Stream # 15. Technology, Innovation and Supply Chain Management
Competitive session

Management of Product Returns in Retail Firms: an Investigation into Retail Returns Policies and Service Determinants

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ABSTRACT: *This study investigates the critical determinants of product returns management in Australian retail firms. Through the critical case sampling method we identify 17 major retail firms and analyse contents of their returns policies in terms of returns services. We develop a generic returns operations process model that can be followed by retailers. Analysis of return policies indicates quick resolution of return claims, less customer effort, and clarity of return policy and process are critical determinants for customer service elements of returns management in retails. The findings of the study can act as a reference guide to senior executives developing strategies for competitive advantage through efficient product returns management viz. customer retention and asset management.*

Keywords: Reverse Logistics, Customer Service in Returns, Returns Policy.

INTRODUCTION

Product returns are part of retail reverse logistics and are considered as the activity of returning goods back through the supply chain with a focus on retailers (Bernon, Rossi, & Cullen, 2011). Despite increased organizational attention to sophisticated philosophies and methods for achieving higher product quality (e.g., TQM, Six Sigma, and lean operations), the magnitude of returns is high (Rogers, Lambert, Croxton, & García-Dastugue, 2002). The management of returns is a service operation involving the process of handling returned goods from customers to satisfy their needs and fulfil company benefit on an agreed policy. If the returns process is complex, slow, or inconvenient, customer dissatisfaction will only escalate, which will put future business at risk (Gartner, n.d.). Conversely, an efficient returns operation can be a strategic asset of an organization and a source of competitive differentiation and customer-retention advantage (Stock, Speh, & Shear, 2006). A survey by the US National Retail Federation found that 85% of all consumers spend more and come back to retailers that provide good returns service (Consumer affairs News, 2006).

Returns policy plays a vital role in returns service operations. In spite of sufficient evidence that customer retention depends upon a good returns policy, return policies still vary significantly across retailers. Some retailers offer very generous return policies, while others impose many restrictions on returns (Davis, Hagerty, & Gerstner, 1998). Returns policies may also provide a way for a retailer to promise product quality when customers cannot verify quality prior to purchase (Moorthy, 1995; Davis et al., 1998). Some retailers use their returns policy to control unwarranted returns. Returns policy should be implemented through an efficient returns process. Some leading edge companies with more sales and returns have realized the strategic value of the returns process and have emphasized full-time administration of the product returns process (Shieh, 1996).

In spite of its strategic importance, extensively studies on customer returns have not been conducted (Bonifield, Cole, & Schultz, 2010). The current returns management research underlines the necessity of empirical research and implies that less attention has been given to link customers with the returns policy and process (Dubbs, 2001; Rogers et al., 2002; Shieh, 1996) It is critical for organisations to consider returns positively and develop efficient and customer oriented returns management systems that will benefit customers and service providers. Through a systematic investigation of the Australian retailers' returns policies, our research aims to identify the returns process for different products, related customer services, and determinants of management of product returns in the retail industry.

ISSUES REGARDING PRODUCT RETURNS MANAGEMENT

Returns: A Reverse Flow in Traditional Supply Chain

Rogers et al. (2002) argue that returns management is an important supply chain process. In the traditional supply chain the forward flow is considered among the parties such as supplier, manufacturer, distributor, retailer and customer. However, activties related to returns management processes start from customer request or complaints regarding a product or service; followed by gatekeeping; avoidance (Rogers et al. 2002); returns authorisation decision (Guide & Wassenhove, 2001; Mollenkopf, Frankel, & Russo, 2011); product disposition(Guide & Wassenhove, 2001); recovery; and crediting.

Types of Product Returns

In broad-spectrum, returns can be classified as customer returns and business returns. Customer returns are from end customers to retailers, and business returns are from business to business organisations such as manufacturer, dealer, and retailer. Returns can also be categorised as consumer returns, marketing returns, product recalls, and environmental returns (Rogers et al. 2002).

