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Commentary

Many (Un)happy Returns? The Changing Nature of Retail Product Returns and Future Research Directions

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The sheer magnitude of product returns should give anyone interested in retailing pause: in 2018, out of $3,688 billion in total retail sales, $369 billion—roughly 10%!—were returned to retailers post-purchase (National Retail Federation 2018). Of course, the headline number alone does not tell the whole story. Returns, which often vary by channel (higher for online than offline sales) and by season (higher during the winter holidays), also differ dramatically in terms of how "legitimate" the returns are, how difficult they are to process, how re-sellable the items are, and how positively or negatively the returns process affects customers' attitudes toward the retailer. Each of these factors can have major implications for retailers' short and long-term performance.

Returns represent a developing opportunity for retailers, with businesses exploring types of return policies and practices that never would have been considered in the past. One interesting new phenomenon is that some stores have started accepting returns for other retailers. Kohl's now accepts Amazon returns at its 1,150 stores. Nordstrom accepts returns at two of its New York locations for rivals such as Macy's, and is also venturing into accepting rental returns for Rent the Runway.

Technology and data are shaping how retailers are treating returns, making practical what was thought impossible until recently. Gone are the days when retailers had to choose between ironclad return policies to be rigorously applied to all customers or leaving return decisions to the sometimes-fickle judgment of front-line employees. Companies such as The Retail Equation work with retailers to develop a "risk score" based on the customer's shopping and return history, allowing attempted returns to be accepted or denied based on the data associated with individual customers. Similarly, Amazon, utilizing analysis of its own data, has canceled the accounts of excessive returners. Technology has also been deployed to reduce the need for returns in the first place: augmented reality, online chatbots, and technology-facilitated in-store assistance all help customers to find the right style, fit, or solution before purchase.

Some firms—Warby Parker, Stitch Fix—have built return activity into their business models as an integrated stage in the sales process. In what might be considered retailer-initiated returns, these firms send more products than they expect customers to purchase, and encourage customers to return those that they do not want to buy. Other firms, such as Zappos, Nordstrom, and Patagonia, allow for traditional customer-initiated returns, but have gone to great lengths to make returns easy—even encouraging returns—under the assumption that this engenders brand loyalty and repeat business. In contrast, other firms seem to lack a coherent philosophy on where returns fit into their strategy and appear not to have built return rates into their business models at all. Indeed, analysis of the retail landscape suggests a lack of uniform agreement as to the financial and strategic consequences of returns. Retail advisory firm Optoro (2019) reports that of 117 top retailers, only 32% quantify the full cost of returns.

To date, there is little academic research that systematically unpacks and tests the firm performance and consumer behavior implications of these evolving product return practices. These emerging trends present researchers with opportunities to bring greater understanding to this strategically important area for retailers. Based on our examination of the academic literature, trade literature, and interviews with major retailers, we highlight a few of the ways that customer return practices are evolving and articulate the opportunities for advancing both theory and practice. We focus on the following aspects of customer returns from the retailer's perspective: (1) How product returns are transforming the customer journey; (2) The gray areas inherent in the space between clearly justified and outright fraud—the "dark side" of returns; (3) The upending of traditional retailer supply chains;

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(4) The ways consumers are responding to easy product returns practices; and (5) How product returns practices affect retailers' reputations. These questions represent a range of important directions for assembling a body of work on retailer-initiated and customer-initiated return behaviors and processes. Ultimately, these might serve to improve the performance of return forecasting models, illuminate optimal go-to-market strategies and distribution processes in the evolving, technology oriented marketplace that characterizes retailing today.

Returns and the Customer Journey

That marketers might benefit from articulating the steps that take a potential customer from initial motivation through purchase and beyond, is an old idea in the midst of a renaissance. Dating back at least as far as the late 1800s with what would eventually become the AIDA model (Awareness, Interest, Desire, Action), customer journey frameworks in all varieties have remained a staple of both textbooks and consulting frameworks. Recently, they have become the focus of academic research once again.

Over time, customer journey frameworks have evolved to include more post-purchase stages and journeys that are explicitly cyclical and iterative. But product returns have never, to our knowledge, been explicitly included as a stage in a major customer journey model. This exclusion represents a strategic blind-spot for marketers. Increasingly, product returns are a major part of the customer journey. Returns can facilitate cycling back to earlier stages in the journey, or can become part of the story—positive or negative—that the customer later tells friends or posts to review apps.

