

THE RETURN POLICY LENIENCY EFFECTS CONSUMER PURCHASE AND RETURN DECISIONS: FASHION E-COMMERCE

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Abstract

In the online marketplace, one area of growing interest is that of product returns. While most retail stores offer return policies, some offer more lenient return policies than others. A trend towards more liberalized or lenient returns policies is evident in the fashion e-commerce business. This paper focus on various reasons and degree of leniency in return policy. The research finds the literature gap which exist in the area of consumer returns and the scope of the study. The paper also discusses the research questions and the theories associated with the concept. The paper finally concludes with the variables and Conceptual Research Model on the research topic. The research provides meaningful contributions to both academicians and retail managers.

Keywords: *Purchase Decision, Return decision, Signal, Leniency, key theories, etc.,*

1. INTRODUCTION

Product returns in 2014 totalled about \$280 million across all U.S. retailers—a figure that exceeds the annual sales revenue of all but the top ranked retailers. Returns can be prohibitively expensive for retailers due to the high processing costs and low salvage values associated with returned merchandise. In fact, a recent research anecdote suggests that retailers with product return rates in excess of 20 percent often generate zero operating profit. Despite the cost and prevalence of returns, most retailers offer a return policy hoping that the positive effect on demand will more than offset the negative effect on returns. Though commonly viewed as a cost center from an operations perspective, but have the potential to strongly influence future customer buying behaviour in several ways.

We may consider that retailers use the returns policy as a tool to reduce consumer risk and increase consumer demand (Janakiraman, Syrdal, & Freling, 2015). Retailers use returns policy in different ways: pre-purchase, to signal a certain level of retailer or product quality (Bonifield, Cole, & Schultz, 2010; Mukhopadhyay & Setaputra, 2007), and post-purchase, to alter product evaluations (Kim & Wansink, 2012). Returns policies can have varying degrees of leniency; Janakiraman et al. (2015) classify five returns policy leniency dimensions: time, money, effort, scope, and exchange.

2. PURPOSE AND SCOPE OF THE STUDY

Extant scholarly research offers no clear-cut answers. In fact, research exploring the effect of lenient return policies on product purchase and subsequent returns is inconclusive. To illustrate, while Petersen and Kumar (2010) find that lenient return policies lead to both higher purchase and higher returns, Wood (2001) and Wang (2009) find that lenient return policies increase purchase without increasing returns. To provide a more definitive answer to this question in apparel e-commerce, a research may be conducted, that examine how return policy leniency affects two important downstream outcomes:(1) purchase proclivity (i.e., purchase attitudes and (2) return proclivity (i.e., consumer intentions or decisions to keep or return products).

Scope of the study

The scope of this study is limited to understanding the return policies of retailers, as such the focus is placed on policies pertaining to the online portion of the business. The target audience of this research is anyone with an interest in e-commerce, returns management and returns policies. The results may be of interest to academics and to

e-commerce companies wishing to use returns policies more strategically. This study focuses on online returns and not in brick and mortar stores.

3. RESEARCH QUESTIONS

1. Do lenient return policies increase product purchase more than product returns?
2. What types of return policies have a greater impact on purchase, and what types have a greater impact on returns?

4. LITERATURE REVIEW

For the purpose of paper literature review was conducted in the area of purchase decisions, return decision, policy factors in return leniency from over 30 articles and reports. The review identifies following gaps:

- Research more in context of Brick and Mortar store, study done on online stores returns is limited.
- Conclusive work done in the area of Fashion E-commerce not found

5. KEY THEORIES AND RESEARCH MODEL

In examining the effect of return policy factors on product purchase, three theoretical mechanisms have been suggested in extant research.