If a product enters the reverse supply chain flow from customer to retailer, it is a customer product return or retail reverse logistics (Bernon et al., 2011). Therefore, customer returns are products that have been returned after being opened and used and for some reason customer is not happy about the product. In other words, these products are returned mainly due to buyer regret or product defect. These returns are normally the largest type of returns (Rogers et al. 2002). Therefore, customer product returns have become an important part of today's business and our research addresses customer product returns.

Returns such as marketing returns can be classified as business returns. Business returns are mainly damaged, defective, or, incorrect shipments, overstocks, and marketing related returns (Richey, Chen, Genchev, & Daugherty, 2005). This type of return is from retailers, wholesalers, or distributors. Reasons for these returns are slow sales, bad quality product, reposition of product inventory, close-outs, and buy-outs. Product recalls also generate returns and this type of product returns is in batch or for an entire production run that should be returned to the manufacturer. Recalls are due to product safety or quality issues, design fault, manufacturing fault or labelling, packaging or specification mistakes. There are returns due to environmental issues such as disposal of hazardous materials, and environmental regulations (Rogers et al., 2002).

Returns Policy

The return policy is characterized by a set of restrictions imposed on consumers who return the product after a given trial period (Davis et al., 1998; Wood, 2001). Retailers develop and alter returns policies based on elements such as local 'Consumer Guarantees Act', gate keeping rules, customer efforts required to claim returns (in terms of calling the retailer, bringing back original receipts and filling in return forms at a nearest store), and extent of service coverage (full or partial money back, gift voucher, product repair or replacement) (Janakiraman & Ordóñez, 2011; Mollenkopf et al., 2011; Posselt, Gerstner, & Radic, 2008; Su, 2009).

A returns policy is also an element of a bundle of services that may be provided by retailers (Davis et al, 1998). Returns policy that allow consumers to return products for a refund are commonly offered by retailers (Davis et al., 1998; Moorthy & Srinivasan, 1995). Returns policies can provide a way of quality assurance to customers who are uncertain whether purchased products will fit their needs prior to a purchase decision (Davis et al., 1998; Moorthy & Srinivasan, 1995; Welling, 1989). A good returns policy provides customers with protection and reduces customer risk associated with making a purchase (Yalabik, Petruzzi, & Chhajed, 2005), in other words it gives peace of mind to the customer before they buy some product or service. Customers are likely to buy a new product if they know it can be returned, if it does not meet expectations. The retailer can profit from a liberal policy if it has an advantage over consumers in salvaging a returned product, or if it can sell other merchandise when consumers return unsatisfactory products (Davis et al., 1998). As a result, companies give lifetime warranties on products to allow customers to return a product after years of ownership (Rogers et al., 2002).

It is apparent that some retailers offer generous return policies, while others impose restrictions on returns. Because of customer abuse, retailers have begun to scale back return policies in favour of more restrictive ones (Davis et al., 1998). High costs of product returns handling are influencing retailers to institute policies to restrain product returns. For example, the major retailer Costco, who formerly employed a generous returns policy of indefinite return deadline, has now moved to a 90-day return policy on its computer items (Janakiraman & Ordóñez, 2011). Restrictions include strict time limits for returns; return in original packaging materials; acceptance of only those products with no visible signs of use; the returns receipt with bar code must be provided (for example Macy's in the USA). Some retailers accept returns but don't provide cash back, instead they offer gift vouchers or store credit. In an attempt to reduce unwanted returns, restrictions are now being levelled at the individual buyer, with some retailers using software programs to track customers who make large returns and to block some of them from returning items regardless of the store's return policy (Tang, 2008). Sometimes retailers are forced to adopt a stricter returns policy because of the vendors' tightening of returns policies (Stock et al., 2006).

Overall, returns policies vary from full money-back to partial money-back guarantee to product replacement, money refund, or product repair guarantee without cost. Depending on the level of restriction returns policies may be lenient or conservative. A lenient returns policy is defined by lenient deadlines, low customer effort or hassle in returning goods, and a high coverage of money back, availability of refunds, exchanges, and merchandise (Bonifield et al., 2010; Janakiraman & Ordóñez, 2011). The returns policy in place at a firm can affect customer value in the way it guides markets and operations personnel to facilitate the return flow of product from customers (Mollenkopf et al., 2011). At the strategic level, an organization must develop policies, guidelines and structures to handle the reverse flow of product, information and finances (Mollenkopf et al., 2011).

