Managing products return: An examination of the practices of online retailers

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Abstract. Management of products return is an integral part of online retailing as the volume of sales and purchase returns are increasing along with the extensive use of technology in retailing. It is often proved as costly for the business whereas can be an effective tool for retaining customers if handled properly. Therefore the management of products return needs special attention by the merchants. This study examines 32 online retailers in Bangladesh and concludes with effective practices regarding the administration of products return management, reverse logistics supply channel and returned products related dispute resolution through some hypotheses testing.

Keywords: Online retailing, reverse logistics, managing products return.

1. Introduction

The widespread use of internet has created remarkable opportunity for the retailers as they can rely on this vast network of computers and electronic devices to facilitate consumer purchases. This art of using internet in marketing and communication, facilitating purchases, making payments, order processing and delivering products and services is known as electronic commerce or E-commerce. In an e-commerce environment, the merchants put images and information regarding their products and/or services in their website which can be accessed remotely by the consumers. The consumers make the purchase decisions by the

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products information posted in the website, order and pay online and get the product delivered at their convenient location.

This process of purchasing products often claimed as deceptive for the consumers as they are making the purchase decision without any physical inspection of the product and often they had to wait till the product gets delivered for gaining knowledge and experience about the product. When products purchased online turnout to be are of inferior quality or not satisfying in other aspects, they needed to be returned to their suppliers or manufacturers under their claims for returns or exchange from merchants (Wang et al, 2013). Managing these purchase returns under some claims thus becomes an integral part of e-commerce which involves staffing for products return processing, reverse logistics, inspections and dispute resolutions.

This research aims at gathering information regarding the management of purchase returns practiced by Bangladeshi online retailers through a survey conducted among 32 merchants. The data has been collected to reveal products return processing practices in staffing for returns processing team, reverse logistics supply channel and products return dispute resolution and test few hypotheses on the issues.

2. Literature Review

A number of researches in the form of case studies and anecdotal information regarding product returns have been published during last decade (Stock & Mulki, 2009) as processing product returns has become a critical activity for organizations because of a rapid increase in the volume of goods flowing back through the supply chain (Guide et al. ,2006). Gentry (1999) estimated that product returns could range from 15% for mass merchandisers to 35% for e-commerce retailers. Therefore it has been agreed upon that the focus on reverse logistics and product returns is growing as the firms are beginning to take a strategic perspective of the process (Wu & Cheng, 2006).

Much of the early literature on return policies were originally focused on the manufacturer-retailer relationship while recent attention is shifting towards retailer-consumer relationship issues (Mollenkopf et al., 2007). The main reason of this is the widespread use of internet in retailing. According to Rogers & Tibben-Lembke(1999),

online retailers offer clear and attractive return provisions either from a desire to remain competitive in the marketplace, or from a belief that a well crafted return policy will make the customers happy. Hence, it is evident that well crafted returns policies can surely create competitive advantage for the practicing organizations.

The concept of returns policies bears significant importance to the consumers. As the internet retailing model often precludes pre-purchase examination of the product, an online purchase frequently perceived as riskier (Yalabik et al., 2005). Besides, unlike traditional bricks-and-mortar purchase situation, an online purchaser has to wait for the product to be delivered in order to gain experiential information regarding the product (Wood, 2001). Hence, liberal returns policies are recognized as an insurance against this uncertainty relating to color, styling and product quality (Padmanabhan & Png, 1995). Therefore, 70% of the respondents in a survey of online shopping claimed that they usually evaluate returns policies of the store before they decide to shop (Pinkerton, 1997; Trager 2000).

Returns policies, on the other hand, help merchants to effectively communicate the intangible aspect of the products and quality of the service they provide to the consumers (Kirmani & Rao, 2000). According to Spence (1977), the product allows the merchants to credibly convey information regarding the product quality to the consumer, thereby providing the desire incentive for the merchant to invest on product and service quality analysis. Moorthy & Srinivasan (1995) demonstrated that offering generous returns policies is costly for the merchants especially for those whose product quality is low; thus returns policies are considered as an effective tool for distinguishing high-quality sellers. Though, Stock (2004) argued that organizations often perceive product return functions as an additional cost to be incurred in their normal business practices, he concluded with the note that, better understanding of the product return and efficient management of the reverse logistics can provide organizations with a competitive advantage – thus sound practices in product returns and reverse logistics can be a win-win situation benefiting both customers and merchants.

