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Design Principles For Retail Return Policies

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DESIGN PRINCIPLES FOR RETAIL RETURN POLICIES

By

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Abstract

Based on an analysis of prior literature on consumer behaviour and reverse logistics, this study proposes a model for the design of returns policies that includes considerations for costs, logistics requirements, and consumer behaviour.

The case study investigations yielded several important findings. Product characteristic concerns seem to have a low level of importance in the decision-making process of return policy establishment. Practitioners that are responsible for creating effective return policies seem to not place great importance on either product characteristics or supply chain optimization.

Using case analysis, this study explored the decision-making process of return policy creation and found that customer satisfaction and organization-specific concerns have a high level of importance in the returns creation process.

The results indicate that the current models and frameworks for return policies need to be re-examined, in order to reflect the practical realities of the environment and constraints in which organizations operate.

Expanded Abstract

A review of the literature suggests that retailers consider a product's return policy a source of competitive advantage that can increase customer satisfaction and overall profitability. However, the existing research into returns policies focuses mainly on optimizing product flows and minimizing the financial cost of returns, rather than examining the inter-relationships between multiple constructs such as customer satisfaction, product characteristics, logistic constraints and consumer behaviour. This is problematic because it creates a disconnect between the considerations that the practitioners take into account and the considerations that are included in the current models for returns policy establishment.

For retail organizations, the returns process can have a significant impact on costs and customer satisfaction due to the unique logistics costs and customer interactions in the returns process. Based on an analysis of prior literature on consumer behaviour and reverse logistics, this study proposes a research framework for the design of returns policies for retailers that considers the impacts of a specific return policy on costs, logistics requirements, and consumer behaviour.

The study uses the proposed framework to identify, highlight, and catalog the different influences and considerations that retail and manufacturing organizations face during the creation of a return policy in the retail environment.

The case study investigations yielded several important findings. First, product characteristic concerns seem to have a low level of importance in the decision-making process of return policy establishment. The study finds that practitioners that are responsible for creating effective return policies do not place great importance on either product characteristics or supply chain optimization.

Second, this study found that most of the current models on return policy creation do not include customer satisfaction and organizational concerns. Using case analysis, this study explored the decision-making process of return policy creation in three retail organizations and found that customer satisfaction and organization-specific concerns actually have a high level of importance in the returns creation process.

By using current models on return policy establishment and using empirical results, this study proposes a tentative theory by outlining the propositions for the design of a returns policy in retail organizations. The results of this study are based on organizational data as well as interviews conducted

with persons who are directly involved in the returns process for their organization. The results indicate that the current models and frameworks for return policies need to be re-examined, in order to reflect the practical realities of the environment and constraints in which organizations operate.

Author's Declaration

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CHAPTER 1: INTRODUCTION

This research explores the processes of establishing a return policy in a retail organization. Several prior studies have proposed models for establishing optimal return policies (Choi, Li, & Yan, 2004; Davis, Hagerty, & Gerstner, 1998). However, these models typically focus on optimizing logistic systems or minimizing the financial losses by recycling returned products within the supply chain, or finding an optimal return policy by balancing between reverse logistic constraints, product characteristics and manufacturer's policies. This research seeks to explore the decision making process of establishing returns policies in order to investigate the importance of consumer behaviour, particularly in today's environment where e-commerce transactions have highlighted the importance of the costs and customer relationships (Gefen, 2002; Mukhopadhyay & Setoputro, 2004). By exploring and understanding the processes and considerations that influence the decision-making process and by identifying the assumptions and constraints that managers face, this research provides a contribution to the knowledge of return policies, reverse logistics, operations management and consumer behaviour.