Customer Service for Efficient Returns Processing

Companies believe that their most important asset is a satisfied customer. Therefore, they always try to offer good products as well as good customer service to satisfy customers. However, for many products, a customer's relationship with the firm does not end with product purchase. In fact, relationship can be significantly influenced by the activities that occur after purchase and during the entire period of product ownership (Amini, Retzlaff-Roberts, & Bienstock, 2005). When a return occurs, the customer experiences transaction costs and the retailer experiences handling costs (Yalabik et al., 2005). Customer transaction costs include the expense and hassle of bringing the product back to retail. Thus, product returns represent important opportunities to create customer loyalty.

Ref Before discussing the customer service elements in returns, it is essential to know why customers return products and what they want from returns claims. There are a variety of reasons for customers to return products. It may be because products do not meet customer's needs due to defective product (example: poor quality) or non-defective product (example: sizing). Sometimes customers return products because they do not understand how to properly use the product, or due to operational difficulty, or the product not matching the description or sample. Customers also return products because of change of mind and other behavioural issues such as family member influence or competitors product available at cheaper price. In addition, more often customers return products because companies are motivated to loosen return policies due to competition. Much of these customer dissatisfaction issues can be resolved through effective service of processing of physical flow of returned products, and timeliness and accuracy of the operations group in processing returned products (Mollenkopf et al., 2011).

The consumer returns process/service deals with unhappy customers to satisfy their required needs. Returns management literature has not focused much on addressing the issues of customer service values (Mollenkopf et al. 2011). However, product returns are service activities and are an essential in satisfying customers. Companies must provide an effective customer oriented returns policy with the options of refund, repair, or exchange of merchandise. Firms can build customer loyalty by processing the transaction quickly and giving the customer credit, repair or service on time. An efficient logistics process could result in improving customer service by reducing customer transaction costs (Yalabik et al., 2005). Positive customer experiences significantly increase repeat business, create loyalty and help recommend the company to others. Information sharing relating to the returns flow and timing and status of return claims can also add value in service (Mollenkopf et al., 2011). A company cannot ignore the importance of returns related customer service or pay less attention because future business depends on customer retention. Therefore, firms need to offer better customer service in the returns process (Roger et al, 1998).

After careful investigation of customer service and returns management literature, we summarise the following constructs of key customer service elements of product returns: quick resolution of returns claims (responsiveness) (Guide & Wassenhove, 2001; Mollenkopf et al., 2011) convenience in terms of customer effort-time, hassle, and cost (Davis et al., 1998; Janakiraman & Ordóñez, 2011); consistency in returns policy and process (communication)(Stock et al., 2006; Su, 2009); extent of service coverage (Janakiraman & Ordóñez, 2011; Mollenkopf et al., 2011; Posselt et al., 2008; Su, 2009); and flexibility and reliability (Davis et al., 1998; Mollenkopf et al., 2011; Moorthy & Srinivasan, 1995; Welling, 1989).

RESEARCH METHODOLOGY

We analyse retail returns policy of the top 25 Australian retailers to identify the assured critical service elements for management of product returns. Our unit of analysis is company returns policy. Identifying the retailer’s returns policy from their website, this study focuses on content analysis method as a research tool. Content analysis is a research technique that enables inferences to be made based on a text considering the context in which it was written (Holzmann & Spiegler, 2010). The method basically includes two approaches, namely qualitative and quantitative content analysis (Krippendorff, 2004). Qualitative content analysis demands meticulous reading of each document, and understanding and interpreting the text in its relevant context. On the other hand, quantitative content analysis summarizes the inferences and insights derived from the qualitative phase in the form of numerical examinations of the interpreted text units and the related categorized codes (Holzmann & Spiegler, 2010). Our study utilises both qualitative and quantitative techniques in an integrated manner. We use the following content analysis steps: (1) develop a list of retailers, (2) collect returns policy from retail store or website, (3) search returns service element information from policy, and (4) code and analyse frequency of relevant qualitative data.

