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# Determining the Effect of the Returns Management Experience on Consumer Satisfaction

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**Determining the Effect of the Returns Management Experience on Consumer Satisfaction**

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The University Of Tennessee

April 9, 2013

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**THESIS ADVISOR SIGNATURE APPROVAL PAGE**

**TO THE GLOBAL LEADERSHIP SCHOLARS PROGRAM:**

As GLS Thesis Faculty Advisor from January 2012 – April 2013,

I have read this paper and find it satisfactory.

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GLS Thesis Faculty Advisor

April 9, 2013

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Date

## **Abstract**

Returns are a largely untouched area in supply chain because they represent a failure on the demand side of the supply chain. However, they are a necessary part of the supply chain to ensure consumer satisfaction. Therefore, this research addresses returns from a consumer's point of view. This research is applicable to retailers because it reveals how returns can be leveraged to increase customer satisfaction and overall lifetime customer value. To accomplish this research, eight qualitative interviews of 15-30 minutes were conducted focusing on customers' returns experiences, expectations, and areas of dissatisfaction until thematic saturation was achieved. The sample for the interviews consisted of people 18-60 years old within the Knoxville, Tennessee area. This study suggests that returns are a great way to ensure customer satisfaction and a cost effective way to differentiate the retailer. Retailers can use this information to structure their returns policies, interactions, and processes to better meet and exceed customer expectations.

## **Introduction:**

Consumers typically respond to the thought of returning a product with a groan. Many find the process an inconvenience, a headache, or worse, refrain from making returns at all and just keep the unsatisfactory product because making the return is not worthwhile. Firms rarely look at extracting value from returns from a consumer service perspective, focusing solely on less waste, greater recovery of product, and efficient reselling, so there is a strong opportunity for growth in this area. Retail returns, the particular area of this study, constituted \$185 billion in the United States (Reverse Logistics, 2010). This equates to close to 8 percent of the estimated revenues of retail products sold by those involved in the National Retail Federation (Reverse Logistics, 2010). On average retail returns are around 2-3 percent of sales (Douthit *et al*, 2011). As can be seen through the enormous volume of returns that occur every year, if retailers are not handling returns well there is a significant chance that the negative experience will color the consumers' perception of that retailer. This could result in customers refusing to shop at certain retailers and greatly affect a firm's revenues.

People typically return products for a variety of reasons including incorrect size, color, or fit, faulty products, or even simply changing their mind about the product. These simple reasons can cause retailers to absorb significant reverse logistics expenses per return. For companies to be able to recoup some of this cost, it is important that customers have a positive returns experience. Knowing that they can return unsatisfactory products quickly and easily, consumers are more likely to make impulse buys, increase their purchasing volume, and increase their lifetime customer value. Returns are also a problem for companies because if they are mishandled they can act as a deterrent for shoppers. Therefore, to keep customers satisfied it is important that retailers invest in adequate returns management processes.

Because the current literature excludes the retailer-consumer relationship and the accompanying set of expectations each consumer has for a retailers' returns experience, the framework of this research took root. Consumers are everywhere and are accessible caches of information, making this topic a relevant and feasible exercise into what constitutes the best returns experience a retailer can provide based on consumer insight. The purpose of this research is it identifies the three largest variables that impact consumers' returns experiences as well as action that retailers can take to meet and exceed consumer expectation at every returns transaction.

## **Literature Review**

In examining the relationship between the returns management experience and consumer satisfaction, many relevant theses and pieces of literature were examined pertaining to customer service and returns management. This section furthermore describes the appropriate differentiators for businesses, as well as areas in which this study is able to impact the business environment.

## **Customer Service**

Customer service in the context of this study and the general business environment refers to meeting customer expectations in full.

## **Customer Service as a Differentiation Tactic**

Customer service is one of the key points of differentiation for companies, especially in the retail industry. Countless research has been done to prove the relationship between customers and retailers. In an article on managing customer expectations Jason Compton of CRM Magazine stated, "No customer relationship will stand the test of time unless it is built on a sustainable cycle of give-and-take (Compton, 2004, p. 52)." Creating a loyal customer base from

customer service simply dictates that the retailer establishes customer expectations and then delivers on them to fully create an ongoing and predictable relationship (Compton, 2004). Overall, service quality is a major factor in generating positive consumer satisfaction. This translates to a strong competitive advantage for the retailer (Ryding, 2011). Retailers are further able to create differentiation strategies based on their retail strategies. Customers are quick to judge the quality of a product or service using the benchmark of their perceived expectations, oftentimes leading to customer satisfaction and loyalty.

