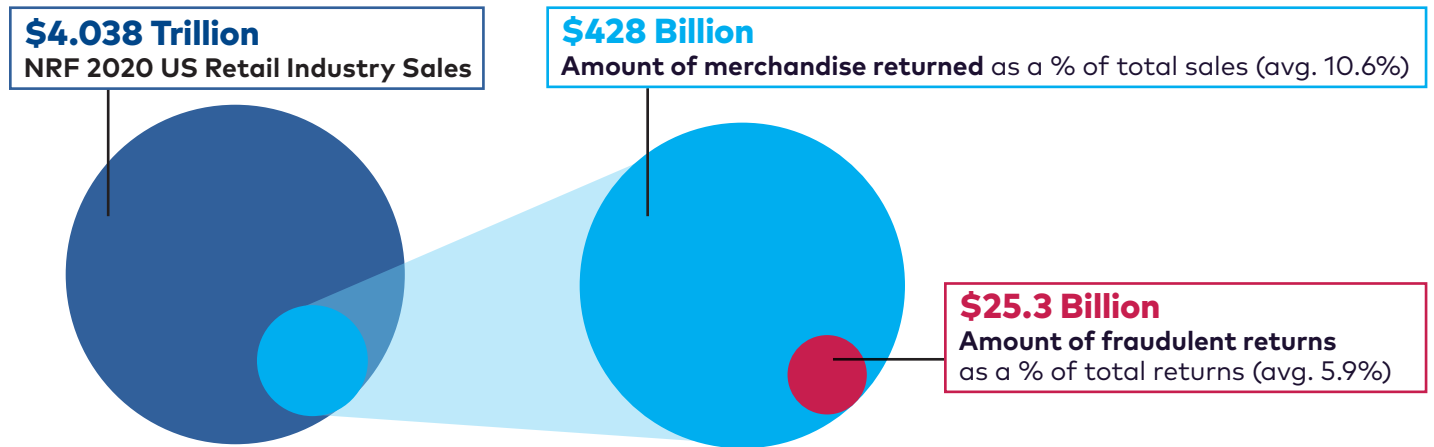


Consumer Returns in the Retail Industry 2020

Merchandise Returns



Source: National Retail Federation 2020 Returns Survey, Oct-Nov 2020.

Return Facts

- Total returns account for **\$428 billion in lost sales** for US retailers. This revenue is almost the size of the US Medicaid program. (www.cbo.gov/topics/health-care)
- For every \$1 billion in sales, the **average retailer incurs \$106 million** in merchandise returns.
- **Online returns more than doubled** and are a major driver of the overall growth of returns.
- For every \$100 in returned merchandise accepted, **retailers lose \$5.90 to return fraud**.
- Returned returns are **a hidden risk** from behaviors like shoplifting, collusion, wardrobing, and more.

Summary of Returns and Return Fraud

| Metric | Average | Retail Industry |
|---|---------|---------------------|
| NRF 2020 US retail industry sales ⁽¹⁾⁽²⁾ (in-store and online) | 100% | \$4,037,825,212,000 |
| Total amount of returns | 10.6% | \$428,009,472,472 |
| Total amount of fraudulent returns | 5.9% | \$25,252,558,876 |
| Non-receipted returns | 17.8% | \$76,185,686,100 |
| Non-receipted return fraud | 16.6% | \$12,646,823,893 |
| Receipted returns | 82.2% | \$351,823,786,372 |
| Receipted return fraud ⁽³⁾ | 3.6% | \$12,605,734,983 |

Source: National Retail Federation 2020 Returns Survey, Oct-Nov 2020.

Note: National Retail Federation 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.

(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 excludes sales at automotive dealers, gas stations, and restaurants.

(2) Retail sales estimated from NRF reports using 2020 actuals through 10 months and an estimated holiday sales growth rate of 4.4%.

(3) Receipted return fraud derived by subtracting non-receipted return fraud from total return fraud.