Background of the Retailers Studied

Our analysis is based on a list compiled from the top 25 Australian retailers on the basis of 2012 sales volume (Inside Retail, April/May 2012) and major retailers data from the Productivity Commission (2011). For returns policy analysis of different retail groups, we classify the retailers according to industry group and subgroup defined by Productivity Commission (2011, page 35, 36). Retailers are grouped according to the following retail sector based classifications: food and liquor, departmental store, electrical, hardware, clothing, pharmaceuticals, and others. These retailers have major market share in their retail category. In terms of sales food and liquor stores (Woolworths, Coles and IGA) have around 70% market share, and departmental stores (Big W, Target, Kmart, Myers, David Jones, Retail Adventures) have a market share of around 90%. We chose these top retailers based on the assumption that retailers with more sales, experience more returns. Details of selected retailers are shown in Table 1.

Take in Table 1 about here

Returns Policy Collection

We collect the returns policy from the respective retail website. We haven't considered food and liquor retailing such as grocery stores and supermarkets like Coles and Woolworths, IGA and Aldi. Most of the food items of these stores are perishable or have limited shelf life and therefore returns are quite straightforward or very limited. After removing these companies from the list we have considered 17 retailers. Out of 17, for two of the retailer's returns policy was not available online, we obtained the returns policies from store.

ANALYSIS OF PRODUCT RETURNS

Analysis of the Returns Process

We investigate retail returns policy and their returns process to identify determinants of product returns management. Returns policy gives customers guidelines about returns claim process, gate keeping rules and service coverage during the claims process. No useful or clear information about the returns process means the customer will be in the dark and directionless to proceed with returns.

After careful analysis of retail returns policies, we look at the common process steps that retailers follow and develop a generic returns process flow diagram in Figure 1. When the customer decides to return a product, the first step may be making a phone call to retailers or manufacturer, or bringing back the product to retail service desk directly with original proof of purchase. We identify retailers usually handle three categories of products for return and each category has a unique returns process. Categories of products are general merchandise; technology product or bulk items; and custom made products or health and hygiene products or DVD/software/gift cards. Almost all retailers have a returns policy for general merchandise. For certain products retailers have no returns policy for non-faulty goods and these are products such as custom made product/ perishable/consumable/health and hygiene product/DVDs/software with security seal. For technology items it is very difficult for retail staff members to assess product fault or degrees of fault. For 'technology product returns' sometimes retailers seek help from other supply chain partners such as manufacturers or repair agents to diagnose the fault or repair the product.

Gate keeping rules are important to avoid fake returns or to authorise genuine returns. Acceptable returns causes are products with fault or products with no-fault (change of mind, wrong labelling). There are different gate keeping rules for different products and for different types of proof of purchase. After screening the product returns claim through the gate keeping rules retailers decide extent of coverage. Coverage includes refund (ranging from full refund, partial refund, or no refund at all) or repair or replacement of goods. Details of these product based returns processes can be seen from Figure 1.

Figure 1: Customer product returns process

Analysis of Customer Services in Returns

Considering the service elements identified in the previous section we emphasise on service measuring scales: quick resolution, convenience, consistency, service coverage, flexibility and reliability. Identifying the retailer's returns policy from their website, we identify relevant items of service elements from company returns policy information. One of the researchers went through the contents and coded the relevant data. For each item we use binary code, the positive answer is 'yes'=1 and negative answer is 'no'=0. A higher score on a scale indicates more service assurance/options in the return policy.

Quick resolution

Quick resolution means responsiveness of service. It depends on the amount of time customer must wait to sort out a claim. Items of quick resolution of service processing time depend on factors such as knowledgeable service staff to assess the claim, dedicated returns service department, simple claim assessment at returns desk, leniency of returns policy or less gate keeping rules for genuine returns, no requirement for defective product to be sent to manufacturer for claim assessment. We consider five items under this category. We count gate keeping rules for returns with original receipt, and 0-2 number of gate keeping rules are considered as lenient (with value '1'), and more than two gate keeping rules are considered as non lenient (with value 0).