Returns policies are often used as a protection against inappropriate returns by the customers. Although it is hard for the merchant to inspect product inappropriateness every time, he can design the returns policies wisely so that the products that function well never get back to the store (Hsiao & Chen, 2012). Hess et al (1996) investigated how the merchants

can use non refundable shipping/handling/restocking fees to eliminate consumer's inappropriate returns and concluded that a careful design of returns policies may eliminate the inappropriate returns which historically have been a primary concern of numerous retailers. Therefore it can be said that, a skilful development of product returns policies not only serve as a satisfaction booster for the customers, but also reduces cost associated with reverse logistics.

Different E-commerce merchants offer differentiated returns policies as their merchandise varies across industries and stores. According to Hsiao & Chen (2012), E-Commerce merchants use different product returns policies like surcharges, restrictions, time window limits and special instructions on labeling, packaging and tagging along with traditional 100% money back guarantee. Their study on 13 internet stores that sell shoes resulted that a huge variation on the returns policies among the stores were evident even though the merchandise was similar. It is also evident that the direct manufacturers often define returns policies in stricter and narrower terms while the traders opt for more liberal return policies (Stock & Mulki, 2009). In another research of pricing and returns policies of internet business, Mukhopadhyay & Setoputro (2004) revealed that seller's return policies ware more restrictive if customers were sensitive to the rate of return parameter and were more likely to abuse the sellers' returns policies. Akan et al. (2009) suggested that if the true valuation of merchandise changes with time epochs to the customers, the merchants can develop differentiated returns policies where the price and refunds will change over time. Swinney (2011) researched on designing effective returns policies to induce early /premature purchases when the customers are only partially aware of their true valuation and suggested that, a quick response system for product returns may mitigate some of the supply-demand mismatch, it is destructive towards firm's profitability. More recent research by Hsiao & Chen (2012), however, argued for more generous return policies which boosts consumer demand and increases the merchant's gross revenue.

An expertly developed and managed returns policy provides the firm with a competitive edge in the current market by reducing cost, improving customer service and projecting an environmentally friendly image of the organization (Rogers et al., 2002). Therefore, the increasing strategic importance of product returns and competitive edge offered by effective returns policies made the product return functions a critical one (Stock & Mulki, 2009).

3. Research model and hypotheses

The last decade has seen a widespread use of internet in retailing products in Bangladesh. A significant number of entrepreneurs, during this period, have started selling products or offering services over internet either in the form of corporate institution or individual initiative. As managing product returns is an integral part of business operation for the online retailers, it is important to address the issue preciously. This research, descriptive in nature, explores 32 online retailers to analyze their practices in case of returns handling and tests few hypothesis to draw concluding remarks regarding effective practices in case of product returns.

The current research examines the management of products return from three focal points. Firstly, the administration of returns processing is analyzed to check how the online retailers are structuring themselves to handle the returns processing. In recent years, online purchases have experienced significant growth as the awareness of internet purchases are increasing among people. This increasing trend of online purchase should have a positive impact on products return as purchase return is an integral part of the online purchases. Therefore, it is expected that online retailers should enhance their capacity and capability of returns processing by assign the responsibility of returns processing to a department or a team. Thus the first hypothesis is crafted as:

H1: Online retailers assigned the job of returns processing to a team or more than one person.

Stock and Mulki (2009) concluded in their research that only a few executives have returns processing as their primary job responsibility though the importance of product returns are growing. Based on this notion, the following hypothesis is crafted:

H2: Returns processing is the primary job responsibility of the assigned team/individual in most cases (more than 50%).

