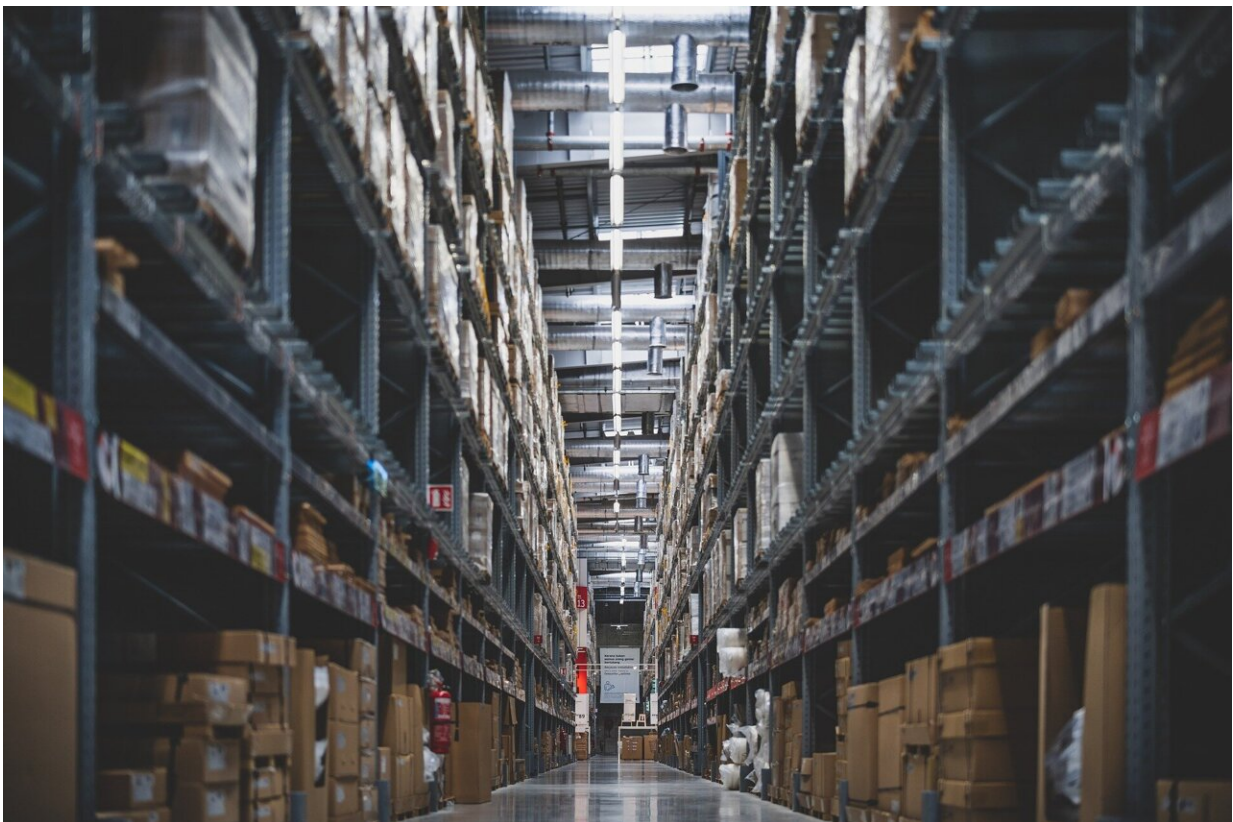


# Allowing consumers who purchased goods online to return them to retail stores can be a win-win

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Many consumers who shop online prefer to return items to brick-and-mortar stores rather than mail them back. In a new study, researchers

assessed a new practice called return partnership, in which online retailers partner with retailers with physical stores to offer offline returns. They conclude that this arrangement can benefit both online and store retailers, though businesses should be careful to choose the right partners.

The study, by researchers at Carnegie Mellon University and the University of Washington (UW), is [published](#) in *Management Science*.

"Retailers are increasingly adopting a variety of ways to return products to cater to customers' preferences," explains Soo-Haeng Cho, IBM Professor of Operations Management and Strategy at the Tepper School of Business at Carnegie Mellon, who co-authored the study. "These new approaches can be a win-win for online sellers and stores."

To reduce problems for consumers who want to return goods without having to package and mail them, online retailers (e.g., Amazon) have begun to partner with firms that own a network of physical stores (e.g., Kohl's) so customers can drop off returns of their online purchases. The partnerships usually do not involve direct monetary payment to the store retailers.

The store retailers benefit from purchases made during customers' visits to stores and online retailers save on shipping costs (the retailer collects and ships multiple returned items from a physical store, which is less costly than individual mail-in returns).

In this study, researchers examined the incentives of online retailers and store retailers in this unique partnership. Cho and his team constructed a model with an [online retailer](#) and a store retailer in which customers had several options for buying and returning goods. The study compared the expected profit of the retailers before and after a return partnership was formed and identified when both retailers benefitted from the

partnership.

## **Among the study's findings:**

- Online retailers benefitted from shifting returns to a cost-effective channel, and store retailers benefitted from having more people in their stores.
- Return partnerships can occur with no direct financial transaction between the online and store retailers; the partnership can work when the incentive for the two retailers is based only on how it affects [consumer behavior](#).
- Such partnerships can feature store partners that operate few stores but offer products similar to those of online retailers, or those that have a large store network but offer differentiated products.
- Online retailers that offer convenient online shopping and lenient returns are best poised to benefit from return partnerships. Online retailers with strict return policies (e.g., high restocking fees) should carefully examine the return rate increasing effects of entering a [partnership](#).
- Firms should choose their partners to ensure the offline return service benefits their overall business. For example, an online retailer and a store retailer with comparable products have incentives to partner only if the number of stores is not too large because consumers may be swayed to return to stores by the possibility of finding replacements for whatever product they are returning. This would lead to more consumers opting to return their online purchases, which hurts the online retailer's profit.

"By modeling consumers' purchase and return decisions and their impact on retailers' sales, our work provides insights into the types of online retailers that should form partnerships," says Leela Nageswaran, Assistant Professor of Operations Management at UW's Foster School of

Business, who co-authored the study.

"Attempts to forge return partnerships with store retailers must emphasize the sales boost from returning customers," adds Elina Hwang, Associate Professor of Information Systems at UW's Foster School of Business, who co-authored the study.

**More information:** Leela Nageswaran et al, Offline Returns for Online Retailers via Partnership, *Management Science* (2024). [DOI: 10.1287/mnsc.2023.01291](https://doi.org/10.1287/mnsc.2023.01291)

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