Holiday Returns

\$761 Billion

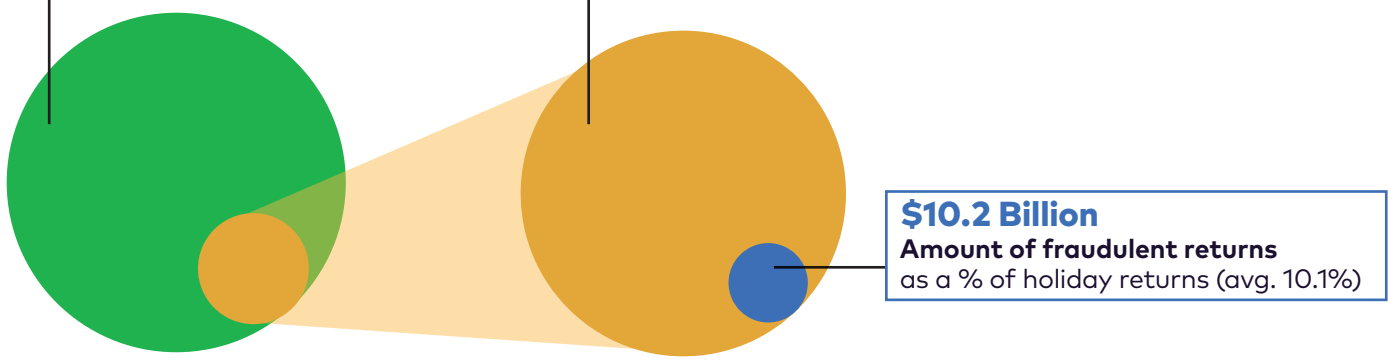
NRF 2020 US Holiday Sales

\$101 Billion

Amount of merchandise returned as a % of holiday sales (avg. 13.3%)

\$10.2 Billion

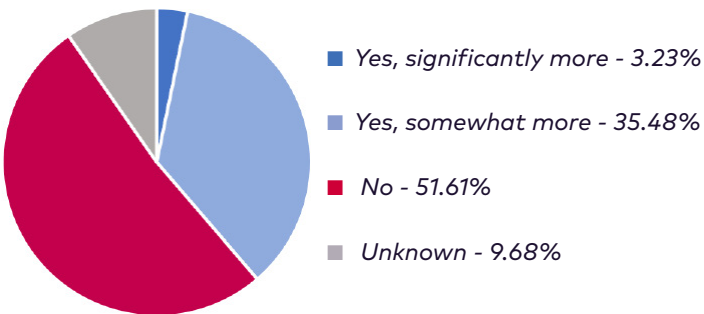
Amount of fraudulent returns as a % of holiday returns (avg. 10.1%)



Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

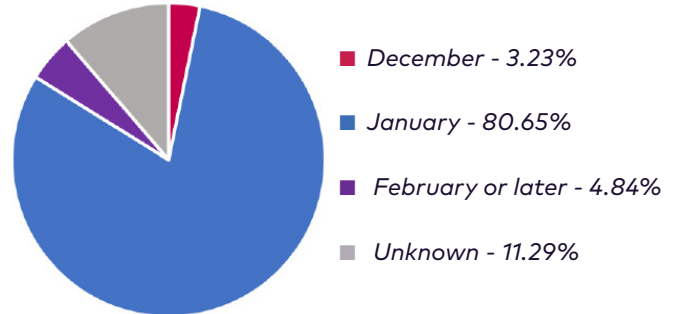
Managing Holiday Returns

Are you hiring more staff to handle returns during the holidays?



Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

When do you expect to receive the majority of returns?



Holiday Return Changes

Are you expecting that you will need to allow more or less time for processing returns this season?

