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Retailers ready to sing refund blues

Close to one-third of holiday gifts will make return trip

By Laura Severs - Business Edge
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An expected surge in holiday shopping is about to herald the onslaught of the return season - and it could be a costly one for Canadian retailers.

Close to one-third of holiday purchases are likely to end up back on retailers' shelves.

As consumers deck the malls and power centres this month with cash, debit and credit card purchases, retailers face the prospect of a post-season avalanche of returns that will need to be processed.

Tack on an expected increase in return fraud - the return of stolen merchandise - and retailers may not get to keep the projected average \$986 that Canadians plan to spend on holiday gifts, decorations or other holiday items. The figure, predicted by Toronto-based TNS Canadian Facts, a marketing, opinion and research firm, represents a significant 12-per-cent increase over estimated average holiday spending in 2006 of \$877.

In Canada, retail returns vary from a low of five per cent to a high of 30 per cent during the holiday season, according to figures from Toronto-based retail consultancy firm Graff Retail Group.

The number is similar to the latest American figures, which show slightly more than one in three consumers (37.6 per cent) were likely to have returned some portion of their gifts during the 2006 holiday shopping season.

In addition, 95.2 per cent of U.S. retailers say they have experienced return fraud. This year, return fraud is expected to cost American retailers \$10.8 billion, with \$3.7 billion of that taking place during the holiday season, says the Washington, D.C.-based National Retail Federation, the world's largest retail trade association. No similar Canadian figures are available.

"Return numbers are something most retailers keep confidential, so we don't have a hard number," says Peter Woolford, vice-president of policy development and research for the Toronto-based Retail Council of Canada (RCC), which represents more than 40,000 storefronts of all retail formats across Canada.

"I do know from talking with members that they have become increasingly concerned about the costs of returns," adds Woolford. "Fraud is an important part of it. Employers are making a lot of efforts to reduce return fraud - people stealing products from a store and then returning it for money.

"It's very much a loss-prevention issue and our members are saying they're seeing greater problems with it and greater losses from fraud artists."

Just as technology is helping retailers protect themselves from theft and fraud, it is also arming thieves.

"There's a lot of technology to print up a counterfeit receipt. Then they take the false receipt into the store and take the item off the shelf (and ask for a refund). It's really quite a serious problem," says George Off, CEO of Checkpoint Systems Inc., a southern New Jersey-based company that manufactures and sells identification and security products.

"I am an old retailer myself. I was in it for 20 years," Off adds. "Retailers want to make sure customers are happy, and they have instituted lenient no-hassle return policies."

"It's really been good for the consumer to have this approach; unfortunately there is a small percentage who will take advantage of anything."

Return fraud also includes those who will scour mall parking lots or trash bins for discarded receipts that they will then use to return items they have not purchased; opportunistic return abuse (purchasing an item on sale, losing the receipt and returning it for the higher non-sale price); cheque fraud (returning an item before the bad cheque clears); and intentional return abusers (retail renters who intentionally purchase an item, wear it or use

it, and then return it as new).

"I've heard that retail 'renting' or 'borrowing' accounts for 50 per cent of fraudulent or abusive returns," says Morag Harmsen, the Ontario-based vice-president and general manager of sales and marketing North America for Checkpoint.

"(Retail) theft overall is growing slightly. It's really very difficult to determine where the theft is from. Years ago, flexible return policies became common and at that time so did return fraud and abuse."

Even so, retailers are on the right track with more lenient return policies, says Kevin Graff, president of the Graff Retail Group.

"Retailers have done the right thing. Most have introduced a far more liberal return policy, using it wisely to drive sales," he says. "They put it in place to try to make the purchase easier for the customer, so a natural offshoot of that liberal policy is that it's more likely you're going to see more returns coming back in."

Refunds inevitably go up after Christmas, he notes. "So much of what is bought is for gifts. You're much less likely to return something you bought for yourself."

To cut down on returns, Graff recommends that retailers properly target the right merchandise to the customers they're going after, make sure that sales staff are doing the very best to help the customer make the right decision in the first place and to see returns not just as a refund process, but as an opportunity to drive additional sales.

"Every customer coming in the store for a refund represents a tremendous selling opportunity," he adds. "The focus has to be turning that customer looking for a refund into one who will make a purchase that very same day and the rest of the year."

"Make it a positive experience and people are much more likely to want to come back again."

The last thing retailers need is to have customers braving traffic and lineups only to get treated indifferently or coldly by staff who are tired of giving money back, Graff says.

Most Canadians don't know, or forget, that all retail sales are legally final - with minor variations such as door-to-door sales - unless something is wrong with the product or if the product is not as it has been described or represented, says the RCC's Woolford.

"What merchants have done to keep their customers satisfied ... is to offer a money-back guarantee where you can get a refund or an exchange," he says. "In Canada, I believe it was Timothy Eaton (of the now defunct Eaton's department store chain) who started that. It's a very competitive market."

Meanwhile, according to a Maritz Research Canada poll, Wal-Mart, Canadian Tire and Zellers could come out on top of the competitive heap this Christmas. The survey shows holiday shoppers are expected to favour making their purchases at Wal-Mart (68 per cent), Canadian Tire (54) and Zellers (48), primarily due to the convenience of one-stop shopping.

The poll indicates households with incomes of \$35,000 to \$75,000 will likely spend money at discount and home-improvement stores such as Wal-Mart and Rona, while households earning \$75,000-plus will shop at electronic, department and specialty stores such as Future Shop, Holt Renfrew and The Body Shop.

Many Happy Returns

A few tips for stress-free returns after the holidays:

* Know the retailer's return policy before you buy. Most retailers have return policies prominently displayed, especially at this time of year. Gift-givers should read and remember them. If you do not see the policies displayed, make sure to ask a sales associate.

* Save and file all receipts. Receipts are still the key to hassle-free returns. Many retailers will allow consumers to exchange merchandise without a receipt. However, without a receipt, a retailer may only provide merchandise credit for the lowest markdown-price at which the item was sold in the past 30 days. Make sure to destroy the receipt once you are sure that you will no longer need it.

* Provide all original packaging and all parts (including all tags) when giving a gift. Some retailers won't accept returns unless the item is in its original package. If you plan to take back a gift when it is unwrapped, resist the urge to open it or play with it. No one wants to buy someone else's merchandise.

* Ask for a gift receipt to make gift returns easier. Ask the retailer if it issues gift receipts. These receipts contain all the necessary information to prove the items were purchased, minus the price.

Source: The National Retail Federation

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