Stock, Speh and Shear (2012) suggested that organizations should assign the responsibility of returns processing to senior managers having good business acumen in order to make profit on product return activities. Thus the next hypothesis is developed as:

H3: The employee responsible for finalizing product return decision is designated as manager or above.

Another important issue in managing returns processing is the qualification of individuals responsible for managing product returns. As the job of returns processing is critical in nature, it is expected that organizations arrange necessary training for the employees facing returns processing activities in order to raise their acumen in handling returns. Hence the hypothesis is:

H4: Most of the employees (more than 50%) responsible for returns processing has formal training.

The next focal point for analyzing returns policies of online retailers is the logistics related to returns processing. Assessment of returned products by the consumers is often perceived as a team effort which requires the product to be returned in a centralized location. Most of the offline businesses use their regular warehouse/ distribution centers to process product returns as opposed to have a dedicated returns processing facility (Stock & Mulki, 2012). However, as the online purchases are discrete and sprinkled in nature, operating a central warehouse for returns processing might be perceived as gratuitous for the online merchants. Therefore the hypothesis is developed as:

H5: Majority (50% or above) of the organizations do not have a centralized location for returns processing.

When the product returns are processed in a centralized location, the consumers need to send the purchased products back to the returns processing zone. These processes regularly involve some cost. Organizations often put these cost of return on the side of consumers for putting a barrier on inappropriate returns. On the basis of this, a hypothesis can be developed as:

H6: Most of the merchants (more than 50%) bear the cost for the reverse logistics.

However, there are instances that businesses use their own channels to collect purchases to be returned from their customers or provide returns processing services. According to Rogers & Tibben-Lembke (1999), organizations should separate the reverse channel for product returns from the forward channel in order to process returns effectively and efficiently. Therefore, it would be worthy to study the common practices of the online retailers if they use a different channel to facilitate product returns processing. Hence the next hypothesis to be tested is:

H7: Most of the cases (more than 50%) reverse logistics and forward logistics are

facilitated by same supply channel.

The final focal point regarding the analysis of products return management is the dispute resolution regarding products returned. As the process of products purchase using online channels does not include pre-purchase examination of the products, it is obvious that disputes may occur. Online retailers often try to prevent product related disputes by ensuring appropriate delivery of an order. However, it is not always possible to prevent all disputes. So, a well crafted return policy may prove itself as a safe harbor for the merchants in case of any disputes which cannot be prevented. Additionally, most of the online purchasers also judge the return policies offered by the merchants before they make any purchase (Pinkerton, 1997; Trager 2000) entailing the merchants to publish their return policies in their website. The next hypothesis tests the response of the merchants to this necessity of publishing return policy in their website.

H8: Most of the merchants (more than 50%) clearly mention the product return policies in their website.

Another important aspect of products return analysis includes the examination of the product. Online purchase decisions are often proved as premature purchase decisions made by the customers and they often attempt to return these intent-less purchases. Products return claims often lacks valid reasons as well. Ensuring proper inspection of the products returned may eliminate some of these inappropriate returns. Hence, the next hypothesis is developed to study the common practice of the online merchants to examine returned products.

H9: Most cases (More than 50%) the returned products are checked against pre-determined set of standards.

Products return processing, if handled properly, can be used as an important tool for enhancing customer satisfaction by the organizations. Hence, examinations of products returned often ask for the involvement of the customers. The next hypothesis checks if the online retailers involve the customers in the examination process of the products returned.

H10: Customers are involved in the examination process of the returned products in most cases (more than 50%).

The above hypotheses are tested using statistical model to identify significance which will help us to determine whether to support the hypothesis or not.

4. Methodology

The hypotheses were tested using a research design involving face-to-face interviews and e-mail surveys (cases where the merchant cannot be met). A total of 32 merchants ware surveyed for the purpose. In order to enhance accuracy, merchants using facebook or other social networking websites as the only channel for selling products are omitted. Both click-and-mortar (N=9) and pureplay (N=23) organizations are considered for the survey. A representative from each of the targeted organizations is selected and contacted for the survey. Most cases, the representatives are designated as the CXO's or head of operations position in their respective organizations. Representatives included Chief Executive Officers (N = 4), Chief Operating Officer (N=5), Manager Operations (N=8), Managing Directors (N=7) and directors other than managing director (N=6).