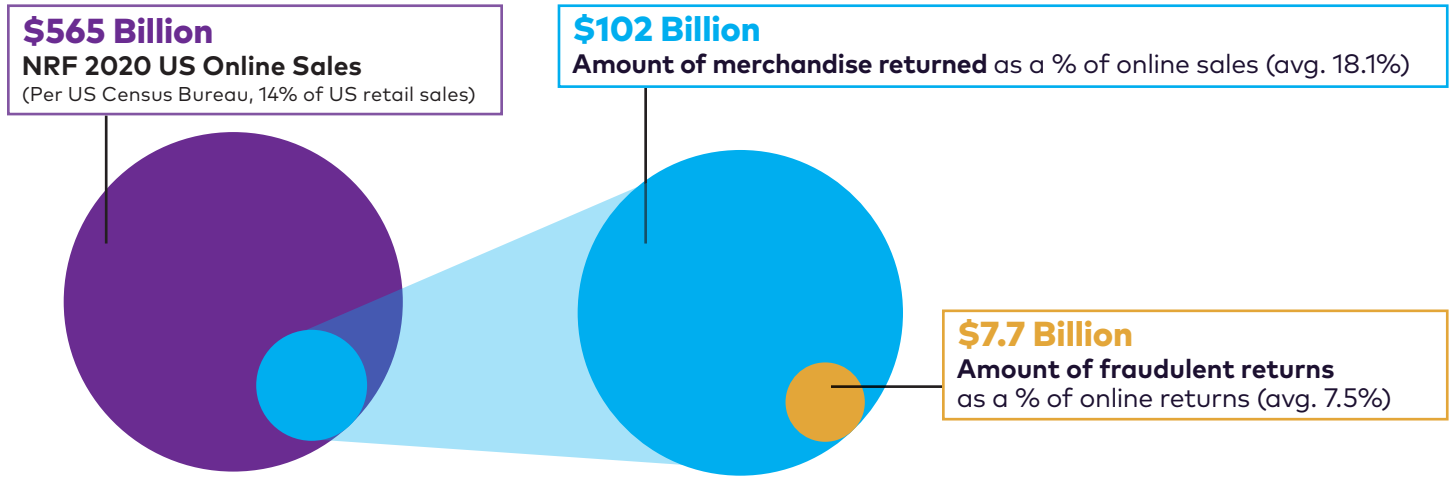
| Response | Average |
|---------------------|---------|
| Significantly more | 8.06% |
| Somewhat more | 45.16% |
| Same amount of time | 38.71% |
| Somewhat less | 1.61% |
| Significantly less | 0.00% |
| Unknown | 6.45% |

Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

How are you communicating processing changes to your customers?

- "In-store signage"
- "Website (return policy page and/or terms and conditions)"
- "Printed on receipt and/or order confirmation"
- "Digital (emails and/or social media)"
- "Not communicating, no changes"

Online Returns



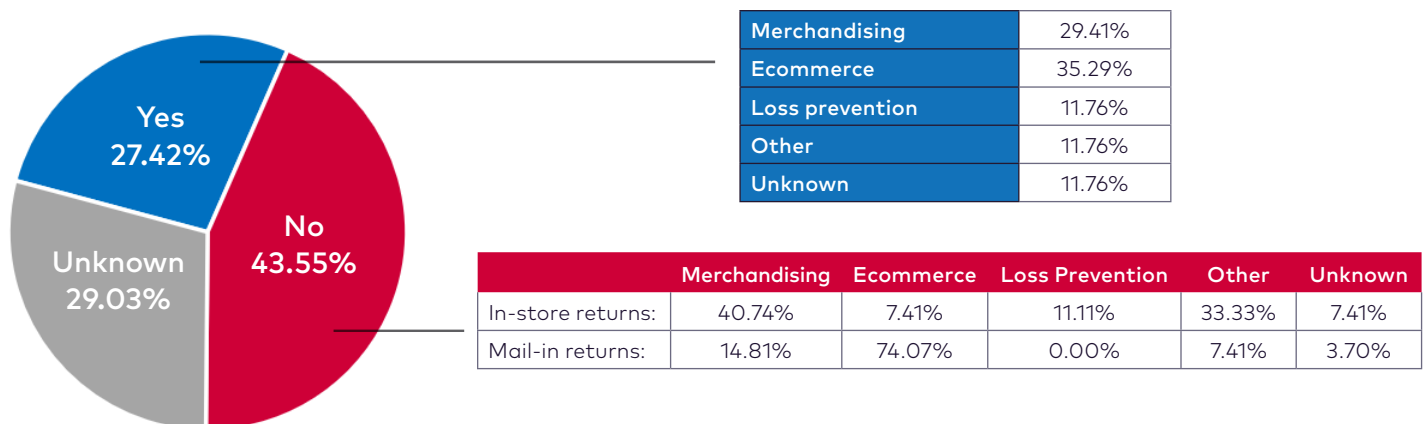
Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

Returns Offer Great Opportunities

- **Returns are good.** Your best shoppers often make the most returns.
- In-store returns are a method to **meet and convert** an online buyer.
- **Returns can be managed.** How they are handled impacts experience perceptions.
- Returns are an **opportunity to sell** to a known customer.