Returns can even break down the traditional meaning of stages in the customer journey. Journey models vary in their particulars, but nearly all are anchored in a purchase decision as the nexus of the model: purchase is the destination, and anything that comes after is considered relevant only to the extent that it leads to another purchase, either from that customer or, via word of mouth, from other customers. However, as customers increasingly use returns strategically (e.g., ordering several sizes or colors of an article of clothing to see which fits and looks best), the status of the purchase as a destination is eroded. Alternatively, there are cases where returns might serve as a motivator or as a source of information toward the final purchase. From a strategic perspective, return policies can determine whether a return leads to abandonment, whether the consumer starts a new journey toward purchase with another retailer, or whether it results in an exchange, a type of re-purchase that can lead to potential satisfaction and advocacy.

We suggest that researchers and managers would be well-advised to include returns as a stage in their customer journey models and to explore the ways returns interact with the other stages of the journey. One way to think of returns might be as a post-purchase stage that is set apart from the customer journey, but that serves as a conduit back to other stages on the journey (see Fig. 1). For example, a customer's experience with returning an item could route him or her to an Advocacy/Word of Mouth stage, where they tell others about the wonderful or terrible experience they had returning something to a particular retailer. Alternatively, a return that resulted from a deficient product could be the impetus to begin a new journey, returning the customer to the Information Search stage, so they can try again to find something that will meet their needs. Returns might also lead customers to a different retail experience—if, for example, items that were purchased online are returned to a store. Increasingly, purchase-then-return serves as a part of the Information Search stage, as some consumers buy products with the intention of returning them after they have gathered enough information to make a more informed final purchase decision later.

In the days when purchases were mostly final, it was safe for retailers to ignore returns. As norms change and returns become more common, return policies gain strategic importance. How customer returns interact with other stages in the customer journey remains largely unexplored in academic research.

The Dark Side of Returns

We suggest that it is useful for both retailers and marketing scholars to think of product returns as occurring on a spectrum. At one end are returns that are completely justified: merchandize that arrives damaged or missing parts, or that is substantively different from what was ordered. At the other end is outright fraud or theft: walking into a store with a receipt, picking up an item from the shelf and walking over to the returns counter. Between these extremes are behaviors that vary in the degree of potential deception and misrepresentation.

Although both customers and retailers likely recognize the shades of gray that exist in return behavior, we anticipated they might differ in terms of how bad some behaviors were considered to be. To examine this divergence, we asked 104 undergraduates at the University of Pennsylvania and 30 executives attending a retailing conference to rate the appropriateness of ten hypothetical product return scenarios. As can be seen in Table 1, there was general agreement about the (in)appropriateness of the scenarios toward the extremes of the spectrum. Interestingly, there was a stark difference of opinion in what we labeled the moderately acceptable cases, with students rating those scenarios as significantly less problematic than retailers.

The data presented here, although hardly definitive, are evocative, raising a number of potential questions for future research. Assuming this pattern of data holds: How do consumers justify seemingly straightforward deceptions when they return products? Conversely, what leads retailers to be out of step with the opinions of (some of) their customers when it comes to the appropriateness of return behaviors? What contextual factors, retailer characteristics, and managerial actions would make deceptive return behaviors seem less acceptable to consumers? How should return policies be specified in order to minimize fraudulent return behavior? How does the behavior of retail personnel deter or enhance consumer engagement in these activities? Especially important to investigate and understand are those returns that occur in the areas where the norms and expectations of customer and retailer diverge.

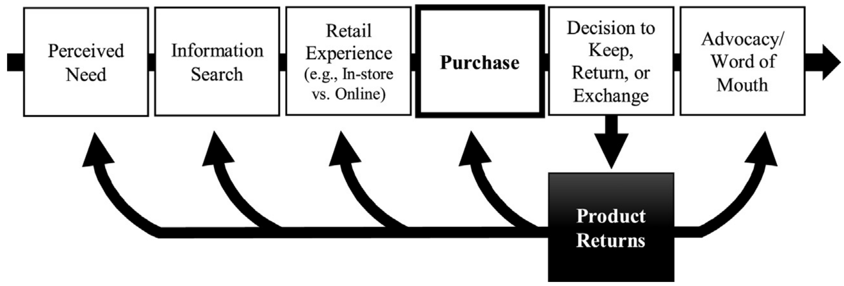

Fig. 1. Returns and the customer journey. Note.—Product returns represent a frequently neglected stage in customer journey maps. Returns can send a customer back to earlier stages in the customer journey, as well as influence how customers subsequently talk about a retailer to other customers.