Service quality is especially important in quality-led retailers (Ryding, 2011). In a study of two grocery retailers: one that engages in a low cost strategy and one that engages in a premium product strategy, the retailers must focus on delivering exceptional service and high quality to charge premium prices for the additional service. In fact, attention to customer complaints, politeness, and courteousness of staff are all the premier points of differentiation to customers (Ryding, 2011). However, while there is a bottom threshold for minimum customer service levels for retailers, it is important to note that, “Discount retailers sell at a lower-than-average price; therefore, it is only sustainable if the retailer has other low-cost elements within their marketing mix such as the basic store environment (Ryding, 2011, p. 513).” The retailers need to provide a basic level of service while keeping the level cost-effective.

### **Lifetime Customer Value**

One of the newer phrases in business, lifetime customer value, is defined as, “A measure of the profit streams generated by a customer across the entire customer life cycle (Chang, Chang, and Li, 2012, p.1060). To examine this number, one must estimate the expected net cash flows from the customer over an extended period of time while looking at the present value of that stream. From there, retailers and managers can predict the future profitability of customers

and target particular service levels to those customers (Chang *et al*, 2012). This concept is especially important because it can provide a dollar value to the tradeoff between changes in purchasing behavior and long-term profitability of the retailer (Chang *et al*, 2012). Because loyal customers with high lifetime customer value also tend to refer others to that retailer, maintaining high levels of customer service benefits not only with that singular consumer but also their extended network. This is extremely profitable because referrals that lead to new customers have acquisition costs of near zero. Overall, retailers need to determine the proper way to keep customers engaged and continuously promoting their business to future customers (Greenberg, 2009). This is important for returns in particular because returns ensure that customers are completely satisfied with the product. Failure to have an effective return could lead to negative consumer word-of-mouth that will harm the business' reputation.

### **Exceeding Expectations and Delighting Customers**

While the previously mentioned levels of customer service are imperative, in certain situations it is now necessary to delight the customer to achieve customer success (Brown *et al*, 1992). In fact, to achieve competitive advantage special care must be taken to push the limits and delight the customer through impeccable personal interaction with the employees (Kandampully 1993). By creating a strong service component in the business, customers create an emotional bond with the retailer. The retailer works on a long-term basis to attract and maintain a customer base through positive human interactions that build customer trust. The customer's corresponding response is awarding the retailer service loyalty and service superiority (Kandampully, 1998). In fact, "Customers seek a business interaction on the tacit understanding that they will receive the service they require; they neither desire nor expect to receive mediocre service or experience dissatisfaction" (Kandampully, 1998, p. 436). One

unique area of a firm's differentiation could be through positive returns management. This is supported because firms utilize many opportunities to creatively foster relationships between customers and personnel. A true relationship between a firm and a customer is established by those personnel who interact with the customer on a regular basis. Any direct communication with the customer enables employees to forge a stronger connection with which they are able to satisfy the needs of the customer, overall leading to increased loyalty and continued patronage (Kamdampully, 1998).

### **Returns Management**

Returns management refers to the reverse logistics process taken for a product when a customer deems it unsatisfactory in some way. For example, products can be the improper size, shape, or content. Also, defective products are often a trigger of product returns. Lastly, even when products meet expectations consumers are apt to change their mind after purchasing (Yu and Goh, 2010).

### **Returns from the Retailer Perspective**

While most firms focus on the forward flow of goods to sell, it is also important to have a comprehensive plan developed for returns as well. For example, multiple firms in a study done in 2007 viewed returns management goals strategically because firms can create customer loyalty by decreasing the risk of a return for their customers (Mollenkopf *et al*, 2007). In fact, another study claims that, "We should regard returns as happy returns and making money in reverse" (Yu and Wang, 2007, p. 1581). While most companies do not take the returns and customer service relationship so far as to refer to the returns process as "making money" there is a definitive correlation between effective returns management and a variety of variables and customer satisfaction. For example, by creating less stringent returns policies for their

customers, retailers are enabling their patrons to have fewer items that sit unused essentially as a stock loss. Returns management which is integral to the complete service package truly serves to differentiate a firm (Mollenkopf *et al*, 2007).

Eventually, retailers believe that returns can become a win-win situation within the entire supply chain (Yu and Wang, 2007). As online retail and e-commerce becomes increasingly prevalent in the global marketplace, returns can become a stronger tool of cost savings. As is seen in Yu and Wang's study, "In addition, when returned products can be sold through other channels such as the e-marketplace, products' lifecycles and values can be extended and preserved" (Yu and Wang, 2007, p. 1581). Therefore, companies, regardless of whether they are serving customers directly or engaging in business to business sales, can keep inventory in-stock longer in an effort to resell returned product. This reduces the overall costs of the returns and helps improve the customer's satisfaction as well. Overall it is important for firms to develop a strategy behind their returns management policies because various policies can generate various optimal order quantities for products (Yu and Goh, 2012). To do so, they devise operational tactics including gatekeeping, authorization, returned goods routing, and processing procedures that align with the strategic goals of the company (Mollenkopf *et al*, 2007).