Managing Online Returns

Is the same department responsible for overseeing both in-store and mail-in returns?



Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

Return Issues

Which Examples of Return Fraud Have Retailers Experienced in the Past Year?

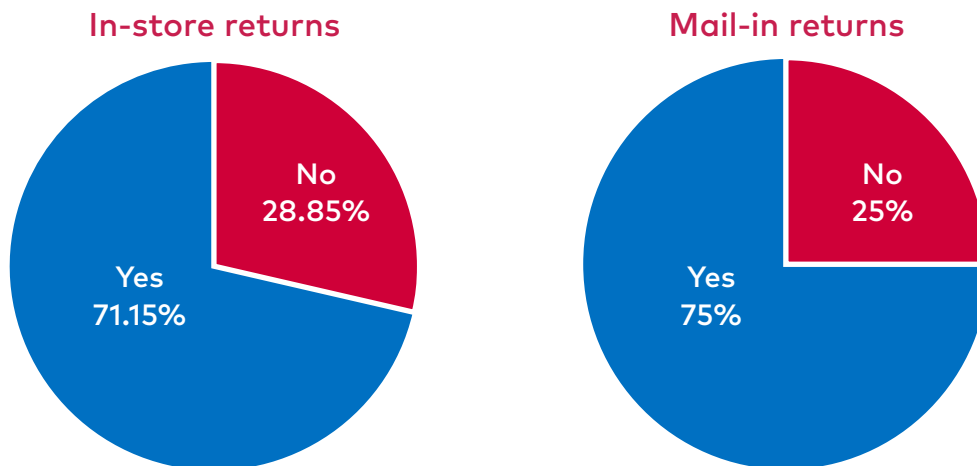
| Response | Average |
|--|---------|
| Return of shoplifted/stolen merchandise | 54.84% |
| Employee return fraud and/or collusion with external sources | 37.10% |
| Wardrobing (returns of used, non-defective merchandise) | 33.87% |
| Return of merchandise purchased on fraudulent or stolen tender | 24.19% |
| Returns using counterfeit receipts | 22.58% |
| Returns using e-receipts | 19.35% |
| Returns made by ORC groups | 17.74% |
| None of the above | 16.13% |
| Other | 4.84% |
| Unknown | 1.61% |

Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

What Are the Biggest Returns Challenges Retailers Are Facing Right Now?

- "Making returns friction-free and easy for consumers"
- "Shipping/Return delays shipped via mail/Returning merchandise to brick and mortar locations"
- "Refurbishing returned merchandise"
- "Verifying authenticity of products/counterfeits/merchandise from a different retailer"
- "Fraudulent returns/used or damaged merchandise/fake e-receipts/tag switching"
- "Restocking returned goods"
- "Consumers asking for exceptions"
- "Unsellable returns/old merchandise"
- "Reputation damage"
- "Health safety due to COVID-19"
- "Cost"
- "None"

Do You Require Receipts for Returns?



Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

Returns and COVID-19

After your stores began to reopen from COVID-19 closings, did you see more or fewer returns compared with the same time frame in 2019?

| Response | Average |
|--------------------|---------|
| Significantly more | 11.54% |
| Somewhat more | 15.38% |
| The same | 32.69% |
| Somewhat less | 30.77% |
| Significantly less | 9.62% |

Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

Managing Returns

With respect to customer returns of purchased goods, which of the following are you doing or do you plan to do?

| Response | Average |
|---|---------|
| Still determining | 55.32% |
| Delaying the restocking of returned goods for a minimum of 48 hours | 25.53% |
| Delaying the restocking of returned goods for a minimum of 24 hours | 17.02% |
| Not accepting returns | 2.13% |

Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

Will you require or do you expect to require cleaning and disinfecting of returned goods?