1.1   Problem Statement

From a customer's perspective, the most desirable return policy would be to get full refunds, no questions asked. However for a retailer this is not always desirable because a retailer loses the profit it would have made on that product, and because he has to with the deal with the costs associated with moving the product through the reverse supply chain (Tibben-Lembke & Rogers, 2002). Current literature on returns policies states that the retailer's decision for selecting a particular return policy is dependent on the quality of the product (Babakus, Bienstock, & Van Scotter, 2004), its size, price, salvage value (Davis et al., 1998) and the combination of the different limitations that manufacturers imposes on retailers through the contractual obligations (Mukhopadhyay & Setaputra, 2007; Yue & Raghunathan, 2007). All of these considerations play an important role in guiding the retailer towards selecting a particular return policy.

Literature on customer satisfaction and retention suggests that a return policy plays a strong role in customer satisfaction, retention and loyalty. Previous research has demonstrated that consumer repurchase intention and loyalty are very dependent on the customer's satisfaction with a retailer's return policy, i.e. the more generous the policy is, the higher the level of customer satisfaction (Hallowell, 1996; McCollough, Berry, & Yadav, 2000). However, no previous research has examined how the customer's reaction to a particular return policy influences the managerial decision for creating a return policy. This research seeks to explore the establishment of returns policies in retail environments

by examining the more complex inter-relationship interaction between consumer behaviour and the decision-making process.

1.2   Research Objective

Research into retail organizations indicates that customer satisfaction, loyalty and retention are an important consideration for any retailer. For instance, an increase in the level of customer loyalty and retention can contribute to the overall increase in profitability of the organization (Hallowell, 1996). Over the years, within marketing literature, the effect of consumer behaviour on organizations has been the subject of extensive studies. This research postulates that this knowledge can be useful in explaining the managerial decision making process for creating a particular return policy, which will enhance current models for return policy creation. It is logical to assume that since a return policy has an important effect on consumer behaviour; consumer behaviour must be a consideration for a company during the creation of a return policy.

The objective of this thesis is to enhance our understanding of return policies by outlining the guiding principles that organizations follow in considering return policies. By identifying the guiding principles, this research helps researchers and practitioners better understand the return policy creation process. The objective is motivated by the perceived incompleteness of current models for return policy creation that ignore consumer behaviour and organization specific considerations.

By building on the current return policy models and consumer behaviour models, this dissertation presents a theoretical model that presents a more complete view of the different considerations that influence the return policy creation process.

1.3   Knowledge Gap

With the ever-increasing popularity of retailing, there is a surprising lack of academic literature dealing with the establishment of return policies, one of the few studies is by Mollenkorf et al (2011) which looked into creating value through returns management. The study demonstrated that one of the notions that should be included in the customer value creation is the reverse supply chain and return management. The important factor here is that this is one of the few studies that demonstrates that the returns are often though of solely in cost terms (a cost of doing business; a cost to be minimized), but

rarely thought of as means of enhancing customer value or as a means to increase the firm's competitiveness.

In the marketing literature, customer satisfaction, customer loyalty and customer repurchase intention has been the subject of over fifty research studies (Davidow, 2003). The different effects and influences of these concepts are well established, including the relationship between differences in return policies and consumer behaviour. However, within the supply chain and logistics literature, the process of establishing a return policy is primarily focused on finding an optimal balance between reverse logistics costs, capabilities, product's price and product's salvage value (Mukhopadhyay & Setaputra, 2007). This research adds to the growing number of studies that seek to include the consumer aspect into reverse logistics and return management literature. Specifically, the study builds on the current knowledge that a return policy has an important influence on consumer behaviour and illustrates that in turn, consumer behaviour influences the return policy because it is one of the considerations that practitioners take into account when selecting a return policy. This research is aimed at filling this knowledge gap and investigates the importance of consumer behaviour in establishment of a return policy.

1.4   Contribution to Theory & Practice

This research explores the process of creating a return policy in the commerce settings and expands our understanding of the major considerations that affect the decision-making process. This research contributes to the current knowledge of return policies, logistics, consumer behaviour and operations management.