### **Returns from the Customer Perspective**

From a customer perspective, returns are a necessary evil. In fact, a study by the technology consulting and outsourcing firm Accenture stated that in 2007 return rates were between 11 and 20% based on product (Arar, 2008). This number could equate to one in five products eliciting customer dissatisfaction, resulting in strong negative customer-retailer relationships. In fact, the same study states that 68% of returns are products that work properly but somehow fall short of customers' expectations, including instances called Buyer's Remorse,

or situations where customers simply change their minds (Arar, 2008). To remedy this, retailers must provide information on usability and up-to-date frequently asked questions (Fidler, 2008). By ensuring that retailers and manufacturers are jointly working to take responsibility for the customer purchasing experience, the root communication and product usability issues can be identified and reduce returns cost overall. Then, the remaining 32% of annual returns that are defective somehow can be the focus of a retailer's customer relationship management strategy (Arar, 2008).

In general, customers' dissatisfaction with adequate products has led to companies creating loophole opportunities for product returns. For example, many credit card companies allow extended return policies for items up to a specific dollar amount annually. These processes protect consumers from overly strict policies. This seems to be an excessive measure but truly reveals the power of influence unwanted merchandise holds while sitting on a closet shelf (Arar, 2007). Furthermore, companies have created extended warranty services that customers can purchase during checkout. One of these services promises: "90 days to decide whether to send the purchase back; full reimbursement for all charges, including shipping, should you decide to return it; and prepaid return shipping by [the company]" (Arar, 2007, p.54 ). These services are provided based on the previously mentioned Buyer's Remorse phenomenon, which retailers use to increase purchasing follow-through of online purchases. Because 66% of online shoppers prefer to shop online over in-store and 62% of online shoppers rarely return items bought online, there is a definitive need for positive retailer return strategies to ease customer dissatisfaction and negative reactions (Shopping and Shipping, 2012).

## **Buyer's Remorse**

Buyer's Remorse is seen when customers change their mind about a purchasing decision after-the-fact. This is an observed phenomenon for both material and experiential purchases; however, they incite different results. In general, material goods purchases inspire regrets of action. Therefore, when purchasing or not purchasing a material good, the consumer wishes they had taken the opposite course of action (Rosenzweig and Gilovich, 2011). Furthermore, the more interchangeable the purchase is with other similarly priced goods the stronger the buyer's remorse can be. This ultimately leads to outright regret over making the purchase at all (Rosenzweig and Gilovich, 2011).

## **Gap in the Literature**

While there is literature that mentions all topics covered in this research paper, this study interprets the topics in a new way. For example, the literature about customer service explains lifetime customer value in detail and provides insight on meeting and exceeding customer expectations. However, this study seeks to determine from a returns perspective what those consumer expectations are and how they can be met and exceeded. Additionally, throughout the course of collecting research, special care was taken to determine the course of action participants would take in certain situations: unmet satisfaction, met satisfaction, and exceeded satisfaction. The data was collected while looking at both online and in-store retailers to provide a generalized overview for those companies who have both an online and physical store-front.

Similarly, there is considerable information collected about returns management for all types of retailers. However, this information is largely collected from a retailer or manufacturer perspective with little to no emphasis put on the end consumer. Therefore, by examining the impact returns have on consumers' attitudes towards retailer performance, new information is

created for the field. Lastly, there is no information created that dictates the various variables that retailers must use to create a positive returns strategy for their customers. There are unique instances of specific concepts that impact customer satisfaction, however this research is meant to contribute generalized areas of strong customer impact for returns management strategies.

## **Methodology**

To conduct the appropriate consumer research, a qualitative study was used. The qualitative study substitutes copious quantities of numerical data for more in-depth information for individual consumers. Because this topic focuses so strongly on consumer experiences, consumer expectations, and consumer behavioral changes, qualitative research most closely aligns to fully understanding consumer reactions to returns management experiences and how those reactions will generate value or loss for the retailer. By detailing the proper service requirements for a product return, this study's findings will be especially relevant to retailers as service is now the most prominent form of firm differentiation and strong consumer loyalty.

Eight interviews were conducted with consumers. This sample was made up of both males and females ranging from 20 – 65 years of age. Including such a diverse group of individuals enabled the recounted experiences to include online-specific retailers, brick-and-mortar retailers, and experiences where consumers purchased online and returned in store. Because some of the older generations do not shop from online retailers as frequently as the younger generations, this wide spectrum of ages was necessary to gain comprehensive knowledge about various types of retailers and the returns experience associated with their firms. However, all of the people interviewed resided within a 50 mile radius of Knoxville, Tennessee, making the data most relevant to retailers with a presence in eastern Tennessee.

