

Research Note

# The Effect of Return Policy Leniency on Consumer Purchase and Return Decisions: A Meta-analytic Review

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## Abstract

While most retail stores offer return policies, some offer more lenient return policies than others. The inherent belief is that lenient return policies are more likely to lead to purchases than to encourage returns. Examining prior research we find that return policy leniency has been characterized in terms of five different dimensions: time, money, effort, scope, and exchange. We conduct a meta-analysis of 21 papers examining the effect of leniency on purchase and return decisions, and demonstrate that overall, leniency increases purchase more than return. Further, we show the return policy factors that influence purchase (money and effort leniency increase purchase) are different from the return policy factors that influence returns (scope leniency increases returns while time and exchange leniency reduces returns).

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Return policies are a consumer risk reliever often used by retailers (e.g., [Gretorex and Mitchell 1994](#)) to increase consumer demand. However higher demand also likely leads to higher product returns. Product returns in 2014 totaled about \$280 million across all U.S. retailers—a figure that exceeds the annual sales revenue of all but the top ranked retailer.<sup>3</sup> 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.<sup>4</sup>

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. In a survey of 133 stores in California conducted by [Davis, Hagerty, and Gerstner \(1998\)](#), almost all of the stores had a return policy irrespective of whether they were department stores, specialty stores, or single outlet stores. However, the policies differed in that some stores offered more lenient return policies compared with others. In this regard, the first question we seek to address in the current research is: *do lenient return policies increase product purchase more than product returns?*

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 the current research, we conduct a meta-analysis by synthesizing data from original studies that examine how return policy leniency affects two important downstream outcomes: (1) purchase proclivity (i.e., purchase attitudes

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<sup>3</sup> [http://www.theretailer.com/Retailers/images/public/pdfs/industry\\_reports/ir\\_2014\\_nrf\\_retail\\_returns\\_survey.pdf](http://www.theretailer.com/Retailers/images/public/pdfs/industry_reports/ir_2014_nrf_retail_returns_survey.pdf).

<sup>4</sup> [https://www.theretailer.com/Retailers/images/public/pdfs/white\\_papers/wp\\_TRE4013\\_WhitePaper\\_ReturnFraud101\\_Feb2013.pdf](https://www.theretailer.com/Retailers/images/public/pdfs/white_papers/wp_TRE4013_WhitePaper_ReturnFraud101_Feb2013.pdf).

or behaviors) and (2) return proclivity (i.e., consumer intentions or decisions to keep or return products). We show, across studies and on an overall basis, that while return leniency increases both purchase and return, the effect on purchase proclivity is larger than the effect on return proclivity.

In addition to the basic question of whether return policies increase purchase more than returns, a second question we examine is: what type of *return policies have a greater impact on purchase, and what type have a greater impact on returns?* Extant research offers little guidance on this topic. Based on a research synthesis of prior literature, we propose that return policies can be classified as being lenient or restrictive along five dimensions: time leniency (e.g., 60 day vs. 30 day return policy), monetary leniency (e.g., offering 100 percent money back vs. 80 percent money back), effort leniency (e.g., no forms required vs. forms required), scope leniency (e.g., accepting returns on sale items vs. not), and exchange leniency (e.g., cash back vs. store credit). We code the effects of return policy leniency reported in the studies included in our meta-analysis as varying along these five return policy leniency dimensions.

To account for the heterogeneity among papers included in the meta-analysis, we include various substantive moderators (durability of the product, online focus of the retailer, and type of assortment carried) and various methodological moderators (type of journal, type of study, study location, and type of respondent). Using an HLM model that accounts for multiple effects included in each study, we find a distinct set of return policy parameters affect purchase compared with the parameters that affect returns. Specifically, money leniency and effort leniency increase purchase to a greater extent than do the other return policy factors. On the other hand, leniency on time and exchange reduces returns more than other return policy factors, while leniency on scope increases returns. Because the leniency factors have a differential impact on purchase and returns, retailers should consider creating return policies that vary along multiple dimensions.

In the sections that follow, we provide a review of the relevant literature on return policies and their effect on purchase and return proclivities. After delineating the meta-analytic procedure employed and presenting the results, we conclude with a discussion of how our findings provide meaningful contributions to both academicians and retail managers.

## Conceptual Foundations

### *Does Leniency in Return Policies Increase Purchase More Than Returns?*

Because most researchers have limited their examinations of return policy leniency and its effect on product purchase or product returns to only one or two return policy factors, prior research does not sufficiently answer this question. For example, a study conducted by Wood (2001) varied only the amount of the monetary refund, whereas Petersen and Kumar (2010) varied only the scope of products, Wang (2009) varied only the amount of time and guarantee, and Janakiraman and Ordóñez (2012)

varied only the amount of time and effort. Thus, we know little about the overall effect of return policies on purchase and return.

On the one hand, there is evidence that varying some return policy factors increases purchase without increasing returns. For example, Wood (2001) offered participants the opportunity to order a pen or choose a gift certificate under conditions of either a lenient or a restrictive return policy, which was varied by amount of the monetary refund (i.e., full refund amount for the lenient condition and partial refund amount for the restrictive condition). Upon receipt of the pen and after product trial, participants were asked to decide whether to keep the pen or exchange it for a gift certificate. The lenient return policy was found to increase purchase, but did not result in higher return rates compared with the restrictive return policy. Wang (2009) found similar effects, in that lenient return policies significantly increased initial purchasing tendency but did not increase return rate.

Some previous research shows leniency on other return policy factors likely increases purchase as well as returns. For example, in a controlled field experiment, Petersen and Kumar (2010) varied a company's product return policy by either allowing for non-defective products to be returned (lenient return policy) or only allowing defective products to be returned (restrictive return policy). The average dollar amount of returned products was higher under the lenient return policy (\$67.90) than under the strict return policy (\$20.50), suggesting a positive effect of lenient return policy on return behavior, with higher levels of return leniency leading to higher return proclivity. There is support for such a notion at the aggregate level as well. Bonifield, Cole, and Schultz (2010) find a positive relationship between number of purchases and number of product returns, suggesting that increasing product purchases leads to greater product returns.

To provide guidance on this topic, we conduct a meta-analysis to examine the overall impacts of return policy leniency, as well as the individual influences of leniency factors that comprise return policies. We classify all measures of purchase intentions and purchase behavior as *purchase proclivity*. Similarly, we group measures of both intentions to return and actual returns as *return proclivity*. A summary of the theories that are relevant to the examination of the effect of return policy leniency on purchase and returns follows.

### *Mechanisms Driving Effects of Leniency on Purchase*

In examining the effect of return policy factors on product purchase, three theoretical mechanisms have been suggested in extant research. First, signaling theory has been put forth to explain how return policies act as positive quality signals by the retailer (e.g., Wood 2001). Second, 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). Third, 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).

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