With the ever-increasing popularity of retailing, there is a surprising lack of academic literature dealing with the establishment of return policies. In the case of online and catalog retail, a return policy is especially important since a customer does not have an option to inspect a product before the purchase and therefore has to have a certain amount of trust in the retailer. A generous return policy serves as an indicator of the quality and reliability of the retailer, which allows the retailer to stand out among other retailers.

The results of this research provide a practical contribution to our growing understanding of return policies and provide clarification for current models on optimal return policy creation. This

research seeks to address the everyday needs of managers, especially in small and medium enterprises, by exploring the different nuances they need to consider when selecting a policy. Our current understanding is that in order to create a return policy, firms need to consider logistics capabilities, product quality and price (Mukhopadhyay & Setaputra, 2007). Therefore, this research will provide a practical contribution to existing literature by examining the importance of consumer behaviour in the creation process.

This research will also provide researchers, who are looking to develop models for optimal return policies, with the practical insight into how business managers make decisions when implementing return policies. Such insights will allow the researchers to develop models that account for internal influences and restraints to better provide a useful contribution for today's practitioners.

1.5   Outline of the Thesis

This research is divided into five chapters. Although the research cycled iteratively through literature review, data collection, analysis and model development phases, each of these phases are presented in separate chapters.

Chapter 1 presents an introduction to the research. It outlines the problem statement and research objective as well as presents practical and theoretical contributions of the research. Chapter 2 provides an overview of the current literature on return policy establishment and consumer behaviour literature in order to outline an overall research framework that will be used to explore the return policy establishment process. At the end of the chapter, the conceptual framework for designing return policies is presented and the research questions are outlined.

Chapter 3 focuses on the exploratory case study research methodology by addressing the research approach, interview design and data analysis methods. It also includes a discussion on the case study participants, case selection, and an outline of each of the cases used in this study. The chapter concludes by addressing the ethical concerns raised by this research.

Chapter 4 contains the discussion of the findings from the field study and theoretical development. Each of the sections in this chapter is organized to address a different component of the conceptual framework and questions outlined in Chapter 2. These questions include product characteristics, reverse logistics concerns, consumer behaviour and organizational considerations.

Finally, Chapter 5 contains discussions and conclusions, implications for theory and practice, a discussion on the limitations of the research, and suggestions for future research.

CHAPTER 2: LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

2.1 Introduction

This section provides an overview of the existing research constructs and framework for designing a product return policy in retail organizations. It also proposes a preliminary framework to guide further theory development into return policy creation in retail businesses. This framework has emerged from the relevant constructs that were identified from the existing literature. This chapter contains a literature review and discussions on the previous models, important concepts and constructs. The chapter concludes by presenting a conceptual exploratory framework that is not meant to imply causal relationships for confirmatory testing, but rather to show relationships among constructs and provide guidance for exploring the research questions (Frankel & Russo, 2010).

2.2 Return Policy Overview

A return policy is essentially a commitment by partners in a specific supply chain to accept excess products from a downstream channel member (Padmanabhan & Png, 1995). The particular details of a return policy usually depend on the nature of a product involved (Davis et al., 1998; Pasternack, 1985), dimensions and shipping costs (Breen, 2006), and are usually restricted to a particular time frame (De Brito, Dekker, & Flapper, 2002). From the consumer point of view, since a lenient return policy reduces the penalty costs of a bad purchase decision (Wood, 2001), the policy is a facilitator in the decision making process of the consumer on whether or not to return the product.

Currently, literature on return policies indicates that a full-refund, no questions asked return policy is considered by a retailer as a source of a competitive advantage in the market place, due to its ability to increase sales by appealing to the consumer and increasing confidence in the quality of the retailer's products (Davis et al., 1998). One study found that the majority of retailers felt that a generous return policy is one of the most important tools for staying competitive (Rogers & Tibben-Lemke, 1999). However, not all retailers are able to provide such generous policies and in many cases, a return policy varies not only by retailer but also by product. Some products are not eligible for return, or retailers refuse to give cash refunds and opt for credit instead. The most common explanation for this behaviour is the perceived opportunistic abuse of the returns system by the consumer (Breen, 2006).