A questionnaire consisting of both open-ended and close-ended questions is developed based on the literature review and crafted hypothesis. Personal interviews were tried to schedule with most of the respondents. E-mail surveys were conducted where the personal interview could not be scheduled with the respondents. 13 respondents were met in person for the survey where 19 surveys were conducted using e-mails. Difference between personal interview responses and e-mail survey responses were checked and no significant differences were found.

5. Findings and analysis

Surveyed data are analyzed using SPSS software. Descriptive statistical data analysis techniques are used for describing the survey data. Statistical T-test is used to test the hypotheses for the significance. The overall findings are presented in three sections. The first section presents findings regarding the administration of returns processing. The second section provides analysis regarding products return supply channel and the final section illustrates the findings about products return dispute resolution.

5.1. Section 1: Administration of returns processing

The first hypothesis (H1) tested in this section is to check whether the organizations are employing a group of employees for the returns processing. The results in table-1 notifies

that most of the organizations (N=29) appointed more than one person for returns processing. However, 15 of them (46.9%) expressed that the number of persons appointed for returns processing is not fixed while other 14 organizations (43.8%) claimed to have a fixed number of employees for the purpose. Only three organizations (9.4%) claimed to have a single person responsible for returns processing. t- value for the test is 11.787, df = 31 and p = 0.00 (95% confidence interval is assumed) implies strong support for the hypothesis.

Table 1: Number of person(s) responsible for returns processing

		Frequency	Percent	Cumulative Percent	t	df	P
Valid	Only one	3	9.4	9.4	11.78	31	0.00*
	More than one but fixed in number	14	43.8	53.1			
	More than one but not fixed in number	15	46.9	100.0			
	Total	32	100.0				

*Significance tested at 95% confidence interval

The test result of the second hypothesis (H2) is presented in Table 2. The hypothesis tests if returns processing is the primary job responsibility of the assigned team or individual and finds that 23 respondents (71.9%) disagree with the notion by claiming that product returns processing is not the primary job of the team or individual assigned for the returns processing job while only 9 organizations (28.1%) have assigned returns processing as the primary job responsibility to the designated person(s). The test statistics: t=1.471, df = 31 and p=0.15 (95% confidence interval is assumed) in this case do not provide necessary significance to support the hypothesis.

Table 2: Returns processing as the primary job responsibility assigned to the team or individual

		Frequency	Percent	Cumulative Percent	t	df	p
Valid	NO	23	71.9	71.9	1.471	31	0.15*
	YES	9	28.1	100.0			
	Total	32	100.0				

*Significance tested at 95% confidence interval

The third hypothesis (H3) is supported as a significant number of respondent (N=23) agreed that their products return decisions are finalized by someone designated as manager

or above. Among them 14 respondents (43.8%) indicated that the decisions are finalized by managers, 8 respondents (25%) indicated that the decisions are finalized by directors and only one respondent (3.1%) said that the decisions are finalized by CEO or MD. On the other hand, 5 respondents (15.6%) indicated that the decisions are made by the executives or officers and 4 respondents (12.5%) pointed that the decisions are finalized by senior executive designated person. The data regarding this hypothesis is presented in Table 3. Test statistics are: t = 12.555 and p = 0.00 (95% confidence interval is assumed).

Table 3: Designation of the returns processing team leader / individual

		Frequency	Percent	Cumulative Percent	t	p
Valid	Executive or officer	5	15.6	15.6	12.555	0.00*
	Senior executive	4	12.5	28.1		
	Managers	14	43.8	71.9		
	Directors	8	25.0	96.9		
	CXO or MD	1	3.1	100.0		
	Total	32	100.0			

* Significance tested at 95% confidence interval

The employee(s) responsible for product returns has formal training or not is tested through the forth hypothesis (H4). In the course of the survey it has been revealed that employees of only 7 organizations (21.9%) have received formal training on returns processing while employees of 25 organizations (78.1%) do not receive any formal training on returns processing. The test statistics (t = 1.094, df = 31 and p = 0.28) failed to show necessary significance and therefore do not support the hypothesis. Table 4 represents data regarding this issue. Moreover, in response to an open ended question regarding the issue of formal training it is also divulged that the organizations claimed to provide formal training to their returns processing facing employees did not organized any institutional training; instead they were trained by the superiors or peers. Therefore it can be concluded that the trend for training up employees for processing products return in Bangladesh is yet to develop.