Table 1
Disagreement between retailers and customers about what constitutes acceptable return behavior.

Return behavior	Acceptability		
	Students	Retailers	Sig.
Mild			
You buy a set of china, but discover that several plates are chipped. You return the plates.	1.20 (.79)	1.00 (.00)	
You buy a sweater, but decide you do not like it and return it.	1.36 (.95)	1.53 (.97)	
Moderate			
While in college, you return a textbook after photocopying four short cases that you need from the book.	2.47 (1.39)	4.33 (1.75)	***
When showing your house for sale, you buy throw pillows and comforters and then return them after your house sells.	2.80 (1.52)	4.53 (1.57)	***
You buy an electronics device, cannot figure out how to work it, so you say it is defective and ask to return it.	3.47 (1.54)	4.27 (1.36)	*
You buy an item on eBay and return it to a store that has lifetime guarantees of full refunds.	3.68 (1.87)	4.80 (1.87)	**
You buy a formal outfit, tuck the tags in when you wear it to a wedding, and return it.	3.70 (1.74)	5.33 (.92)	***
You buy a video camera to take photos at a friend's wedding and then return it.	3.90 (1.53)	5.37 (1.10)	***
Extreme			
You buy a coffee maker, use it for a few weeks, then decide you do not like it. You return it claiming it is defective.	4.62 (1.17)	5.03 (1.67)	
You buy a pair of pants, decide you do not like them, and threaten to complain about the brand on social media unless the store takes them back.	4.61 (1.46)	4.67 (1.58)	

NOTE.—Acceptability of return behavior was measured on a 6-point scale anchored by 1 = acceptable behavior and 6 = not acceptable behavior. Mild, Moderate, and Extreme behaviors were categorized by the authors, post hoc, based on the responses of the student sample. Standard deviations in parentheses. Significance determined by MANOVA: * $p < .05$; ** $p < .01$; *** $p < .001$.

Research that provides retailers insights into how customers understand the boundaries between acceptable and unacceptable returns behavior could help them craft more informed return policies and procedures. In an ideal world, retailers would be able to create perfectly calibrated return policies that accommodate all genuine requests and screen out all that represent customers seeking to take advantage of the company. Return policies are marketing tactics that can have major repercussions for customer value, competitive positioning, and profitability. These policies should never simply be turned over to the legal department. Instead, they must reflect the retailer's marketing strategy. We suggest that it is useful to think of return policies from the perspective of minimizing Type I or Type II errors. Instead of trying to balance on the knife's edge of granting every virtuous return request but screening out every vicious one, retailers should instead recognize that any policy is likely to lean either toward granting returns to customers whose claims don't justify them (Type I error) or denying returns to customers whose claims do (Type II error). The generosity of policies and the stringency of their requirements determine the way these errors are balanced, and must be aligned with the retailer's strategy. Research can help identify the conditions under which retailers would be well advised to minimize type I errors versus when it would be more advantageous to guard against type II errors in codifying their returns policies.

Returns and the Supply Chain

A fundamental implication of lenient return policies is the reversal of product flows from the customer back to the retailer, and ultimately upstream into the supply chain. The costs of dealing with returns are significantly higher than forward logistics because return processes can be logistically more complex, exception driven, and often suffer from inconsistent inventory policies. Returned products are by nature, less efficient to handle because of low spatial utilization, additional inspections, checks, and sorting processes that may need to be administered. All of these factors increase operational costs—in one case-study, a fashion e-tailer spent about $530 million on returns on sales of $500 million (Mondalek 2019). Therefore, retailers must consider the upstream consequences of their return policies on key suppliers, who need to accommodate product returns and manage possible repair, refurbishment, and recycling costs.

To this end, there is scarce research that identifies how retailers and their suppliers should optimize the costs in logistics, handling, and coordination practices that arise from product returns. As an example, retailers and suppliers might jointly develop a process that allows for quicker product repair, refurbishment, and ultimately resale to minimize the lost value due to being out of the market. It may be that a combination of contracts, collaboration, and joint investments would "grow the pie" of benefits between them.

In franchise systems, research on managing product returns is nonexistent. However, the issue can be a source of conflict, since franchisors earn a percentage of franchisee revenues, but franchisees are profit maximizing. So while the franchisor may determine the organization's return policies, the franchisee is the likely location that receives and handles product returns. In this case, who should bear the cost of such returns or how should it be shared?

