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Retailers beware: On denied product returns and consumer behavior

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ABSTRACT

The wide variety of retailer return policies can cause consumers confusion. While keeping costs contained, very restrictive Return Policies (RPs) may mar consumer behavior. As a first attempt to examine the impact expectation of return control and involvement have on consumers, this study builds a conceptual model with support of the theory of psychological reactance and lends insights into how and why RPs, specifically the denial of product returns, affect consumers during and after the product return process. Our findings indicate that when consumers have high expectations of successfully returning a product and are denied, RPs create significantly higher negative attitudes toward the retailer and attempts to regain control both directly by asking the retailer for an exception and indirectly by retaliating against the retailer in the form of future fraudulent returning. Return-encounter tensions may be lessened by making consumers aware, before purchase, of the RPs.

1. Introduction

Product returns show no sign of declining and continue to hurt retailers' bottom-lines. According to Appriss Retail (2017), about 10% of total sales in the US (more than $350 billion loss in sales – a number close to the estimated 2017 federal budget deficit) were returned. To help mitigate such overwhelming losses, however, sometimes retailers restrict consumer returns through the use of restrictive Return Policies (RPs). The existence of a wide continuum of restrictiveness of RPs in the marketplace inevitably complicates the process of returning the product for the consumers. On one end of the continuum are retailers who offer an unrestricted 100% satisfaction guaranteed RP (e.g., L.L. Bean). On the other end are retailers who deny product returns (e.g., Apple App Store). Many retailers fall in between these two extremes by offering for example, 30-, 60-, or 90-day return periods, "exchange only" policies, additional restrictions such as requiring a receipt and/or original packaging (Davis, Hagerty, & Gerstner, 1998).

Beyond the variation between retailers' RPs also exists variation within some retailers' RPs. For example, Best Buy has a 30-day exchange or return on many of its products; however, some of its products have an "all sales are final" policy with no returns allowed. Furthermore, some retailers have varied their RPs over time with some becoming more restrictive (Petersen & Kumar, 2009). In addition to changing their RPs over time, some retailers regularly change their RPs throughout the year becoming more lenient during the holiday season. There is so much variation in RPs that a Consumer Reports (2010) article goes as far as to "warn" consumers to beware of retailer RPs because the "policies are a moving target." Given the sheer amount of variability within and between retailers' RPs, questions of critical importance include the following: Would a consumer who experiences a 30-day RP expect the same RP the next time he attempted a return? How would this consumer react when the second return is denied due to a variation within the RP in which the consumer was unaware?

Very lenient RPs may negatively impact retailers' profits due to a reduction in net sales as well as reverse logistics costs (Anderson, Hansen, & Simester, 2009); however, they positively impact gross sales by acting as a risk reliever for consumers, thus, increasing the likelihood of the initial consumer purchase (Lwin & Williams, 2006). In designing optimal RPs, a retailer must understand the impact that varying its RP may have on consumers. Moreover, retailers must understand specifically how the denial of a product return may impact consumer attitudes and future behaviors toward the retailer.

There is a substantial amount of research that has been done on product returns which is outlined in Section 2. However, Petersen & Kumar (2009, p.35) stated, "The literature on product returns is sparse, especially in relation to analyzing *individual customer product return behavior.*" Despite the substantial financial impact of product returns on retailers, there is no research that we have identified that deals specifically with understanding consumer reactions to being denied a product return under various conditions. This paper aims to advance the RP literature by specifically addressing how consumers respond to having their product returns denied. What outcomes are likely when product returns are denied? What conditions elicit the harshest consumer reactions when returns are denied? What could retailers do to

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help lessen the negative impact associated with denying product returns? To the best knowledge of the authors, this study is the first to examine how expectation of return control and involvement impact consumers' responses to denied product returns.

The layout of the remainder of this paper is as follows: Section 2 briefly reviews specifically those papers related to consumer purchase and return behavior in the RP literature and positions this study therein. In Section 3, building on our conceptual model, the hypotheses are stated which draw upon insight from the theory of psychological reactance to determine the potential impact of denied product returns on consumers. The experiment utilized to test these hypotheses and its results are also discussed. Section 4 offers managerial implications. Finally, Section 5 concludes and provides future research directions.

2. Related literature

Superior consumer experience in retailing is of utmost importance in today's competitive business environment. Because consumer experience includes "every point of contact at which the consumer interacts with the business, product, or service" (Grewal, Levy, & Kumar, 2009), a positive experience by the consumer possibly while returning a product cannot be overlooked especially in our modern day integrated service approach (e.g., Saghiri, Wilding, Mena, & Bourlakis, 2017). RPs have direct influence on the financial bottom-line of retailers, and consumers increasingly use RPs as a mechanism to cope with post-purchase dissonance (Lee, 2015). While Ülkü, Dailey, and Yayla-Küllü (2013) assert that with the optimal setting of parameters of RPs (price, return period, and refund rate) retailers may enhance their bottom-line even in the face of fraudulent consumers, Hjort and Lantz (2016) caution retail managers that free of charge RPs do not necessarily provide long-term profitability. On the other hand, Janakiraman, Syrdal, and Freling (2016) assert that lenient RPs stimulate purchase and that consumers are sensitive to future return restrictions and denials. Although the research on retailer-consumer RPs is insightful, it is somewhat limited. The following reviews the related literature that studies to a larger part some aspects of consumer behavior and RPs *during the purchase decision* and *the product return processes*.