Table 4: Formal training for the returns processing team / individual

	Frequency	Percent	Cumulative Percent	t	df	p

Valid	NO	25	78.1	78.1	1.094	31	0.28*
	YES	7	21.9	100.0			
	Total	32	100.0				

* Significance tested at 95% confidence interval

5.2. Section 2: Products return supply channel

Section 2 tests few hypotheses regarding the product return supply channel. The first one among them, hypothesis 5 (H5), studies about the location of the returns processing. The hypothesis states that most of the organizations do not have a centralized location for returns processing and the survey data provides no significant support for the hypothesis. A good number of organizations (N=18; 56.3% of total) claimed that they have a central location for the returns processing. Equal proportion of organizations (N=7; 21.9% of total) claimed that they either send their employees to customer's preferred location for returns processing or ask the customer to meet at a convenient place for the purpose. Interestingly, there are no instances of using third party for product return processing in Bangladesh. The data illustrated in table-5 (t=1.068, df=31 and p=0.29) fails to demonstrate necessary significance to support the hypothesis.

Table 5: Location for returns processing

		Freq.	Perc.	Cumulative Percent	t	df	p
Valid	Central warehouse	18	56.3	56.3	1.068	31	0.294*
	Company's selected location other than central warehouse	7	21.9	78.1			
	Customer's preferred location	7	21.9	100.0			
	Total	32	100.0				

* Significance tested at 95% confidence interval

In the analysis of cost related to reverse logistics (H6) it is revealed that in 65.6% of the cases (N = 21) the merchants bears all the costs associated with the reverse logistics irrespective of the returns processing location, that is either the cost for sending the product to the central warehouse of the merchant or the cost of merchant's representative visiting the customer. However, an interesting number of organizations (N = 11 and 34.4% of total) have stated that they ask the customers to send the product(s) for return processing at their own cost. The test statistics presented in table-6 supports the hypothesis (t=3.238, df-31 and

p=0.003).

Table 6: Who bears the reverse logistics cost?

		Freq.	Percent	Cumulative Percent	t	df	p
Valid	MERCHANT	21	65.6	65.6	2.119	31	0.042*
	CUSTOMER	11	34.4	100.0			
	Total	32	100.0				

* Significance tested at 95% confidence interval

The next hypothesis in this section tests if the supply channel for the reverse logistics is separated from the forward logistics through hypothesis-7 (H7) and reveals that a significant number of respondent (N=29, 90.6% of total) use the same supply channel for forward logistics and reverse logistics. Only 2 of the organizations (9.2%), however, mentioned that their supply channel for reverse logistics is separated from the forward logistics supply channel. The test statistics in table-7 (t=7.760, df=31 and p=0.00) indicates strong support for the hypothesis.

Table 7: Reverse logistics and forward logistics use same supply channel

		Frequency	Percent	Cumulative Percent	t	df	p
Valid	NO	3	9.4	9.4	7.760	31	0.00*
	YES	29	90.6	100.0			
	Total	32	100.0				

* Significance tested at 95% confidence interval

5.3. Section 3: Products return dispute resolution

The third section of the current study checks several hypotheses regarding dispute resolution related to product returns. The first one among them (H8) checks if the products return policies are published on the merchants' website and finds that almost all the websites(N = 31 and 96.9% of total) to some extent, contains merchants products return policies. Only one respondent replied with the statement that they are on the way for re-crafting their return policies and the new policies will be published soon. Based on the data received (Table-8) and test statistics (t=15.00, df=31 and p=0.00) the hypothesis H8 is strongly supported.