The opportunistic abuse of a return policy usually arises because of a generous return policy established by the retailer. In such situations, the customer is aware that a retailer will provide a full

refund without question and this encourages the consumer to seek redress due to the high likelihood of a successful resolution (Blodgett, Wakefield, & Barnes, 1995). This sometimes creates situations where consumers are returning products even if fully satisfied with them. In response to this abuse, retailers are forced to restrict their policies and make some products not eligible for full refund. They also choose to restrict the return of certain products to a particular amount of time since the item was purchased, or impose a restocking fee upon returns.

One survey of over 130 retail stores, varying by type and size, found that although all stores had some form of a return policy in place, the particular details and restrictions, varied among retailers (Davis et al., 1998). Restrictions imposed by retailers usually involve only accepting products with no visible signs of use, requiring returns with the original packaging material, returns within a specified period, and providing store credit instead of cash-back refund. Additionally, retailers are likely to set a low-hassle return policy if: the products' benefits cannot be consumed within a short period, if a product has an opportunity for cross selling, or if the retailer can obtain a high salvage value from the returned merchandise.

Bonifield, Cole & Schultz (2010) have examined how consumers interpret the different levels of leniency in the return policies for e-retailers and how it affects their trust and perception of the quality of a retailer. For non-perishable product categories, customer satisfaction and repurchase intent is the highest when the return policies are most generous. Therefore, in terms of consumer behaviour and competiveness, the retailers would benefit if they opted for the most generous return policies. However, the costs associated with return logistics usually make it impractical for a retailer to impose no restrictions (Dowlatshahi, 2000). This balance between the costs associated with return policies and the retailer's ability to absorb those costs while maintaining profitability creates a need to understand and potentially quantify the benefits and drawbacks of consumer behaviour on a return policy (Davidow, 2003; Mittal & Kamakura, 2001).

2.3 Reverse Logistics & Product Characteristics

Table 2.1 presents a brief summary of the literature in this area. It illustrates that a product's category, price, quality, and perceived value are the most important considerations for a cost-effective reverse supply chain.

Retailers have recognized that an optimal return policy is an important part of the reverse logistics setup, and researchers have proposed multiple models for establishing a cost effective policy by examining different aspects involved in returns. The established approach for identifying an optimal policy is to find the balance between corporate pricing strategy and market segmentation, logistic processes and costs, marketing and refund policy (Yalabik, Petruzzi, & Chhajed, 2005); profit maximization based on product price (Mukhopadhyay & Setoputro, 2004); optimization of reverse logistics for the salvage and reselling opportunities (Choi et al., 2004). Additionally, the search for an optimal return policy has even explored the relationship between a manufacturer and retailer (Yue & Raghunathan, 2007) by setting a policy based on the manufacturer's and retailer's ability to accurately predict market situations with information asymmetry.

Construct	Explanation	Related Studies
Product Quality	Depending on how restricting a return policy is on a particular product, it can signal to the consumer information about the quality of the retailer and its products.	(Mukhopadhyay & Setaputra, 2007); (Babakus et al., 2004); (Moorthy & Srinivasan, 1995);
Product Price	The price of product often reflects the potential for resale; a higher priced product may be recycled through the supply chain and resold at lower profit margins.	(Mukhopadhyay & Setaputra, 2007); (Padmanabhan & Png, 1997)
Product Category	Depending on the type of the product, different return policies are likely to apply. Food, beverage, office supplies, software and technology products all have different characteristics that must be considered.	(Yue & Raghunathan, 2007)
Product's Perceived Value	Customer's overall appraisal of the net worth of the service, based on the customer's assessment of what is received.	(Hellier, Gus, Carr, & Rickard, 2003)

