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Effects of retailer post-purchase guarantee policies on consumer perceptions with the moderating influence of financial risk and product complexity

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Abstract

The objective of this study was to assess the effects of two characteristics of retailer post-purchase guarantee policies RPGPs, namely the terms of the policy (i.e., product exchange only versus product exchange or money refund) and the length of time allowed for returning the product, on perceived product quality, retailer's image, and consumer need for additional information. The results of an experiment involving 164 adult consumers revealed that the time allowed for product return had a positive impact on retailer's image and a negative impact on the felt need for additional information. In addition, RPGPs allowing a money refund led to a more positive retailer's image. Contrary to expectations, the characteristics of RPGPs did not have an influence on the perception of product quality. Financial risk was a significant moderator of the relationship between the terms of the RPGP and retailer's image and of the relationship between the length allowed for returning the product and the need for additional information, but it did not moderate the other relationships. Product complexity moderated the relationship between length of time and the need for more information but had no moderating impact on the other relationships. The results of this study offer some insights to retailers wishing to evaluate the benefits of RPGPs for their retail operations and contribute to the body of scientific knowledge concerning this important topic in retail management.

Keywords: Retailer's guarantees; Money-back guarantees; Warranty programs; Product return

1. Introduction

Because many consumer behavior situations entail a certain degree of risk (Bauer, 1960), consumers have developed risk reduction strategies such as buying well-known brands or being loyal to products and brands that have brought satisfaction in the past (Roselius, 1971). Risk reduction mechanisms are, however, not restricted to consumer initiatives, for manufacturers' quality warranty programs and retailers' post-purchase customer satisfaction policies, such as money-back guarantee, product replacement, or product exchange, can play a significant role in attenuating consumer uncertainty. Since the 1970s, many studies have looked at warranty programs from the point of view of consumers and manufacturers (see e.g., Bearden and Shimp, 1982; Boulding and Kirmani, 1993; Ereveless, 1993; Innis and Unnava, 1991; Purohit and Srivastava, 2001). However, research on retailers' post-purchase satisfaction guarantee programs is more recent and has focused almost exclusively on remote buying contexts like catalog and electronic purchases. This research orientation appears to be justified given the *a priori* higher level of risk associated with these contexts as opposed to bricks-and-mortar retail buying (Festervand et al., 1986; Spence et al., 1970), but store purchases are obviously not risk-free. Although many authors think that post-purchase guarantee policies in a store context can reduce the perception of risk (Davis et al., 1995; Dowling and Staelin, 1994; Hawes and Lumpkin, 1986; Heiman et al., 2001), empirical research on this issue is lacking. The

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objective of this research is therefore to examine the effects of these programs' characteristics on consumer perceptions, more specifically perceived product quality, retailer's image, and consumer need for additional information.

2. Literature review

It is difficult to come up with a single definition of retailer post-purchase guarantee policies (RPGPs) because of the observed variability among retailers' offers due to the application of various restrictions. Heiman et al. (2001) mention that RPGPs vary according to four dimensions: (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., money refund versus a replacement or an exchange), and (4) additional restrictions (e.g., the obligation to have the product returned in its original package). Although it is tempting to assimilate RPGPs with manufacturer warranties, the nature of consumer risk reduction is different (Davis et al., 1995). Product warranties essentially focus on reducing the uncertainty surrounding product quality because they guarantee that the product will be replaced or the customer's money refunded if it does not perform as it should. An RPGP, however, may allow consumers to return a product even though it fulfills adequately its functions, offering consequently a more general protection against any mismatch between consumer needs and product benefits (Heiman et al., 2002). Despite this difference, research findings pertaining to manufacturer warranties may have some relevance for understanding how consumers react to RPGPs.

2.1. Research on manufacturer warranties

A manufacturer warranty is an extrinsic attribute that consumers may use to make inferences about product quality (Zeithaml, 1988). Boulding and Kirmani (1993) have studied the effect of warranties on consumer quality perceptions using signaling theory. They found that in high credibility situations, i.e., when consumers believe that the firm will honor its warranty commitments, better warranties lead to higher perceptions of overall quality, lower perceptions of breakdown likelihood, and higher purchase intentions, which was not the case in low credibility situations. The effect of manufacturer warranties on consumer perceptions seems therefore to be moderated by other pieces of information, such as the reputation of the manufacturer. Purohit and Srivastava (2001) have examined the impact of manufacturer warranties on consumer product quality perceptions when both the manufacturer's and the retailer's reputation vary. They found that a warranty does not act as a quality signal when the reputation of the manufacturer or that of the retailer is bad; however, it has a positive effect on perceived quality when the product is distributed by a credible retailer. Innis and Unnava (1991) have shown that a good warranty leads to more positive perceptions of quality in the case of a new brand but not when the brand is well known.

Researchers have also examined the effect of manufacturer warranties on risk perception. Unsurprisingly, studies have generally found that manufacturer warranties contribute to diminish perceived risk, whether risk is conceptualized as a general construct (e.g., Ereveless, 1993) or is examined from the point of view of different components, more specifically financial risk and performance risk (Bearden and Shimp, 1982; Voss and Ahmed, 1992).

2.2. Research on retailer post-purchase guarantee policies (RPGP)

Although studies having examined the effect of RPGPs on consumer perceptions are not abundant, it is possible to advance some preliminary conclusions as regards perceived risk, need for information, perceived quality, and retailer's image.

Davis et al. (1995) have speculated that money-back guarantee policies contribute to reduce consumer uncertainty in a purchase situation, but they have not brought any empirical evidence to support this assertion. Other researchers have shown empirically that consumers explicitly take into account RPGPs when they want to reduce their risk (Dowling and Staelin, 1994; Hawes and Lumpkin, 1986; Roselius, 1971). Heiman et al. (2001) also argue that RPGPs represent a category of risk-reduction strategies.

Wood (2001) has shown that RPGPs have a negative effect on the probability that consumers search for additional information in remote purchase environments (e.g., catalog, Internet). Presumably, a return policy leads consumers to infer that the product is of higher quality, which then leads them to believe that the choice is appropriate and that consequently there is no need to make comparisons with other options.

Moorthy and Srinivasan (1995) have examined the role of a money-back guarantee as a signal of quality when product quality cannot be evaluated before purchase (e.g., mail-order). Their results showed that money-back guarantees have the capacity to signal quality. However, they found that buyers' transactions costs reduce their attractiveness and that consequently, retailers should consider the possibility of absorbing some of these costs when the probability of product return is low.

Some researchers have proposed that the influence of RPGPs extends to the image of retailers, the rationale being that good RPGPs activate service quality inferences which then have a positive effect on retailers' image (Heiman et al., 2001). Schmidt and Kernan (1985) argue that consumers' expectations concerning satisfaction guaranteed retail outlets go well beyond money refund policies and generalize to the whole shopping experience.

One variable that may moderate the effects of the characteristics of RPGPs on consumer perceptions is the