The questions asked in each interview were unique to each interviewee based on their

responses; however, the general framework for each interview was similar. The Interview Protocol Guide (Figure 1) was employed for each interview. This guide was developed solely for the interviews conducted in this research, however, the framework and some of the questions are based on *The Long Interview* (McCracken, 1988, p. 29-41).

Immediately following each 15-30 minute long interview, the audiotapes were transcribed. The transcripts were then imported into qualitative data analysis software, QDA Miner. The transcripts were coded based on various themes that emerged from the dialogue. When relevant text (a detail, behavior change, important part of the returns process, etc.) existed in the transcript that chunk was highlighted and attached to a “code” or theme. The initial themes that emerged from the data included Behavioral Changes, Ease, Experience, and Negatives. It was also noted whether the chunk of text was referring to an Online or In-Store Return, and was labeled as a Positive, Negative, or Neutral experience to fully detail the emotion behind the text. After all of these codes were completed, the data were exported to Microsoft Excel. While in Excel, the data was manipulated to further break the themes down into more specific categories. Overall, there were 175 chunks of relevant text gleaned from the interview transcripts. After the specific categories were determined, totals were calculated to determine which areas made the strongest impact on those interviewees. The specific data can be seen in Table 1, Table 2, and Table 3. As is seen in the calculations in Table 1, interviewee’s responses were either mentioning a positive, negative, or neutral returns experience. Table 2 provides the initial four categories of responses that emerged and their associated frequencies. Lastly, Table 3 includes information on the more specific categories and details that were mentioned in the interviews and their associated frequency. The percentages in each of the tables were simply calculated by taking the overall count and dividing it by the total response count of 175.

**Figure 1**

Opening

- Introduction of Interviewer
- Overview and purpose of study
- Assurance of Confidentiality
- Permission to audiotape

Initial Prompts

- Tell me about a recent returns experience you have had?
- Why was the experience positive/negative?
- Can you contrast this experience with a positive/negative returns experience you've had recently?
- What would have changed your attitude on the experience (for negative)?
- What would you have liked to happen differently?
- Did you continue to purchase products from the company after this experience? How did your behavior change?

Additional Questions

- How did you make the return? (store-to-store, online-to-store, online-to-online)
- How much of an impact do returns services have on your likelihood to purchase in store? Online?
- What key elements characterize effective returns policies in-store? Online?
- Why did you return the product?
- Have you kept a product that was unsatisfactory? Why did you choose to keep it?
- What services do you expect with your returns?
- Does customer service while making returns influence you? How so?

Additional Unplanned/Floating Prompts

- How?
- Can you tell me more about that?
- Can you give me examples?
- How did you feel?

**Table 1: Overall Experience Classification**

<b>Experience</b>	<b>Responses</b>	<b>Percentage</b>
<b>Negative</b>	54	31%
<b>Positive</b>	75	43%
<b>Neutral</b>	48	27%

**Table 2: Generalized Categories Mentioned**

<b>Category</b>	<b>Responses</b>	<b>Percentage</b>
<b>Behavioral Changes</b>	22	13%
<b>Ease</b>	53	30%
<b>Overall Experience</b>	68	39%
<b>Negatives</b>	33	19%

**Table 3: Specific Variables Mentioned as Important**

<b>Category</b>	<b>Responses</b>	<b>Percentage</b>
<b>Policy</b>	59	34%
<b>Customer Policy</b>	29	17%
<b>Friendly Service</b>	24	14%
<b>Ease of Return</b>	19	11%
<b>No Questions Asked Policy</b>	12	7%
<b>Return Label Provided</b>	12	7%
<b>Prefer In-Store Returns</b>	8	5%
<b>Quick to get Refund</b>	6	3%
<b>Call Center Representatives</b>	5	3%
<b>Won't Buy Again</b>	5	3%

Categories were then combined based on similarities and the three most significant areas of retailer differentiation based on consumer importance from the interview data were Return Policy, Return Experience (customer service), and Return Process.

## **Results**

### **Opportunity for Value Generation**

There is significant opportunity for value generation through improving retailers' returns management tactics, as the data revealed. As can be noted from Table 1, with only 43% of the responses speaking of a positive returns experience, there is significant room for retailer improvement to generate value from consumer product returns because 31% were detailing

negative returns experiences, and 26% were detailing neutral returns experiences. These numbers reveal two main conclusions. Firstly, most retailers are at least meeting expectations as can be seen in the 69% of responses that were neutral or positive. This means that with minute changes, many retailers could improve those things that mean most to consumers and generate value from their returns experience. Secondly, some retailers are not engaging consumers positively through product returns. The 31% of quotes that came wrought with negativity resulted in lost sales, lost customers, and potentially, forfeit the lifetime customer value of some potentially lucrative customers. Therefore, the data has strongly suggested that, while retailers are meeting basic consumer expectations for product returns, there are definitive areas of change that could result in increased customer service and satisfaction overall.