1. **Signalling theory** has been put forth to explain how return policies act as positive quality signals by the retailer (e.g., Wood 2001).
2. **Consumer risk theory** has been applied to suggest that return policies should reduce the financial and product risk that consumer's feel prior to product purchase (e.g., Van den Poel and Leunis 1999).
3. **Construal level theory** has been used as a basis for positing that individuals faced with lenient return policies are likely to focus on the benefits of purchase rather than the costs of purchase (e.g., Janakiraman and Ordóñez 2012).

A common thread across the three theories is they all postulate that lenient return policies should positively affect product purchase. However, the theories vary in relevance depending on the return policy factor that is examined.

6. TYPOLOGY OF RETURN POLICY FACTORS

Previous researchers have attempted to classify the various elements of return policy leniency, but little consensus exists regarding these factors.

Davis, Hagerty, and Gerstner (1998) classify return policies in terms of five restriction factors:

- (1) Whether a store provides exchanges or cash refunds
- (2) Whether a receipt is required or not
- (3) Whether original packaging is required or not
- (4) Whether visible signs of use is allowed or not
- (5) The time limit for returns.

Heiman, McWilliams, and Zilberman (2001) characterize restrictions in terms of four factors

- (1) the length of time allowed for the return (typically between 30 and 60 days)
- (2) the costs associated with the product return (totally, partially, or not assumed by the retailer)
- (3) the terms of the policy (e.g., monetary refund vs. a replacement or an exchange)
- (4) additional restrictions (e.g., the obligation to have the product returned in its original package).

Taking both of these categorization schemes into consideration, we classify return policy leniency as varying along five dimensions:

1. Time leniency
2. Monetary leniency

- 3. Effort leniency
- 4. Scope leniency
- 5. Exchange leniency

Table 1 : Variable - Operationalised definitions

Variables	Description
Time leniency	Retailers commonly specify deadlines in their return policies (a 30-day policy, a 90-day policy, etc.). Return policies that provide a longer length of time in which to return products are regarded as more lenient.
Monetary leniency	Lenient return policies allow for a refund of the full monetary amount paid for the product, while strict policies allow for only a portion of the purchase price to be refunded, usually by imposing a “restocking fee” or a non-refundable “shipping and handling fee.” Policies that do not impose monetary restrictions are regarded as more lenient.
Effort leniency	Consumer effort required to execute returns varies, with some retailers creating “hassles” for customers returning products (e.g., requiring the original receipt, tags, or product packaging be retained). Return policies requiring less effort on the part of the consumer are considered more lenient.
Scope leniency	Stores limit items they consider “returnworthy.” For example, products purchased on sale may not be eligible for return. Return policies with greater scope of “return-worthy” items are considered more lenient.
Exchange leniency	While some retailers offer cash refunds, others offer store credit or product exchange for the returned item. Return policies that allow cash refunds are considered more lenient.

