

## Calculating Your Real Return Rate

The logic behind this new calculation is pretty simple; every item returned is added cost and lost revenue.

Calculating return rates seems like straightforward math, but many POS and retail ERP reporting systems greatly oversimplify the formula. There is a growing tide of retailers that are calculating return rate more accurately and better understanding its impact on their revenue stream.

### The Old Return Rate

The old method for calculating return rate is to add up all pure return transactions and divide that negative number into net sales. This formula often overlooks exchanges, and therefore understates the value and quantity of merchandise returning to the store. Items and dollars that get returned within exchange transactions are unexpectedly hidden, masking your opportunities to rescue sales, provide better customer service, prevent fraud, and more.

### The Real Return Rate Includes Exchange Transactions

Considering a bigger picture, more retailers today are thinking of returns as merchandise that flows back into the store and gross sales as merchandise that flows out of the store. The outbound transactions are very different from the inbound, and the metrics you use should not obscure that fact by netting out the individual pieces, as often happens in exchange transactions.

When our retailer clients measure return rate, they include the total dollars from pure returns and the total dollars from all returned items involved in exchange transactions (positive, negative, and even exchanges). If return rate is not calculated this way, a large portion of the merchandise returns are completely ignored. The logic behind this is pretty simple; every item returned is added cost and lost revenue.

For example, under the old way, a retailer with 100% of its returns being exchange transactions would have a return rate of 0%! Instead, since it's clear that there is return activity in its stores, shouldn't a different formula be utilized to more accurately reflect reality? Please see a simplified calculation example below.

### The Impact On Your Business

When this emergent approach of measuring returns as all merchandise that flows back into your store is compared to previous calculations, most retailers see a return rate increase of 50% to 150%, dramatically highlighting the issue. By viewing returns in a broader light, you receive:

- More visibility into item return trends and patterns, creating better merchandise and customer service intelligence.
- Greater understanding of shopper behavior, enhancing CRM analysis.
- Stronger ability to spot and prevent return fraud and abuse.

- Improved capability to reduce return rate and thereby keep more revenue (net sales dollars) in-store.

Our retail customers see fraud and abuse issues in both exchange and return transactions; in fact, exchanges are very popular among fraudsters since exchanges are often scrutinized less (under the old return rate method which presumed exchanges were “safer” transactions than returns). Since return fraud can be perpetrated in many transactions, the fraud prevention tools you use and the method by which you calculate return rate must account for exchanges, too. The Retail Equation’s Verify-1® return authorization and Receipt Verification™ solutions do account for exchanges and help prevent fraud and abuse in merchandise returns of all types, keeping sales dollars from flowing out of your store.

## Example Calculations

### SIMPLIFIED CALCULATION OF RETURN RATE


TRANS TYPE	TRANS ID	LINE ITEM	SKU	LIST PRICE	DISCOUNTS	EXTENDED AMOUNT
Purchase	00001	001	1234567	\$29.99	\$0.00	\$29.99
		002	1234567	\$33.33	\$0.00	\$33.33
		003	2345555	\$59.99	\$0.00	\$55.99
		004	1111111	\$24.99	-\$10.00	\$14.99
Even exchange	00002	001	4444444	-\$29.99	\$0.00	-\$29.99
		002	5555555	-\$21.99	\$3.00	-\$18.99
		003	4444444	\$29.99	\$0.00	\$29.99
		004	5555555	\$21.99	\$0.00	\$21.99
Purchase	00003	001	1234567	\$89.99	\$0.00	\$89.99
		002	2345555	\$59.99	\$0.00	\$55.99
Positive exchange	00004	001	1111112	-\$9.99	\$1.99	-\$8.00
		002	2222222	\$12.99	\$3.00	\$15.99
		003	3333333	\$19.99	\$3.00	\$22.99
		004	4444444	\$29.99	\$3.00	\$32.99
Return	00005	001	9999999	-\$19.99	\$0.00	-\$19.99
		002	8888888	-\$7.99	\$0.00	-\$7.99

### OLD RETURN RATE CALCULATION

Total Pure Returns	-\$27.98	← Total of only return transactions (exchanges excluded)
Net Sales	\$319.27	← Net total of all transactions
Old Return Rate	8.76%	← Total Pure Returns divided by Net Sales

### REAL RETURN RATE CALCULATION

Total Returns	-\$84.96	← Total of all negative extended amounts
Gross Sales	\$404.23	← Total of all positive extended amounts
Net Sales	\$319.27	← Total of all extended amounts (Gross Sales + Total Returns)
Real Return Rate	21.02%	← Total Returns divided by Gross Sales

This simplified example underscores the significant differences in return rate calculations, and how the real return rate provides a clearer snapshot of what is happening in your stores. 

## Definitions

**Purchase** – This is a transaction that only includes purchased items and no items are returned or exchanged. The customer will owe money to the store in this type of transaction.

**Pure Return (Return)** – This is a transaction that only includes returned items and no items are purchased or exchanged. The customer will receive money back in this type of transaction.

**Even Exchange** – This is a transaction that includes returned items and purchased items that are exactly equal in value so that the total transaction amount is \$0.00. No money will be exchanged in this type of transaction.

**Negative Exchange** – This is a transaction that includes returned items and purchased items where the dollar amount of the returned items exceeds the dollar amount of the purchased items. The customer will receive money back in this type of transaction.

**Positive Exchange** – This is a transaction that includes returned items and purchased items where the dollar amount of the purchased items exceeds the dollar amount of the returned items. The customer will owe money to the store in this type of transaction.



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