### **Areas of Importance for Customers**

Furthermore, this data revealed the primary areas of importance for consumers. Of the quotations pulled from the data, 33% mentioned policy as a significant variable to their satisfaction with product returns. Then, 29% mentioned interactions with customer service representatives being paramount to a successful returns experience. Finally, 38% mentioned the importance of having a simple process from purchase to return to refund to obtain consumer satisfaction. These three variables are fairly evenly distributed, showing that each makes a significant impact on customer satisfaction throughout the returns process. This is especially important because 13% of the data referenced behavioral changes stemming from returns experiences. This confirms that consumers actually do differentiate between retailers based on service, even when pertaining to product returns. Therefore, a negative returns experience can cost a retailer a customer, while a retailer that has the correct Policy, Interactions, and Process has the potential to increase a consumer's loyalty and increase their lifetime customer value.

Once the main variables and areas of potential were determined, the data was examined to pinpoint specifically which variables can influence the retailers' Return Policy, Interactions, and Process. The following sections detail the ideal standards set forth for each of the aforementioned variables.

### **Return Policy**

The return policy refers to the store's requirements, typically in writing, for a successful product return. Time and time again consumers mentioned that they wish to see a clear policy that is standardized to 30, 60, or 90 days. By maintaining a standard policy, consumers are not left unaware and unable to return a product as they feel they should. Furthermore, many of the interviewees mentioned that they appreciate having the policy printed on the receipt or written somewhere easily read so they are not left unaware. A store can also accomplish this awareness by having salespeople ask customers of their understanding of the return policy as they are making their purchases. Also, while receipts may seem like a large issue of contention, many of those interviewed understood why retailers require a receipt for a return and had no problem keeping up with receipts or exchanging for in-store credit when receipts were misplaced. However, utilizing a computerized receipt system to eliminate that issue is a wonderful way to increase service levels and ensure high levels of customer satisfaction for a relatively low cost.

### **Return Policy Differentiation**

Furthermore, to truly differentiate their return policy, retailers can adopt a "No Questions Asked" policy. Multiple times during the course of the qualitative interviews, the interviewees gave glowing examples of companies that had the perfect returns experiences. These companies accepted any product at any time for any reason. The interviewees were then asked how that policy changed their behavior and many admitted to being more prone to impulse purchases, greater volume of purchasing, and overall higher customer satisfaction from those companies.

Because consumers do not have to worry about a hassle-laden returns policy, they increase their purchasing pattern. They also do not have unsatisfactory product sitting in their home, reminding them of retailer restrictions, because they realized they were unhappy outside the policy's limits. Instead, they recognize that a "No Questions Asked" policy correlates with a company that puts the customer first, regardless of the conditions. Overall, having standard policies is a minimum for meeting customer expectation. They understand the need to restrict returns at certain times because of inventory obsolescence and product availability issues.

However for retailers who wish to portray complete customer satisfaction, they can differentiate their return policy through service incentives such as computerized receipts or a "No Questions Asked" policy. Then, retailers are able to significantly increase their overall customer satisfaction ratings and put the customer's experience as the primary goal of the firm. Some of the dialogue from the interviews specifically mentioned policy and can be found in Table 4.

**Table 4: Quotes about Policy**

•	<i>So you always want to check the return policy and how difficult it is for you to return that item because it's something that you may not want to buy or deal with."</i>
•	<i>"Well, I think that I would make it my business to know the policy. And not get caught in a policy that I did not either think was generous enough or, you know, would offer me a refund or exchange."</i>
•	<i>"...If I'm really not sure it's going to work, I'm probably not going to order it. Because, you know, I've ordered things and the things I've had to return were defective items, not things I said, oh I don't like this. Because then, I'd probably have to pay return shipping, and so that wouldn't work."</i>

### **Interactions and Customer Service**

Interactions and Customer Service refers to the human element of the product return experience. Attitude of the customers' service representative and other staff involved in the returns process was a relatively consistent theme among each of the eight interviews. This reveals the importance of training the individuals in customer service roles to be pleasant to all customers and educate them in the policies and processes that make the return as easy as

possible. Many of the negative responses heard in the interviews pertained to customer service interactions. Interviewees were questioned rudely about why they were making the return or seemed to find the customer service representative dismissive to the interviewee as they worked to return the item. Making a customer feel insignificant or unintelligent for having to return a product is an easy issue to avoid and, through better training and awareness on the part of the firm, customers will have more positive interactions with representatives, reducing the need to make behavioral changes against the offending retailer.