7. CONCEPTUAL RESEARCH MODEL FOR ONLINE RETAIL STORE

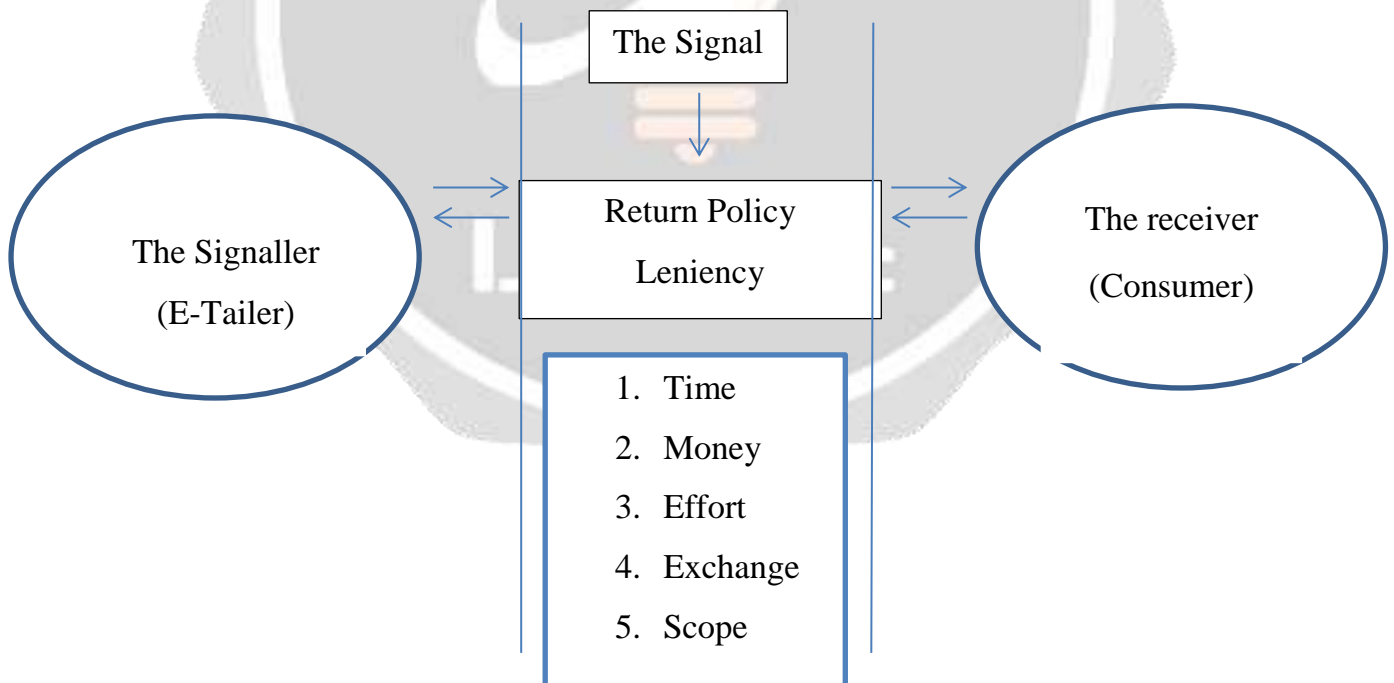


Fig 1: Conceptual Research Model

Returns policy Leniency effects on consumer behavior and its moderating effects on purchase and return decision

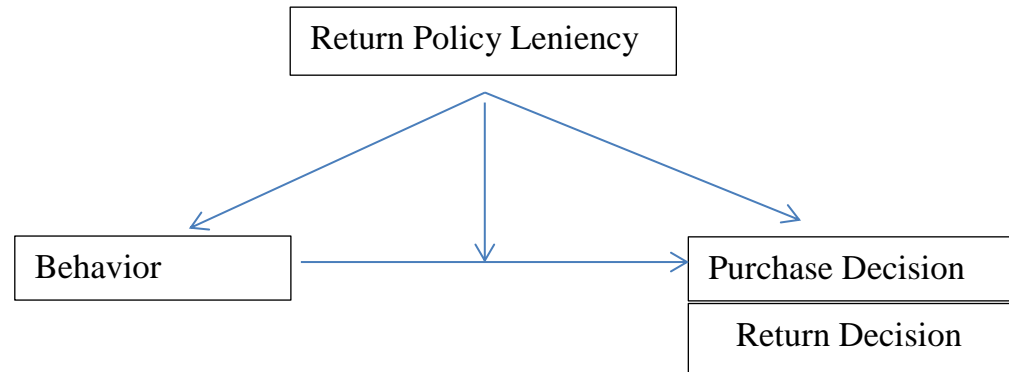


Fig 2: Variables

8. CONCLUSIONS

This research is an attempt to understand the return policy leniency effect in a systematic manner and on both purchase and return decisions. It also challenges the underlying assumption in most previous return policy research—that all return policy factors are similar in their effect on purchase and returns and, therefore, any one or more of the return policy factors can be randomly varied in order to manipulate return policy leniency.

Research also concludes that the return policy factors that influence purchase are different from the return policy factors that influence returns. The research provides meaningful contributions to both academicians and retail managers.

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