Increasing customer purchase intention through product return policies: The pivotal impacts of retailer brand familiarity and product categories

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This study gauges customer perspectives to investigate how return policy generosity (the degree to which a retailer imposes minimal restrictions on returns) influences customer-perceived value and customer purchase intention. It also examines two moderators, retailer brand familiarity (the extent to which the retailer brand is well-known) and product categories (the difference between products with respect to the magnitude of effort required to make a return). An experiment with a 2 × 2 × 2 factorial design was conducted. The results show that return policy generosity increases customer purchase intention by enhancing the perceived value of the policy. Lesser-known retailers benefit more from generous return policies than their well-known competitors, particularly when a product requires significant return effort. Well-known retailers benefit from offering generous return policies only for product categories that involve low levels of return effort. The findings of this study suggest that if a retailer formulates a return policy without considering the moderating effects of retailer brand familiarity and product category, then it will tend to over-invest if the return policy is generous.

1. Introduction

A return policy is a one of the after-sales services provided by retailers. It enables customers who are not satisfied with their purchase to receive their money back if they return the product within a given period of time (Davis et al., 1995). Generous return policies reduce customers' pre-purchase uncertainty (Heiman et al., 2001), making them more likely to purchase (Suwelack et al., 2011). However, generous return polices also increase those firms costs associated with the reverse logistics process (Horvath et al., 2005). Product returns cost U.S. manufacturers and retailers approximately $100 billion annually in lost sales and reverse logistics (Palmquist, 2015). Obviously, a better understanding of customer responses to return policies is important for effectively managing return policies.

Past research on return polices has indicated the benefits and costs of providing return policies and provided insights into such policies (Bonifield et al., 2010; Gurnani et al., 2010). However, little research has examined customer-perceived value or behavioral responses to return policies from the perspective of customers (Pei et al., 2014), indicating the first research gap. Given the value that customers attach to return services (Mollenkopf et al., 2007), an understanding of how return policy generosity (the degree to which a retailer imposes minimal restrictions on returns) creates customer value and facilitates customer purchase is crucial to helping retailers effectively allocate their resources to increase profitability.

Moreover, prior research on return policies has paid little attention to the influence of return policies in different contexts. This issue is important because the impact of a marketing offer can vary depending on customers' familiarity with the retailer (Inman et al., 2009). Product characteristics may also moderate the effects of return policies on customer responses (d'Astous and Guèvremont, 2008). The high degree of variability in return policies across retailers and product categories in the marketplace further indicates the need to investigate the issue (Anderson et al., 2009). For instance, large and well-known retailers typically offer generous return policies, while other retailers allow returns with restrictions. Variations in return policies also occur within the same retailer: Sears has more restrictive return policies for mattresses and home electronics (30 days) than for other product categories (90 days) (Merrick and Brat, 2005). The limited research into return policy contextual factors (e.g., retailer brand familiarity or product categories) indicates the second research gap.

This study aims to investigate the relationship between return policy generosity, return policy value and customer purchase intention from the perspective of customers. Based on the consumer response theory from marketing (Lavidge and Steiner, 1961), this study examines the moderating effects of two contextual factors (i.e., retailer brand familiarity and product categories). Specifically, this study intends to answer the following questions: Does the effect of return policy generosity on customer purchase intention differ across retailers and product categories? Can retailers benefit from providing differential return

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policies? Answering these questions can help retailers design return policies appropriate to different types of retailers and across product categories, indicating the value and relevance of filling these research gaps. Retailers can also use this information to differentiate themselves using their return policies.

This study makes several contributions to the literature. First, it uses the customer perspective to examine customer responses to return policies. d'Astous and Guèvremont (2008) have shown that return policy duration can affect customer perceptions. This study extends their research by demonstrating how and to what extent return policy generosity affects customers' purchase decisions through perceived value. The results can help to improve the profitability of retailers.

Second, it incorporates retailer brand familiarity and product categories into a return policy model. Previous research (Bahn and Boyd, 2014; d'Astous and Guèvremont, 2008) has suggested that contextual factors may moderate the relationship between return policy generosity and customer responses. This study provides new insights that retailers can use to differentiate themselves through their return policies. The findings show that lesser-known (vs. well-known) retailers should offer generous return polices, particularly when product categories require significant return effort due to their size or weight (hereafter referred to as a high-effort product category vs. low-effort product categories).

Third, this study moves beyond past research on return policies (e.g., Janakiraman et al., 2016) that predominantly addressed the endogenous costs of customer return (i.e., the return effort imposed by a retailer). This study is the first to incorporate both endogenous and exogenous costs (i.e., the return inconvenience resulting from a specific product category). By considering the customer return cost associated with a specific product category, this study demonstrates that a generous return policy offered by a well-known retailer may not positively affect customer purchase intention. The results also provide additional insight into online selling.