Convenience

Convenience means the customer needs less time, effort and hassle to sort out a claim. A lenient returns policy can also be considered as a customer convenience (Janakiraman & Ordóñez, 2011); (Bonifield et al., 2010). This includes being able to return the product at any of the chain stores, a dedicated one-stop service department that requires less paperwork, no phone calls needed to retailer or manufacturer to initiate returns, returns acceptable without original receipts, change of mind goods acceptable, no strict time limits for returns, no requirement for defective products to be sent to manufacturer for claim assessment, less or minimal gate keeping rules with receipt returns, and less gate keeping rules without receipt returns. In total we consider nine items under this category.

Consistency

Consistency refers to the clarity of the returns policy and process. Consistency in service is an expectation of all customers and usually provides peace of mind with no unpleasant surprises. To be consistent in returns, retailers need to post a clear and highly visible returns policy otherwise every time returns process or policy may be different. Other consistency items should be clearly explained in policy such as where or when to return a product, and any expenses relating to the return of product to store.

Reliability

Reliability means returns policies are dependable and can provide quality assurance to customers prior to purchase. Some customers require a reliable returns policy or process, as they are uncertain whether purchased products will fit their needs. Considered items of reliability are a clear and highly visible returns policy, and the right to ask for repairs, replacement or a refund if goods are faulty.

Service coverage

We counted service coverage that retailers provide to customer returns claims. This coverage includes how retailers usually sort out returns claims through exchanges such as: full money-back for faulty product, replacement of faulty product, full money-back for change of mind returns, repair guarantee without cost for faulty product, home delivery of repaired product, return through store gift vouchers or store credit, product without receipt refunded through gift voucher, bulky or affixed product assessed at customer's premises. In total we consider eight items under this category.

Flexibility

Flexibility considers accommodating different types of product returns, and empowering service associates or sales associates to consider returns on a case-by-case basis. It can be acceptance of returns with any proof of purchase, returns of non-faulty or change of mind goods, lost receipt items with other valid proof of purchase, bulky items to be repaired at customer's location, flexible time limit (return within a year of purchase). In total we consider five items under this category.

In our analysis, we consider consistency and reliability index together and analyse the content based on 4 items. Considering the service elements and scales discussed earlier, we analyse retailers returns policy content and obtained a matrix, a summary of the results can be seen from Table 1. Initially, we calculated the numerical score of each service elements, where for each of the retailer's service indexes score is shown under each category of service. Further, for comparison purpose we normalised the each score out of 7 scale.

DISCUSSION AND CONCLUSION

The aims of this study are to identify the customer returns process and prioritize determinants of management of product returns in the Australian retail industry. We analyse the returns policy of the top 17 retailers in the country in terms of key service elements: quick response, convenience, consistency and reliability, service coverage, and flexibility.

Our research identifies the returns operations process of retailers through content analysis. The process (Figure 1) shows the necessary steps of returns for different types of products such as general merchandise, technology products, and others (custom made products, health and hygiene products, software etc.). To our knowledge no previous research has shown this kind of returns operations process. The process clearly explains the operational steps of customer returns that retailers are generally using. It shows customer effort necessary for returns, and how stores process customer claims with the help of different gate keeping rules. Gate keeping rules check for genuine returns and minimise retailers' possible loss from returned goods. Most stores require valid proof of purchase from customer, which can be a purchase receipt, or a bank or credit card statement clearly stating product, purchase date and amount. Retailers check whether returns are due to faulty or non-faulty product issues. Non-faulty issues include change of mind, incorrect labelling, and wrong packaging. The returns process as well as gate keeping rules is different for type of product. For technical products many retailers rely on repair agents or manufacturer for fault assessment, and based on outcome provide necessary service coverage to customer. For custom made products (unless there is clear proof of defect or damage) there are no returns. Customers should be aware of returns policy and process before they proceed to buy a product particularly one (technical, customer made, and health and hygiene product) with a strict returns policy. Alternatively, it is the retailer's responsibility to inform the customer if there is a strict returns policy, no money back or no exchange, or a strict time limit for returns.