Another strong point of dissension heard in the interviews was the element of time. When required to wait in long lines to make product returns, customers often get irritated. Then, compounded with a poor service representative, customers lose affinity for the retailer and, as was seen throughout the interview transcriptions, actually begin to shop elsewhere. By training and hiring positive, attentive, and understanding individuals to work in the customer service department of a retailer, retailers can meet basic consumer expectations. Furthermore, by having floor managers who pay attention to lines and return volume and can allocate more clerks to customer service as needed, customer service is increased. This specific issue was mentioned by one of the interviewees as a reason why she switched from one retailer to another, proving the importance of considering the consumers' time in line.

### *Customer Service Differentiation Online*

Lastly, a wonderful way for online retailers to obtain high levels of customer service and ensure a positive experience online, call centers or return centers should be staffed with pleasant, knowledgeable, well-spoken individuals. Again, training and awareness is key, particularly because the face-to-face human element is removed from online returns and call centers. Therefore, having processes and procedures in place that dispense the knowledge from the

representative to the consumer in an effective and timely fashion are key. Another differentiation is a 24/7 toll-free help line. This way, all customers are taken care of at times most convenient to them. While this may be an expensive tactic, there are myriad other ways to ensure a positive representative-consumer interaction. For retailers who wish to achieve the total customer satisfaction, a 24/7 help line is a useful differentiator. Some quotes pulled from the interview transcriptions regarding Interactions and customer service experience within product returns can be found in Table 5.

**Table 5: Quotes about Experience**

•	<i>“I really get upset when I go into a store and the person waiting on me acts like they're doing me a favor. That really ticks me off.”</i>
•	<i>“Attitude is a big one with me. And I've actually made complaints to management in a couple of cases.”</i>
•	<i>“I always like to still have the ability to call someone and not have a long wait time if I do need to talk or have the ability to verify what my options are with someone.”</i>

**Return Process**

The Return Process refers to the steps a consumer must take from purchasing a product, to returning the product, to receiving a refund. One of the main constraints of this Return Process is that it is an easy transition from purchase to return to refund because consumers want a streamlined process. This includes things like the number of steps involved and the amount of questions or prerequisites required prior to a product return. Many complaints within the data included information about retailers that require forms to be filled out or exhaustive questioning to be completed before a product can qualify for a return. This area is particularly important for online retailers. Because online returns are often multi-faceted and relatively complicated, it is important for online retailers to have the “Help Sections,” “FAQs,” and customer support in place to ensure consumers understand the process. One interviewee mentioned their delight when they got emailed throughout the various steps of their online return. These emails showed

that their request had been received, their return had been approved, and their refund had been processed. These simple automated emails put the consumer at ease and ensured customer satisfaction, even during a complicated internet return. By simplifying the return process, putting the necessary assistance in place to ease any questions, and ensuring the refund is processed in a timely manner, customers will maintain their purchasing patterns, stay satisfied, and continue their relationship with the retailer.

***Behavioral Changes in Dealing with the Return Process***

However, the process that consumers must go through to make a product return is often the most dangerous part of a product return for negative behavioral consequences. Many interview responses recounted the decision to not purchase from online retailers or retailers with complicated returns processes in the first place because they did not want to have to deal with returning the product if they were not satisfied. That is a direct loss of sales based on a simple process change. While all three areas of differentiation are imperative to ensuring complete customer satisfaction, the negative behavioral and purchasing patterns impact retailers strongest through process issues. Therefore, for many retailers, a process re-engineering for consumer product returns could directly result in value generation and increased customer purchasing, satisfaction, and loyalty. Some of the quotes that pertain to the product return process can be found in Table 6.

**Table 6: Quotes about Process**

•	<i>“...have a timeline of how it can happen on your end and on their end. Like, once they get it, how soon they will be turning that around.”</i>
•	<i>“Everything is laid out for you and it's not a lot of effort. Because sometimes online is a little more effort than it is worth.”</i>
•	<i>“I don't have to go to the store, fill out their return address, pay for it. It's just a sticker ready to go, stick it in the mailbox.”</i>

## Results and the Customer Expectation Model

After determining the three aforementioned variables as the keys to a successful product return, it was important to determine what elements in each topic are necessary to keep customers. Therefore, the model seen in Figure 2 was developed. This model correlates the aspects of returns management into categories based on behavioral changes. Based on the data collected through the consumer interviews, the characteristics found in the Below Expectations section result in the behavioral changes seen in the Outcomes section. These consumers were dissatisfied with their product return and lost faith in the firm through the experience. Therefore, it is important for firms to build their returns experience around meeting or exceeding customer expectations. By following the guidelines mentioned previously, retailers are able to maintain their relationship with consumers and ensure that, even with product dissatisfaction, they are not losing the consumer and the accompanying lifetime value.