2. Theoretical framework and hypotheses development

2.1. Return policies and theoretical background

A generous return policy serves as a risk-reducing mechanism for buyers that enables sellers to charge higher prices for their products (Suwelack et al., 2011) and enhances their profits (McWilliams and Gerstner, 2006; Petersen and Kumar, 2009). By implementing generous return policies, retailers can differentiate themselves from the competition and positively influence purchase behavior (Griffis et al., 2012; Pei et al., 2014). However, generous return policies increase logistic costs and fraudulent returns (Harris, 2010).

This study is based on consumer response theories in marketing (e.g., the Hierarchy-of-Effects Model, as in Lavidge and Steiner, 1961). A firm's marketing offer (e.g., return policy) must have some psychological effect (e.g., attention or evaluation) before it can affect behavior. Moreover, the psychological effect will be affected by context (e.g., retailer familiarity or product categories) (DeCarlo et al., 2007). Accordingly, as a marketing offer requires customer attention to have any impact, contextual factors that increase exposure to the offer should affect customer behavior (Inman et al., 2009). Additionally, after customers have been exposed to the offer, they are likely to make cost-benefit trade-offs to evaluate it (Biswas et al., 2002). As such, contextual factors that increase the benefits and the costs of the offer affect customer response. Based on consumer response theory, this study examines retailer brand familiarity and product categories that affect customer attention and evaluation of a return policy before purchase.

2.2. Hypotheses development

2.2.1. Effects of return policy generosity on the perceived value of a return policy and purchase intentions

Generous return policies refer to policies that facilitate returns not only by allowing refunds, exchanges, and merchandise credits but also by imposing minimal restrictions on these returns (Bonifield et al., 2010). Customer value refers to a trade-off between the benefits of a marketing offer and the cost of taking advantage of that offer (Zeithaml, 1988). The perceived value of the return policy refers to a customer's assessment of the net benefit associated with a retailer's return policy and process issues (Mollenkopf et al., 2007).

A return policy that provides a longer time period in which to return products is regarded as being more generous (Janakiraman et al., 2016), because a policy with a longer duration should give the customer more time to learn about the product and determine whether it meets his or her needs (Heiman et al., 2001). As such, a return policy with a longer duration provides greater flexibility to customers and thus greater benefits. Therefore, the duration of a return policy is positively related to the perceived value of that policy (Heiman et al., 2002). A less restrictive return policy may be expected to decrease the time and expense that customers incur when returning products (Anderson et al., 2009). Thus, this study hypothesizes a positive link between return policy generosity and return policy value.

H1. *Return policy generosity positively affects perceived return policy value.*

Perceived value constitutes one of the most important determinants of behavioral intentions (Baker et al., 2002; Cronin et al., 2000). If the net benefit of a marketing offer (e.g., return policy) increases, customers are more likely to purchase. Prior research on e-tailing also shows that the perceived value of a return policy positively influences customer behavioral intention (Mollenkopf et al., 2007). Thus, this study hypothesizes a positive link between return policy value and customer purchase intention.

H2. *Perceived return policy value positively affects customer purchase intentions.*

Prior research has shown that customer-perceived value positively influences behavioral intentions (e.g., Cronin et al., 2000). More specifically, the belief that a generous return policy results in higher customer value should induce the customer to form a more favorable attitude toward buying the guaranteed item, which leads to a stronger purchase intention (Fishbein and Ajzen, 1975; Suwelack et al., 2011). Thus, we hypothesize a positive indirect effect of return policy generosity on customer purchase intentions.

H3. *By increasing a return policy's perceived value, return policy generosity positively affects customer purchase intentions.*

2.2.2. Moderating effects of retailer brand familiarity and product categories

Retailer brand familiarity reflects the extent of a customer's direct and indirect experience of a retailer's brand. This construct is conceptually similar to brand familiarity, a construct employed in brand theory in the field of marketing (e.g., Benedicktus et al., 2010; Kent and Allen, 1994). If customers are familiar with a brand, they generally have already developed certain knowledge regarding that brand (Campbell and Keller, 2003) and their pre-purchase uncertainty reduces (Mieres et al., 2006).

We propose that the influence of perceived return policy value on purchase intentions is stronger for a lesser-known retailer than for a well-known one. If customers are familiar with a retailer, they have existing knowledge of that brand (Campbell and Keller, 2003) and tend to be more confident in their purchases (Erdem et al., 2006; Laroche et al., 1996). This confidence may mitigate the influence of the return policy's value by encouraging customers to purchase from the retailer even in situations where the return policy value is low. Thus, customers who are familiar with a retailer are less likely to be affected by its return policy's perceived value. In contrast, if customers are unfamiliar with a retailer, they may not have any previous knowledge of that brand. In this case, the return policy could provide the only means for