

Cross-selling can help retailers avoid lost revenue from returns

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It's become easy to order items thanks to the miracles of online shopping. But it's not so simple on the retailer end, especially when more than 16% of those sales are later sent back. In the U.S., that adds up to a

staggering \$816 billion in lost revenue.

Cross-selling can help, say a pair of researchers. Their experiments show that once we've chosen to buy something, we tend to consider that money as already spent or gone, also called "loss booking." If we decide we want to return the item, retailers can take advantage of that tendency by giving customers enticing options to spend their refund on something else, instead of getting their money back.

The research is published in the *Journal of Consumer Psychology*.

In a nutshell, "it hurts less to spend money refunded from a product return than other money, because you feel like you've already lost it," says researcher Chang-Yuan Lee, an assistant professor of marketing at the University of Toronto's Rotman School of Management.

Prof. Lee and his colleague Carey K. Morewedge from Boston University showed this over and over again in a series of experiments. Participants were more likely to buy an item when they were paying for it through refund money compared to funds they hadn't already spent. This occurred even in cases of unexpected money—it was still easier to apply a refund to another item than to spend windfall funds on it, such as imagined lottery winnings or tax refunds. Study participants were also willing to accept an item outside their original product category—a [\\$100 gift card](#) for a sports shoe company after the return of a \$90 grocery item.

There's a catch, though. The shopper has to psychologically mark the initial spend as lost, something that does not happen when they expect to ask for a refund at the time of purchase. Study participants who bought two pairs of shoes in different sizes, expecting to return the poorer-fitting pair, were not so likely to turn around and immediately apply the refund to something else offered.

Retailers are already onto cross-selling's value. The researchers cite the online exchanges-first platform Loop Returns, which claims to have retained nearly 29% of potentially lost [sales revenue](#) for online merchants by offering consumers alternative product options before initiating a refund.

While consumers could be discouraged from making [returns](#) by being charged extra fees, that leaves a bad taste in their mouth and previous research has shown they may take their business elsewhere.

"Our proposed cross-selling strategy offers a solution for retailers to minimize revenue loss without imposing significant costs on both the retailers and consumers," says Prof. Lee.

More information: Chang-Yuan Lee et al, Mental accounting of product returns, *Journal of Consumer Psychology* (2023). [DOI: 10.1002/jcpy.1354](#)

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