Figure 2: **Consumer Returns Behavioral Outcomes Model:**

	<b>Below Expectations</b>	<b>Meets Expectations</b>	<b>Exceeds Expectations</b>
<b>Policy</b>	<ul style="list-style-type: none"> <li>Irregular</li> <li>Restrictive</li> </ul>	<ul style="list-style-type: none"> <li>Clear</li> <li>Standardized</li> </ul>	<ul style="list-style-type: none"> <li>“No Questions Asked” Policy</li> </ul>
<b>Interactions</b>	<ul style="list-style-type: none"> <li>Questioning Attitude</li> <li>Inaccessible</li> </ul>	<ul style="list-style-type: none"> <li>Easy Returns</li> <li>Pleasant Service Reps.</li> </ul>	<ul style="list-style-type: none"> <li>24/7 Access</li> <li>Responsive to Volume</li> </ul>
<b>Process</b>	<ul style="list-style-type: none"> <li>Complicated</li> <li>Unclear</li> <li>Slow to Refund</li> </ul>	<ul style="list-style-type: none"> <li>Streamlined</li> <li>Fast-to-Cash</li> </ul>	<ul style="list-style-type: none"> <li>Responsive to Customer Needs</li> </ul>

  

<b>Outcomes</b>		
Loss of Sales Loss of Business	Maintained Purchasing Patterns Customer Satisfaction	Increased Customer Purchasing Increased Customer Loyalty

*This model is a visual account of the text above pertaining to Policy, Interactions, and Process and how they correlate with Behavioral Changes. Below Expectations equates to a negative returns experience. Meets Expectations equates to a neutral-positive returns experience. Exceeds Expectations equates to a positive-excellent returns experience.*

## Discussion

### Low-Cost Retailer Managerial Suggestions

Overall, Policy, Interactions, and Process are the ideal points for retailer differentiation based on returns service. Yet, each retailer is different and should follow certain guidelines based on their unique customer service goal. For example, for some lower cost retailers like Wal-Mart, Target, or K-Mart that were frequently mentioned in the interview dialogue, implementing online receipt management systems, liberal policy allowances, and extensive customer service representatives to minimize wait times could lead to an inefficient use of capital. Many of the items returned at these stores are low-value items. Wal-Mart's allowance of returns of out-of-season items would create obsolete inventory without generating much value from a customer's spending patterns.

Based on the interview data, consumers simply screen their purchases from "convenient" retailers like Wal-Mart after experiencing a negative return. Therefore, to ensure spending patterns are maintained, the retailers need to ensure that they are doing those things found within the above model that meet customer expectations. For instance, following a standard policy, positive and knowledgeable customer service representatives, and an easy to follow policy ensure customer satisfaction. However, the data gleaned from the qualitative interviews suggested that there was a correlation between negative or below expectations returns experiences and behavioral changes of consumers.

In all eight of the interviews, the subjects stated that they would either screen their purchases or stop purchasing from retailers after a negative returns experience. It is imperative that retailers look at the information provided in this thesis to ensure that they are not losing customers. It is important to note, though, that as customer service is becoming more and more the sole element of firm differentiation, there may come a time when even the low cost, price-

conscious retailers must spend more on maintaining beyond expectation attributes of the returns process.

### **Premium Price Retailer Managerial Suggestions**

While knowing the levels of basic expectations that certain retailers must maintain is essential, it is even more imperative that the premium product retailers provide a positive returns experience that serves to delight the customer. Because these premium products are differentiated more through the services that accompany them, retailers should make it their goal to exceed customer expectations. Some companies were mentioned frequently in the interview data within this category and have really served as benchmarks for these recommendations. In over half of the interviews, consumers rated L.L. Bean returns management as the perfect example. L.L. Bean accepts any product at any time with no questions asked.

Because they are a catalogue and online-only service, they are also able to keep up with customer order history, eliminating the need for customers to keep up with receipts – even years into the future. Online retailers of premium goods in particular can use this technique to differentiate their service. In-store, it is important for retailers to honor returns with a receipt regardless of the time frame if a no questions asked policy is adopted. While this policy is not as impactful as it is for online retailers, ensuring that the customer is satisfied through either a refund or replacement product is paramount for premium retailers.

From a customer-retailer interaction or customer service perspective, premium online retailers, an effective differentiator is a 24/7 call center line. Letting customers do returns on their own time enables them to be satisfied at all costs. Furthermore, for typical brick-and-mortar retailers, having enough customer service representatives to respond to the fluctuating volumes of returns is essential. That way, in busy seasons such as after Christmas, wait times are

minimized and the complete cycle to refund is very short. Having a manager who recognizes the importance of customer service and allocates their staff to minimize wait times is a strong improvement.

### **Overall Managerial Implications**

All retailers can take steps to utilize processes to delight customers and exceed customer retail return expectations. Retail returns need streamlined returns processes that lead to a refund quickly. Customers do not appreciate lots of forms to fill out, steps to go through, and waiting periods. The positive returns processes that people spoke about in the interview data include those that provide a checklist of the necessary steps and easily walk the customer through the return process. Additionally, these ideal returns are very customer-focused by making the process as easy as possible for the customer to achieve complete satisfaction. The customer-focused process, along with the policy and service elements mentioned previously create the perfect package to exceed all customer expectations and, place the customer as the utmost priority. The result is that customer loyalty generally is paired with increased customer purchasing. This is especially true as customers are more willing to make impulse purchases because they know that if they are not satisfied with the product they can return it easily.