Much of the product returns research focuses on the important role RPs have during the consumer's purchase decision process. For example, Davis, Gerstner, and Hagerty (1995) examine the use of retailers' "money-back guarantees" to reduce consumers' risk. They find that money-back guarantees are more profitable than selling "as-is" when the retailer has a salvage value advantage over consumers. Che (1996) develops a risk balancing model that suggests that retailers adopt returns policies when customer risk aversion is high. Wood (2001), studying remote purchase environments, suggests that lenient RPs increase consumers' purchase probability and decrease pre-purchase deliberation time. Heiman, McWilliams, and Zilberman (2001) assert product demonstrations as another risk-reducing mechanism to RPs. While Nasr-Bechwati and Siegal (2005) specifically suggest that consumers use RPs as a signal during product purchase, Bonifield, Cole, and Schultz (2010) show that in e-tailing, how consumers interpret RP as a quality signal is affected by trust (a consumer characteristic) and perceived control (a website characteristic). Bahn and Boyd (2014) argue that the more restrictive the RP, the higher the perceived risk of the consumer for the product assortment. Anderson et al. (2009) suggest that a retailer's RP has a measurable value for consumers; this value can be quantified and it varies across product categories and consumers. Pei, Paswan, and Yan (2014) show, for an online retailer, leniency in RPs increase consumers' perception of the fairness of the RPs and purchase intention, while Rao, Lee, Connelly, and Iyengar (2017) find that leniency in return period increases product prices which in turn might impact repatronage.

Additional RP research focuses on product return processes. Hess, Chu, and Gerstner (1996) find support that non-refundable charges can be used to profitably control inappropriate returns. Hess and Mayhew (1997) develop a split hazard model that utilizes historical data to effectively manage product returns by predicting product and customer return propensity. Davis et al. (1998) explicitly consider the opportunity for the retailer to make additional sales when the consumer visits the store to return the product. Their study shows that when product benefits cannot be consumed during a short period, when there is an opportunity for cross-selling and when a high salvage value can be obtained for returned merchandise, retailers were more likely to offer a low-hassle RP. Thang and Tan (2003) report that merchandising, reputation, accessibility, in-store service, and store atmosphere, save post-transaction services, strongly influence consumer's preference of retailer store. Petersen and Kumar (2009, 2015) find that, up to a point, people who return moderate amounts of product purchase more in the future; thus, retailers should not merely view RPs a cost. Among other reasons, Powers and Jack (2013) report that cognitive dissonance (both emotional and product-related) is strongly related to the frequency of product returns. To reduce consumer product returns, Lee and Yi (2017) suggest retailers to provide gifts with purchases.

Although the previously mentioned research explains fairly well how RPs impact consumers during the purchase decision process and how firms can limit product returns, it does not examine how retailers' RPs can impact consumers during and after the product return, specifically how the denial of a product return may influence consumers. As a first attempt to examine the impact that expectation of return control and involvement has on consumers, this study uniquely positions itself in the RP literature by lending insights into *how* and *why* denied product returns affect consumers *during* and *after* the product return process. In addition, our study complements Thang and Tan (2003) by demonstrating that denied return of a product may generate negative consequences for a retailer and may affect their repatronage. Further specific literature is given in the next section.

3. Theory of psychological reactance, hypotheses and results

The conceptual model we utilize for this research is shown in Fig. 1. This model is explained in detail throughout this section.

3.1. Building on the theory of psychological reactance

In the Theory of Psychological Reactance (TPR), Brehm (1966) suggests that individuals expect to have freedom/control over certain behaviors. If this control is reduced or threatened, psychological reactance will occur, and individuals will be motivationally aroused to regain control over the behavior. TPR suggests a non-generalized view of control: individuals do not expect control in every situation; rather, expectations of control are *specific* to the *situation.* TPR has received much empirical testing in the social psychological literature; it also has been utilized in the consumer behavior literature to explain consumer reactions to having their behavioral control threatened. To illustrate, researchers have used TPR to explain consumer responses to product stock-outs, helping behaviors, unsolicited persuasion attempts, and store crowding (cf., Clee & Wicklund, 1980; Eroglu & Harrell, 1986; Fitzsimons, 2000; Fitzsimons & Lehmann, 2004; Herman & Leyens, 1977; Kivetz, 2005; Mazis, Settle, & Leslie, 1973; Pavey & Sparks, 2009). We propose that TPR can be utilized to explain consumers' responses to denied product returns because return restrictions act as barriers that threaten consumers' return control; these threats may lead to reactance and associated outcomes.

3.1.1. Reactance and associated outcomes

Brehm (1966) viewed reactance as an intervening variable that could not be directly measured. However, researchers have since defined reactance as negative thoughts and/or negative emotion (cf., Clee