Importantly, while retailers and their suppliers are rushing ahead with innovations to overcome these increasingly snarled two-way supply chains, research into the effectiveness of potential collaborative efforts lags behind. Past research in marketing has focused on full or partial return policies as related to discounting and promotional policies in the face of competition and information asymmetries. Important as that work has been in helping us understand returns as they were practiced at the time, we call on scholars to build on that work in exploring the recent changes in returns policies and practices.

Return policies can be used strategically to help manage demand uncertainty and can shift the burden of unsold, overstocked, or defective products to the supplier and create an incentive for retailers to maintain in-stock positions. For example, in the fashion sell-in to retailers, negotiation generally takes place as to the manufacturer's level of allowable returns or its participation in markdowns. These policies are a function to some degree of channel power and may involve cost sharing and behavior-based incentives. We suggest that additional research is needed to investigate alternative options for handling product returns. For example, it appears that the impact of returns on the supply chain is a function of the relationship between retailer and supplier: Beitelspacher et al. (2018) finds that when salespeople respond to returns with relationship building behaviors, the retailer responds with fewer returns in the future, thereby reducing coordination and supply chain costs that can be substantial for both players.

More research is needed in this vein. Additional safeguarding mechanisms to be considered include retailer and supplier goal setting, better contracting practices, and tactics to create closer collaboration between retailers and suppliers. It may be that by developing trusting relationships, based on more effective information sharing and cross-functional coordination efforts, retailers and manufacturers can identify an upstream process that improves logistics and product handling costs, while improving their bottom lines. Bernon and colleagues (2013) describe the case of Vax Limited, a power tool supplier, which curbed poor return conformance in retail stores and spiraling return costs by implementing a call center to deal with customers directly and engaging in educational demonstrations with store staff.

Can these differences be resolved by creative contracting? Contracts could provide conflict resolution processes and assist in setting appropriate expectations for the role of returns in the retailer's go-to-market strategy. They could also specify how variances (e.g., excessive returns) in anticipated return volumes should be managed, liquidated, or in some cases, even destroyed. Contracting strategies might even encourage retailers and suppliers to identify creative and novel return policies that are financially optimal for both players instead of preventative contract clauses that emphasize penalties for poor performance, or early termination. And while different contract clauses are thought to result in distinct emotions, behaviors, and views of the relationship, there remains a paucity of empirical evidence as to the effectiveness of such negotiated contracts. And while it is widely accepted that contracting strategies might facilitate useful collaboration between retailers and their suppliers, the consequential impact of contracting efforts on systemwide efficiencies awaits empirical verification.

In summary, retail returns result in an upstream flow of goods that creates significant coordination and bargaining issues (and maybe even conflict) between a retailer and its suppliers. Research is needed on the optimal resolution and handling of risk allocation, inventory management, and product handling practices that arise from increased returns at retail.

Are Retailers Training Consumers to Return?

We started by noting the substantial financial impact of returns borne by retailers (and their suppliers). What we have not yet noted is that retailers may be exacerbating the problem. Retailers often assume that ease of customer returns encourages future sales and brand loyalty. However, empirical verification of this assumption is lacking. While this is likely to be true in some cases, it is also true that easy customer returns almost certainly encourage more returns.

Through retailer policies, procedures, and marketing efforts, consumers are being taught that returns are not to be exclusively limited to mistakes in shipping and accidentally purchasing the wrong size. We suggest that easy returns change the consumers' commitment level: purchases are no longer viewed as permanent and final. Instead, purchases become temporary, and decisions are no longer made in the store or on the website, but instead become fluid and intermediate, with the ultimate determination shifted to some point in the future when consumers make the final decision to keep or return an item already purchased.

Worse, this customer "training" also represents a collective action problem for retailers: a tragedy of the common-norms of returns. Where individual retailers may see a competitive advantage in providing more generous return policies than competitors, the end result may be a race that erodes profitability. A consumer need only shop at Zappos and Warby Parker so many times before they begin to expect to be able to engage in similar returns behavior at every retailer they shop.

Research could investigate the factors that speed or inhibit the changing of customer returns behavior. Some increasingly common retailer actions, such as including a preprinted return label with orders, may send subtle signals to customers encouraging returns—even in cases where returning the purchase might otherwise not have been considered. Also important would be exploring the implications for retailers who try to discourage returns. If a particular business model cannot accommodate generous returns, what are the best ways for a retailer in a returns-friendly marketplace to reduce returns without damaging the brand or evoking customer backlash?