| Response | Average |
|--------------------|---------|
| Yes, definitely | 28.57% |
| Yes, probably | 25.00% |
| Still determining | 26.79% |
| No, probably not | 14.29% |
| No, definitely not | 5.36% |

Return Changes

Since the onset of COVID-19, has the cost of processing returns increased or decreased?

| Response | Average |
|-------------------------|---------|
| Increased significantly | 11.11% |
| Increased somewhat | 40.74% |
| Stayed the same | 38.89% |
| Decreased somewhat | 7.41% |
| Decreased significantly | 1.85% |

Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

Are you charging, or planning to charge, for returns as a direct result of COVID-19?

| Response | Average |
|----------|---------|
| Yes | 10.71% |
| No | 89.29% |

Lost Sales Tax Impact of Return Fraud

| US STATE | % OF NATIONWIDE RETAIL SALES ⁽¹⁾ | SALES | RETURNS | STATE SALES TAX RATE ⁽²⁾ | RETURN FRAUD ESTIMATE | |
|-------------------|---|-------------------|------------------|-------------------------------------|-----------------------|------------------------|
| | | | | | LOST RETAIL REVENUE | LOST SALES TAX REVENUE |
| Alabama | 1.50% | \$60,567,378,180 | \$7,181,366,988 | 4.000% | \$423,700,652 | \$16,948,026 |
| Alaska | 0.26% | \$10,498,345,551 | \$1,244,770,278 | 0.000% | \$73,441,446 | \$0 |
| Arizona | 2.24% | \$90,447,284,749 | \$10,724,174,702 | 5.600% | \$632,726,307 | \$35,432,673 |
| Arkansas | 0.91% | \$36,744,209,429 | \$4,356,695,973 | 6.500% | \$257,045,062 | \$16,707,929 |
| California | 11.90% | \$480,501,200,228 | \$56,972,178,103 | 6.000% | \$3,361,358,508 | \$201,681,510 |
| Colorado | 1.70% | \$68,643,028,604 | \$8,138,882,586 | 2.900% | \$480,194,073 | \$13,925,628 |
| Connecticut | 1.25% | \$50,472,815,150 | \$5,984,472,490 | 6.350% | \$353,083,877 | \$22,420,826 |
| Delaware | 0.37% | \$14,939,953,284 | \$1,771,403,857 | 0.000% | \$104,512,828 | \$0 |
| Dist. Of Columbia | 0.15% | \$6,056,737,818 | \$718,136,699 | 6.000% | \$42,370,065 | \$2,542,204 |
| Florida | 7.30% | \$294,761,240,476 | \$34,949,319,341 | 6.000% | \$2,062,009,841 | \$123,720,590 |
| Georgia | 3.01% | \$121,538,538,881 | \$14,410,609,755 | 4.000% | \$850,225,976 | \$34,009,039 |
| Hawaii | 0.50% | \$20,189,126,060 | \$2,393,788,996 | 4.000% | \$141,233,551 | \$5,649,342 |
| Idaho | 0.51% | \$20,592,908,581 | \$2,441,664,776 | 6.000% | \$144,058,222 | \$8,643,493 |
| Illinois | 4.05% | \$163,531,921,086 | \$19,389,690,867 | 6.250% | \$1,143,991,761 | \$71,499,485 |
| Indiana | 1.99% | \$80,352,721,719 | \$9,527,280,204 | 7.000% | \$562,109,532 | \$39,347,667 |
| Iowa | 0.92% | \$37,147,991,950 | \$4,404,571,753 | 6.000% | \$259,869,733 | \$15,592,184 |
| Kansas | 0.79% | \$31,898,819,175 | \$3,782,186,614 | 6.500% | \$223,149,010 | \$14,504,686 |
| Kentucky | 1.26% | \$50,876,597,671 | \$6,032,348,270 | 6.000% | \$355,908,548 | \$21,354,513 |
| Louisiana | 1.33% | \$53,703,075,320 | \$6,367,478,729 | 4.450% | \$375,681,245 | \$16,717,815 |
| Maine | 0.51% | \$20,592,908,581 | \$2,441,664,776 | 5.500% | \$144,058,222 | \$7,923,202 |