Table 8: Return policies are published in the website

		Frequency	Percent	Cumulative Percent	t	df	p
Valid	NO	1	3.1	3.1	15.00	31	0.00*
	YES	31	96.9	100.0			
	Total	32	100.0				

* Significance tested at 95% confidence interval

The next hypothesis (H9) states that the returned products are checked against pre-determined standards in most cases and 24 respondents (75%) agreed with the notion. The test statistics (t = 3.215, df=31 and p=0.00) presented in table-9 shows necessary significance to support the hypothesis.

Table 9: Returned products are checked against pre-determined standards

		Frequency	Percent	Cumulative Percent	t	df	p
Valid	NO	8	25.0	25.0	3.215	31	0.00*
	YES	24	75.0	100.0			
	Total	32	100.0				

* Significance tested at 95% confidence interval

The final hypothesis (H10) checks the involvement of the customers in products return inspection process and found that only 12 organizations (37.5%) ensures customers involvement in the examination process of the products returned in opposed to 20 organizations (62.5%) – data presented in table-10. The test statistics in this case (t=1.438, df=31 and p=0.161) do not provide necessary evidence to support the hypothesis.

Table 10: Customers are involved in returned product examination process

		Frequency	Percent	Cumulative Percent	t	df	p
Valid	NO	20	62.5	62.5	1.438	31	0.16
	YES	12	37.5	100.0			
	Total	32	100.0				

* Significance tested at 95% confidence interval

6. Summary and Concluding Remarks

The current research examines products return processing by several online retailers in

Bangladesh and revealed a number of facts regarding the current practices. As the concept of online purchases is experiencing a growing trend, more emphasize on the returns processing is demanded. The online retailers are responding well to this demand by appointing a team of employees handling for returns processing. Though in most cases, the responsibility for returns processing is not the primary job responsibility of these teams, organizations might initiate dedicated departments for returns processing as the number of products returned increases. The importance of returns processing to the merchants also indicated by their attitude of appointing manager or above designated person for the final decision, they are yet to arrange formal training for the employees responsible for products return processing.

Regarding the supply channel used for reverse logistics, organizations are still using the same supply channel as that was for the forward logistics. However, they have started realizing the importance of supply channel regarding the reverse logistics by setting up centralized locations for returns processing and bearing the cost associated with the reverse logistics.

The product return policies are published in almost all the websites of the merchants – signifies that the merchants are emphasizing on the dispute resolutions regarding products returns. Though the trend of engaging customers in products return processing is yet to widespread, merchants use a pre-determined set of standards to inspect products returned for processing.

Table-11 provides a summary of all the hypotheses tested through this study along with the test results.

Table 11: Summery of the hypotheses and test results

	Hypothesis	Test result
H1	Online retailers assigned the job of returns processing to a team or more than one person	Supported
H2	Returns processing is the primary job responsibility of the assigned team / individual in most cases (more than 50%)	Not supported
H3	The employee responsible for finalizing product return decision is designated as manager or above	Supported
H4	Most of the employees (more than 50%) responsible for returns processing have formal training	Not supported
H5	Majority (50% or above) of the organizations do not have a centralized location for returns processing	Not supported

H6	Most of the merchants (More than 50%) bear the cost of reverse logistics	Supported
H7	Most of the cases (more than 50%) reverse logistics and forward logistics are facilitated by same supply channel	Supported
H8	Most of the merchants (more than 50%) clearly mention the product return policies in their website	Supported
H9	Most cases (more than 50%) the returned products are checked against pre-determined set of standards	Supported
H10	Customers are involved in the examination process of the returned products in most cases (more than 50%)	Not supported

The findings of this research clearly indicates that the concept of returns processing is gaining importance among the online retailers, significant improvement can be brought through further research and strategy formulation. This research, however, does not underline the returns processing policies employed specifically and its impact on consumer behavior, several consecutive researches can be initiated for the purpose which will allow organizations to develop competitive products return policies and enhance competitive advantage.

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