

Study examines return policy effect on consumer behavior

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In 2014, product returns totaled about \$280 million across all U.S. retailers. New research from UT Dallas examined existing studies on return policies to quantify the policies' effect on consumers' purchase and return behavior.

UT Dallas doctoral candidate Ryan Freling, who is studying marketing in the Naveen Jindal School of Management, conducted the meta-analysis with UT Arlington associate professor of marketing Dr. Narayan Janakiraman and doctoral candidate Holly Syrdal. The study recently was published online in the *Journal of Retailing*.

The meta-analysis is the first attempt to understand the return policy literature quantitatively and prove that lenient policies positively affect purchase and return decisions, Freling said.

"In general, firms use return policies to increase purchases but don't want to increase returns, which are costly. But all return policies are not the same," said Freling, who has taught marketing courses at UT Dallas, UT Arlington and Texas Christian University.

The researchers collected and sifted through dozens of research papers that examined purchases, returns or both. They eventually focused on 21 papers from fields including economics, marketing, decision science, consumer psychology and operations research.

The study challenges the underlying assumption that all return policies

affect purchases and returns in a similar manner. It suggests that this is not the case, as retailers tend to impose restrictions to dissuade returns or offer leniency to encourage purchases by manipulating five return policy elements: time, money, effort, scope and exchange.

Overall, lenient return policies led to increased purchases, the study found. The researchers also found a positive effect—smaller, but still significant—of policy leniency on returns.

For example, leniency in scope increased returns.

"In the pre-purchase stage, consumers might think about the costs and benefits of making a purchase," Freling said. "If the return policy is lenient in scope—if a sale item can be returned—a consumer might say, 'Oh this is on sale. It seems like a good value. I'll buy it, and if it's not the right color or fit, I'll return it.'"

Freling said the study shows that return policy leniency should depend on the retailer's objectives. If a retailer wants to stimulate purchases, offering more lenient monetary policies and low-effort policies may be effective.

If a retailer wishes to curb returns, longer deadlines to make a return would be more effective. The study found that leniency in time reduced return rates. Freling said a possible explanation is the endowment effect, which suggests that the longer consumers possess a product, the more attached to it they become and less likely they are to return it.

"The cost of dealing with returns affects the bottom line," he said. "You want to look at the different dimensions of a return policy, because you may be able to manipulate the policy to achieve your goals."

With online sales becoming a more important aspect of the retail

industry—it totaled \$2.72 billion on Black Friday last year, up 14 percent from 2014—Freling said future research should investigate the impact of return policies on e-commerce.

The researchers classify return policy leniency as varying along five elements.

- **Time:** Retailers commonly specify deadlines in their return policies (e.g., a 30-day policy, a 90-day policy). Policies that provide a longer length of time to return products are more lenient.
- **Monetary:** Lenient return policies allow for a full refund of the amount paid for the product, while strict policies allow for only a portion of the purchase price to be refunded.
- **Effort:** Some retailers create "hassles" for customers returning products (e.g., requiring the original receipt, tags or product packaging be retained). Return policies requiring less effort from consumers are more lenient.
- **Scope:** Stores limit items they consider "return-worthy." For example, products purchased on sale may not be eligible for return. Policies with a greater scope of "return-worthy" items are more lenient.
- **Exchange:** While some retailers offer cash refunds, others offer store credit or product exchange for the returned item. Return policies that allow cash refunds are more lenient.

More information: Narayan Janakiraman et al. The Effect of Return Policy Leniency on Consumer Purchase and Return Decisions: A Meta-analytic Review, *Journal of Retailing* (2015). [DOI: 10.1016/j.jretai.2015.11.002](https://doi.org/10.1016/j.jretai.2015.11.002)

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