| Maryland | 1.99% | \$80,352,721,719 | \$9,527,280,204 | 6.000% | \$562,109,532 | \$33,726,572 |
| Massachusetts | 2.34% | \$94,485,109,961 | \$11,202,932,501 | 6.250% | \$660,973,018 | \$41,310,814 |
| Michigan | 3.10% | \$125,172,581,572 | \$14,841,491,775 | 6.000% | \$875,648,015 | \$52,538,881 |
| Minnesota | 1.80% | \$72,680,853,816 | \$8,617,640,385 | 6.875% | \$508,440,783 | \$34,955,304 |
| Mississippi | 0.89% | \$35,936,644,387 | \$4,260,944,413 | 7.000% | \$251,395,720 | \$17,597,700 |
| Missouri | 1.97% | \$79,545,156,676 | \$9,431,528,644 | 4.225% | \$556,460,190 | \$23,510,443 |
| Montana | 0.36% | \$14,536,170,763 | \$1,723,528,077 | 0.000% | \$101,688,157 | \$0 |
| Nebraska | 0.62% | \$25,034,516,314 | \$2,968,298,355 | 5.500% | \$175,129,603 | \$9,632,128 |
| Nevada | 1.14% | \$46,031,207,417 | \$5,457,838,911 | 6.850% | \$322,012,496 | \$22,057,856 |
| New Hampshire | 0.67% | \$27,053,428,920 | \$3,207,677,255 | 0.000% | \$189,252,958 | \$0 |
| New Jersey | 3.12% | \$125,980,146,614 | \$14,937,243,335 | 6.515% | \$881,297,357 | \$57,416,523 |
| New Mexico | 0.62% | \$25,034,516,314 | \$2,968,298,355 | 5.125% | \$175,129,603 | \$8,975,392 |
| New York | 5.93% | \$239,443,035,072 | \$28,390,337,492 | 4.000% | \$1,675,029,912 | \$67,001,196 |
| North Carolina | 2.89% | \$116,693,148,627 | \$13,836,100,396 | 4.750% | \$816,329,923 | \$38,775,671 |
| North Dakota | 0.25% | \$10,094,563,030 | \$1,196,894,498 | 5.000% | \$70,616,775 | \$3,530,839 |
| Ohio | 3.39% | \$136,882,274,687 | \$16,229,889,392 | 5.750% | \$957,563,474 | \$55,059,900 |
| Oklahoma | 1.00% | \$40,378,252,120 | \$4,787,577,992 | 4.500% | \$282,467,102 | \$12,711,020 |
| Oregon | 1.27% | \$51,280,380,192 | \$6,080,224,050 | 0.000% | \$358,733,219 | \$0 |
| Pennsylvania | 4.07% | \$164,339,486,128 | \$19,485,442,427 | 6.000% | \$1,149,641,103 | \$68,978,466 |
| Rhode Island | 0.34% | \$13,728,605,721 | \$1,627,776,517 | 7.000% | \$96,038,815 | \$6,722,717 |
| South Carolina | 1.36% | \$54,914,422,883 | \$6,511,106,069 | 6.000% | \$384,155,258 | \$23,049,315 |
| South Dakota | 0.32% | \$12,921,040,678 | \$1,532,024,957 | 4.500% | \$90,389,472 | \$4,067,526 |
| Tennessee | 2.10% | \$84,794,329,452 | \$10,053,913,783 | 7.000% | \$593,180,913 | \$41,522,664 |
| Texas | 7.49% | \$302,433,108,379 | \$35,858,959,159 | 6.250% | \$2,115,678,590 | \$132,229,912 |
| Utah | 0.84% | \$33,917,731,781 | \$4,021,565,513 | 4.850% | \$237,272,365 | \$11,507,710 |
| Vermont | 0.25% | \$10,094,563,030 | \$1,196,894,498 | 6.000% | \$70,616,775 | \$4,237,007 |
| Virginia | 2.63% | \$106,194,803,076 | \$12,591,330,119 | 4.524% | \$742,888,477 | \$33,608,275 |
| Washington | 2.26% | \$91,254,849,791 | \$10,819,926,262 | 6.500% | \$638,375,649 | \$41,494,417 |
| West Virginia | 0.54% | \$21,804,256,145 | \$2,585,292,116 | 6.000% | \$152,532,235 | \$9,151,934 |
| Wisconsin | 1.80% | \$72,680,853,816 | \$8,617,640,385 | 5.000% | \$508,440,783 | \$25,422,039 |
| Wyoming | 0.21% | \$8,479,432,945 | \$1,005,391,378 | 4.000% | \$59,318,091 | \$2,372,724 |
| Total | | | | | | \$1,551,785,759 |