Analysis of returns service elements shows that top retailers emphasise quick resolution of returns, flexibility, consistency, and convenience of returns process. According to the priority of service scale index, overall for all the retailers quick response scores 3.29 out of 5 i.e. 65%, flexibility of returns scores 3 out of 5 i.e. 61%, consistency and reliability of service scores 2.4 out of 4 i.e. 60%, convenience or less customer effort scores 5.39 out of 9 i.e. 59%; and generous extent of service coverage scores 4 out of 8 i.e. 50%. Among the retailers importance of service coverage varies, and departmental stores put more emphasis on returns service coverage.

Customer service index scores of returns show that most departmental stores are performing well compared to other retail groups such as electrical and electronic retailers. Departmental stores have a customer focused returns policy and process in terms of services elements such as quick response or quick resolution of returns, convenience of returns, and consistency of returns service. The second best performing retail group is ‘hardware and auto’. Electrical and electronic store returns service scores are not impressive. This is perhaps because of the nature of the products they sell and type of business they operate. Many of the electrical and electronic stores are franchises and have individual store policy. These electrical store returns policies are not clearly written for the customer, and returns are handled on a case-by-case basis. Most of the handled goods at electrical and electronic stores are technology related and have a relatively short life, have strict returns policy, and come under manufacturer’s warrantee. For fault related product return claims, in many cases retailers need to consult with manufacturers before sorting a customer claim, which results in lengthier processing time to respond to customer request. As these electrical stores are franchises, customers need to return products to the retail from where they have purchased the goods, which add to the process time and causes further inconvenience.

Analysis shows that top retailers use a lenient returns policy and provide more returns services. Amongst the individual retailers Kmart, Big W and Bunnings Warehouse are on top in terms of customer service index scores. In terms of 2012 sales, Big W ($4.15b) and Kmart ($4.01b) were the top end retails within the departmental stores; on the other hand Bunnings Warehouse is the top most retailer in Australia in terms of 2012 sales ($7.0b). These stores have lenient returns policies and they are more customer focused in terms of quick resolution of returns without hassle and go through few gate keeping rules. These stores focus more on return services coverage and perhaps because of that they have greater sales and market share. Customers have peace of mind before they purchase products from these stores; they know returns can be claimed easily and conveniently. They also have assurance of better service coverage in terms of full money back, replacement of similar product or repair of faulty product.

The findings (returns process and service elements) of the study can help senior executives or retail operations managers develop strategies for competitive advantage through customer focused product returns management for more customer retention. Australian retailers face increased competition from retailers and e-tailers at home and abroad. Such an analysis will be valuable to retailers to learn about current customer service practices in returns, how policies are implemented across the retail industry and for different types of products, and how returns management can be made more efficient. Although the use of 17 large firms is adequate given the methodology employed, it is recommended to conduct empirical study using a large sample data set in the future.

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Figure 1: Customer product returns process