By examining the interview transcription data, this thesis details the appropriate guidelines both low cost and premium product retailers should make to meet and exceed customers' expectations. Each of the dictated variables has simple changes that firms can make to generate value and customer loyalty from their returns. Therefore, instead of viewing customer returns as a failure, it is time to utilize returns as a way to increase customer loyalty and provide customer service.

## Areas of Future Research

There are several areas where further study could be useful. Firstly, doing a study to more closely examine the different results online returns and in-store results elicit from customers. For example, when making online returns customers place most of the importance on return labels and shipping charges instead of customer service provided in in-store returns. Additionally, the necessary customer service interactions differ between the two circumstances. Pinpointing exactly what types of service and what elements online and in-store returns management should utilize can help to increase customer service metrics and ensure long term customer satisfaction. Understanding the different expectations in these different atmospheres is especially relevant as retailers continue to move more online to e-commerce. E-commerce is a more efficient way to run a business because fewer overhead and staffing costs are associated with it. Therefore, understanding how returns can be effectively handled online can better tailor the experience for high levels of customer satisfaction. Inversely, it is not cost effective to duplicate all returns processes in-store that exist online. Instead, by delving more closely into the different expectations that consumers have for each individual type of company (online or in-store), retailers are able to closely align with the areas that affect the customers' perception most and ensure a returns management process that engages customers to eliminate fear of purchasing based on past negative returns experiences.

Furthermore, during the course of the interviews, it was realized that consumers often screen their purchases based on where they purchase. For example, each interviewee mentioned preferring to purchase items in-store, particularly clothing or shoe items where there is a higher probability of having to make a return. Therefore, online retailers' returns policies are actually discouraging consumers from making purchases on their e-commerce sites. These sites are

actually less expensive to run, quicker for consumer check-out, and more efficient overall, so by keeping consumers away from making online returns because of the hassles associated with making online returns, retailers are not fully realizing the revenue that they could over time. It is essential that retailers with both an online and in-store presence streamline their returns processes to make it seamless for retailers to make returns based on convenience. The data has suggested that in-store returns are preferable for consumers so retailers should prepare their policies and processes to accommodate the return of items purchased online in an in-store setting. Lastly, by improving the overall returns experiences for customers, utilizing new electronic receipt technology, and investigating into streamlining online/in-store returns, customers will decrease their purchase screening and will be more likely to make impulse purchases for items that they are not certain about. This will help retailers through increased sales and a higher amount of face time with which they are able to impress their customer and increase customer loyalty over time.

## **Conclusion**

In conclusion, returns and reverse logistics is a relevant problem in the supply chain. Because returns are an inevitable portion of the customer experience, retailers should exploit them for value such as increased lifetime customer loyalty through positive returns experiences. This research has determined that the quality of returns experience has a direct correlation to behavioral changes that consumers make. For example, if retailers are underperforming and fail to meet consumer expectations when consumers are returning products consumers are likely to screen high-value purchases and avoid purchasing them at that retailer or avoid purchasing at the negative retailer altogether. On a more positive note, all of the data used in this study proved that consumers have certain expectations for returns and if those expectations are met or

exceeded, customer loyalty remains and, in certain cases, increases in purchasing patterns. For example, those retailers that ensure the customer is left satisfied have created life-loyal customers who are unlikely to keep unsatisfactory merchandise in their home as a reminder of their failure as a shopper and the retailer's failure to provide.

This research has also determined that the main areas of firm differentiation when pertaining to returns include the returns policy, returns process, and overall returns experience and customer service. These areas have been developed into a model that shows not only how to meet and exceed expectations but also the behavioral changes that accompany each area of consumer satisfaction. By following this model and the managerial implications outlined in the text, retailers will be able to recover some of the losses experienced with returns and the reverse logistics associated with them. They are also able to leverage customer loyalty and ensure that returns are not simply an added expense but are actually a mechanism of customer service.

This study is particularly important because as products become more standardized and the internet levels most product differentiation, the service associated with making purchases becomes the differentiator that guides a consumer to shop at a specific store. By having a positive returns process in place and ensuring customer satisfaction, retailers can provide complete customer satisfaction along the entire supply chain. This is especially relevant as online returns and e-commerce continue to increase, because when purchases are made electronically, returns increase. Overall, this research provides the necessary evidence for retailers to change their perspective of returns. Instead of seeing returns as a failure and an added expense, retailers should see returns as an area to improve customer service levels and incite increased customer lifetime value.

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