Source: National Retail Federation 2020 Returns Survey, Oct-Nov 2020.

(1) Source: National Retail Federation

(2) Source: Federation of Tax Administrators (www.taxadmin.org)

Additional Information

Return Costs

- **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 logistics **expenses to increase.**
- Returns **cannot always be resold.**

Return Fraud Impacts

Retailers must offset the negative business impact of return fraud by increasing prices to consumers and by reducing costs.

741K LOST RETAIL JOBS

At an average retail salary of \$34,000 per year (U.S. Bureau of Labor Statistics, Retail Trade sector, October 2020), return fraud is costing American workers the equivalent of 741,323 jobs.

\$1.5B LOST STATE TAXES

There are significant retail revenue losses caused by return fraud – sales that should not be refunded – therefore, US states are losing \$1.55 billion in sales tax revenues.

\$0.5B LOST LOCAL TAXES

It is estimated another \$494 million of sales tax revenues are lost at the local level in the US due to return fraud.

Survey Demographics

- Conducted by NRF between October 19, 2020 and November 2, 2020.
- Responses from 62 retailers.
- Efforts to include as many retailers as possible, across all segments and sizes.

How many retail stores does your company operate?

| Response | Average |
|---------------|---------|
| Less than 10 | 31.03% |
| 10 – 25 | 3.45% |
| 26 – 50 | 6.90% |
| 51 – 100 | 6.90% |
| More than 100 | 51.72% |

Source: National Retail Federation 2020 Returns Survey Oct-Nov 2020

Which of the following best describes your level at your organization?

| Response | Average |
|------------|---------|
| C-Suite | 13.79% |
| SVP or EVP | 1.72% |
| VP | 15.52% |
| Director | 34.48% |
| Manager | 32.76% |
| Other | 1.72% |

Returns Summary

Return Rate by Retail Category

| Retail Category | Blended Return Rate ⁽¹⁾ |
|--|------------------------------------|
| Apparel | 12.2% |
| Auto Parts | 19.4% |
| Beauty | 4.3% |
| Department Stores | 11.4% |
| Drug/Pharmacies | 1.6% |
| Footwear | 9.1% |
| Hard Goods | 3.8% |
| Home Improvement | 11.5% |
| Housewares | 11.5% |
| Sporting Goods | 7.6% |
| Survey Average ^{(2) (3)} | 10.6% |

(1) Retail category rates derived from Appriss Retail analysis of 44,000 stores in the specialty and general merchandise retail segments. Appriss Retail reviews data direct from anonymous ecommerce and POS T-Logs—so all returns, exchanges, online returns, employee sale returns, and other refund scenarios are considered to build a blended return rate.

(2) Survey average is derived from a survey of retailers by NRF, Oct - Nov 2020.

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

Return Rate by Payment Type

| Original Payment Type | Blended Return Rate ⁽¹⁾ |
|-----------------------|------------------------------------|
| Cash | 12.69% |
| Credit Card | 22.78% |
| Debit | 7.04% |
| Other | 13.90% |

(1) Payment type rates derived from a 2019 analysis of 40,000 stores in the specialty and general merchandise retail segments. Appriss Retail reviews data direct from anonymous 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.

Returns, BORIS, 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 returns.

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 more critical than ever.

Improve Experience at the Return Desk

Your best shoppers make the most returns. Returns are a chance to increase interaction with that consumer, provide them with a great experience, and engender their loyalty for future shopping trips. Although accounting-wise a return is a lost sale, from a service perspective a return is a “moment of truth” that can be planned for and maximized. 🛍️

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