Returns Inform Retailers' Reputations and Perceptions Among Customers

Easy return policies come at considerable secondary costs for the retailer—financially, but also in terms of reputation. While some returns can be placed back into inventory, many are relegated to off-price channels or may wind up in landfills. It is estimated that returns generate 5 billion pounds of landfill waste each year (Optoro 2019), creating a major environmental impact from the transportation, storage, and disposal of returned inventory.

From the point of view of prestige brands, returns that cannot go back into inventory pose a major brand reputation risk. Burberry received a major black eye when it was revealed that it was burning tens of millions of dollars of returned and unsold clothing—a practice they claimed was the industry standard. Prestige brands are caught in a bind: they do not want their images to be damaged by reaching broader segments of the population, nor do their luxury-seeking target customers want to pay top-dollar for less-than-pristine returned items. The conflicting consumer demands of brand exclusivity, responsive return policies, and environmental sustainability will only become more challenging for retailers to balance.

From this perspective, returns policies may be an important part of brand image management. Lax return policies may give retailers a reputation for great customer service, or may, indirectly, hurt the brand by painting it as environmentally irresponsible. Previous research has shown that consumers use a store's policies to draw much larger inferences about the retailer. But green image, service image, and price image are likely just three of many aspects of brand image that potentially could be influenced by the type of returns policy retailers enact. How can retailers determine the optimal tradeoff between competing image concerns? As retailers increasingly make sustainability commitments, are the environmental costs associated with returns being fully accounted for? The full impact of the variety of possible policies on customer impressions of the retailer has barely begun to be investigated.

Conclusion

Customer returns are likely as old as markets and trading. But in recent years, returns have moved from a staid logistical issue to a dynamic and often strategically important part of the retail business model. Customer expectations, norms, and behavior have shifted dramatically in a short period of time. The dynamism of retailer innovations in handling customer returns has not—yet—been matched by academic research into the questions these new practices have raised. While some retailers have identified (potential) opportunities in new product returns strategies, the danger to retailers is real. One expert has characterized product returns as a "disease," one that "aggressively attack[s] profit margins, gut[s] conversion rates, and ultimately threaten[s] your business" (Orendorff, 2019). Treading the line between opportunity and peril requires an understanding of the underlying factors that drive customers' product return behavior and the effectiveness of retailers' returns strategies.

We encourage researchers to look at this evolving stage in the purchase journey. We would also encourage researchers to investigate the characteristics of returners—particularly habitual

Table 2
Suggested questions for future research.

The Customer Journey	– How can retailers best integrate product returns into their customer journey maps? – How can retailers incorporate return data into customer lifetime value (CLV) calculations? – How can return policies be better crafted to facilitate transitions to other stages of the customer journey? – Viewed through a customer journey lens, does accepting returns on behalf of another retailer generate sales for the host store?
The "Dark Side" of Returns	– What segments of consumers are most prone to fraudulent returns? – How do customers justify deceptive or inappropriate product returns to themselves? – Why might retailers and customers be at odds in assessing the appropriateness of certain types of returns? – Does the level of human interaction involved in a return transaction affect the rate of fraudulent returns? – What retailer policies would make deceptive return behavior less appropriate to consumers?
Supply Chain	– How can retailers establish processes to encourage more efficient customer returns? – When should retailers encourage in store returns, even if they create a logistic inefficiency? – Should return policies be customized for each product based costs? For example, customers receive a decreasing percent of their money back as the resale value of their item decreases over time. – What coordination practices with suppliers will be mutually beneficial?
Consumer Training	– Could practices such as including a preprinted return label actually be a psychological trigger that encourages consumers to return more frequently? – What are the best practices to encourage exchanges instead of returns? – Are retailers encouraging questionable return behavior given their lenient policies?
Retailers' Reputations	– Is there a significant correlation between brands with generous return policies and strong customer service reputations? Between generous return policies and poor sustainability reputations? – Do lenient return policies build brand loyalty? – What are the potential reputational risks of blacklisting certain customers based on their return behavior? – What are the reputational effects of retailers letting customers keep products when the cost of executing the return is high?

returners. While retailers are focused on reaching Millennials and Gen Z consumers, it would be of interest to know more about their attitudes and behavior regarding returns, and how these attitudes differ from older shoppers. Strategy researchers could inform appropriate market strategies to support the customer journey process. Consumer behavior researchers could contribute to our understanding of who returns under what circumstances and the reasons for returns. Of particular interest would be the different behavior patterns associated with in-store shopping versus online versus omnichannel purchases. Empirical modeling of return policy performance would illuminate their effectiveness across a range of market conditions and product types. At present these areas are an almost blank slate. Table 2 summarizes our directions for future research.

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