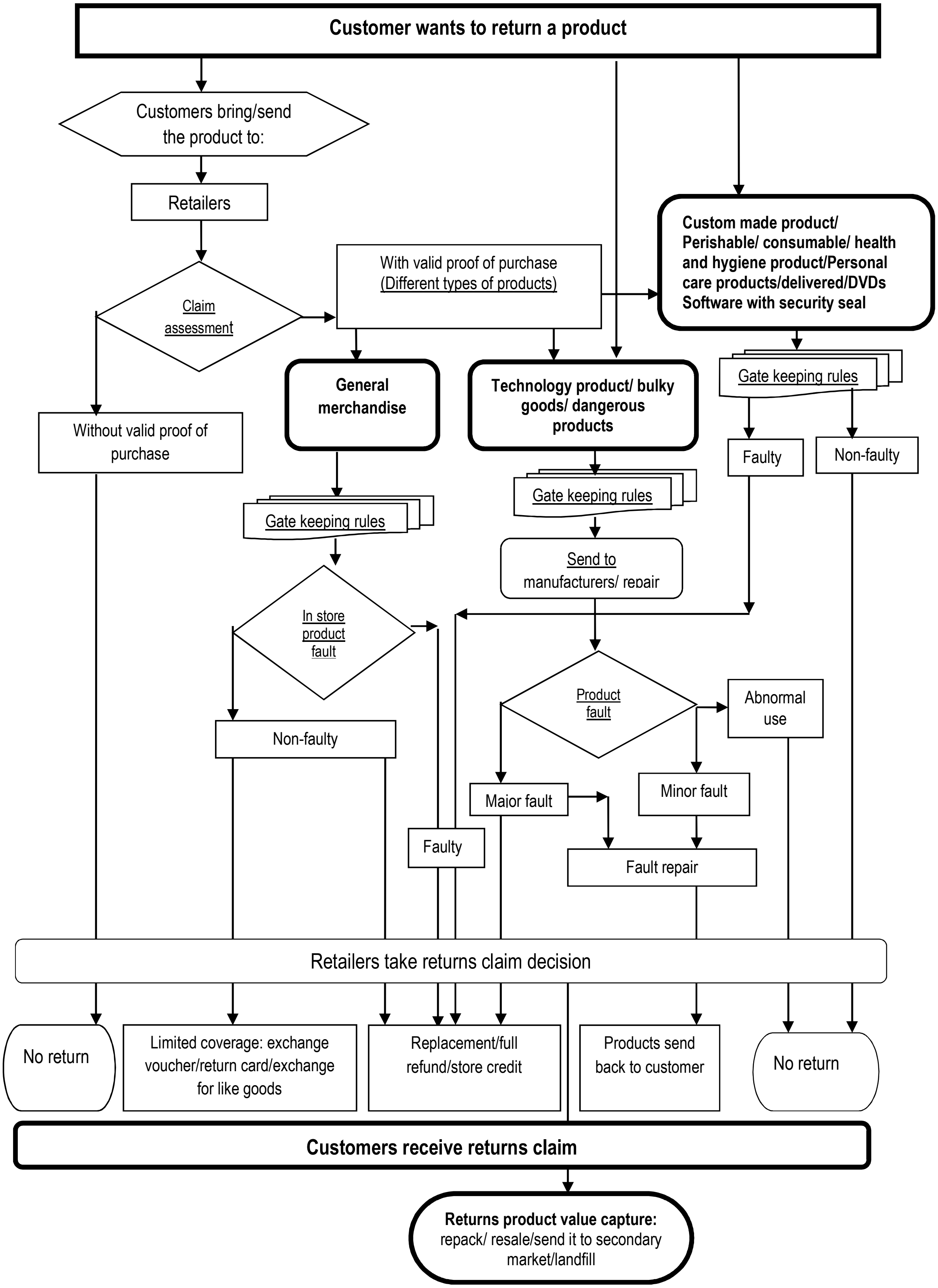

Table 1: Retailers returns services

Retail group/ retailers	Sales 2012	Focused returns services elements scores					Normalised score out of 7 scale
Departmental stores		**Quick response** (0-5 scale)	**Conveni-ence** (0-9 scale)	**Consistency & reliability** (0-4 scale)	**Service coverage** (0-8 scale)	**Flexibility** (0-5 scale)	
Big W	$4.15b	4	8	3	6	5	5.86
Kmart	$4.01b	4	7	4	5	3	5.32
Target	$3.72b	4	6	2	5	3	4.47
Myer	$3.13b	4	6	2	5	2	4.19
David Jones	$1.89b	4	6	2	5	4	5.10
Retail Adventures	$840m	4	6	3	5	4	4.72
Electrical							
Harvey Norman	$4.92b	1	2	0	3	1	1.4
Good Guys	$2.10b	2	2	0	3	1	1.68
JB Hi-Fi	$2.98b	1	2	1	2	1	1.51
Dick Smith	$1.86b	1	2	1	2	2	2.81
Hardware and Auto							
Bunnings	$7.0b	5	9	3	6	4	5.6
Super retail[1]-Auto	$1.26b	3	6	3	4	3	4.2
Super retail[1]-Rays Outdoor	-	4	8	4	5	4	5.6
Repco	$985m	3	3	3	2	3	4.2
Clothing							
Kathmandu	-	4	4	3	4	3	4.33
Others							
Office works	$1.51b	4	6	1	5	4	5.6
Super retail[1]- Rebel Sports	-	3	7	4	3	4	5.6

[1] super group (super cheap Auto, Rebel Sports and others) total earning $1.26