaction.

For more information on the 2012 Canadian Retail Security Survey that generated portions of this executive summary report, please contact the RCC at [www.retailcouncil.org](http://www.retailcouncil.org).

For more information on the 2015 NRF Return Fraud Survey results that generated portions of this executive summary report, please contact Kathy Grannis Allen at [press@nrf.com](mailto:press@nrf.com) (855.NRF.PRESS) or Robert Moraca, VP, Loss Prevention at [moracar@nrf.com](mailto:moracar@nrf.com).

# 2015

## Consumer Returns *in the* Retail Industry



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