Table 2.1: Relevant Product Characteristics for a Return Policy

Research that was conducted by Yue and Raghunathan (2007) indicated that due to the shared risk responsibility in the supply chain of both the retailer and manufacturer, a full refund policy is in most cases unprofitable for the manufacturer. However under all conditions, the retailer benefits from a full return policy. Therefore, it is logical to assume that in a retailer-manufacturer relationship a

manufacturer has a greater interest in not allowing the retailer to return a product, but to impose restrictions to limit when and under what conditions the product can be returned. The retailer, on the other hand, is interested in reducing the restrictions a manufacturer imposes, as well as to negotiate a return policy that, as close as possible, allows a no questions asked returns. Since many of the Canadian retailers do not have a full, no questions asked policy, but have time and condition restrictions, one of the considerations that seems to be important for policy creation is the manufacturer's influence.

Reverse logistics is defined as the movement of products or materials from the point of consumption to the point of origin for the purpose of creating or recapturing value, or for proper disposal (Rogers & Tibben-Lembke, 1999) . The concept of reverse logistics includes everything from the product life cycle (Tibben-Lembke, 2002), warranty returns (Teng *et al.,* 2005) and product recycling (Stock, 1992), to operational systems (Tibben-Lembke and Rogers, 2002; Knemeyer *et al.*, 2002). Because reverse logistics allow the participants to optimize the flow of the reverse supply chain to save costs, the proper use of reverse logistics is recognized as a growing and important area of strategic advantage for many organizations. Table 2.2 summarizes the relevant constructs related to reverse logistics for the design of return policies.

To date, research in reverse logistics has been focused on optimizing the supply chains and providing organizations with a competitive advantage by reducing the cost associated with reverse supply chains (Chiang, Chhajed, & Hess, 2003). Multiple studies have examined reverse logistics, and proposed models for optimizing product flow from various perspectives:

- Location of distribution centers (Choi et al., 2004)
- Inventory management (Archibald, Thomas, & Possani, 2007),
- Logistics performance and satisfaction (Autry, Daugherty, & Richey, 2001)
- Participant compliance (Breen, 2006)
- Optimal product price (Mukhopadhyay & Setoputro, 2004)
- Manufacturer and retailer supply chain relationship with information asymmetry (Yue & Raghunathan, 2007)
- Dual channel retail model (Dumrongsiri, Fan, Jain, & Moinzadeh, 2008)

Construct	Explanation	Related Studies
Product Salvage Value	The recovery of products for remanufacturing, repair, reconfiguration and recycling	(Davis et al., 1998)
Perceived Equity	The overall assessment of the standard of fairness and justice of the company's service transaction, and its customer problem and complaint handling processes	(Hellier et al., 2003)
Manufacturer 's Influence	Manufacturer establishes wholesale price and imposes restrictions that are based on the available information about retailer's demands.	(Mukhopadhyay & Setaputra, 2007); (Yue & Raghunathan, 2007)
Relationship Commitment	Reverse logistics efforts are likely to be more successful in a long-term relationship between participants and a commitment to this relationship might affect the manufacturer's decision.	(Hellier et al., 2003); (Smith, 2005)

Table 2.2: Relevant Reverse Logistics Constraints for a Return Policy

Aside from the product price, an important consideration for a cost-effective reverse supply chain is the product's quality at the time of the return. A study focused on examining the effects of product quality on the reverse logistics system found that by adding the uncertainty variable in the quality of a returned product, they were able to identify a substantial impact of product quality on the profitability of reverse logistics system as a whole (Zikopoulos & Tagaras, 2005).

Although the importance of reverse supply chains is well established and their optimization has been the subject of multiple studies, few studies have examined the consumer as part of the reverse supply chain, and even fewer studies have explored the difficulties that retailers face when actually establishing these supply chains. Rogers and Tibben-Lembke (1999) have identified some of the difficulties companies face when establishing reverse logistics, including company policies, lack of systems, competitive issues, management inattention, financial resources, personnel resources and legal issues. We can add to that list some other issues that organizations face when the reverse logistics are implemented, including excess and obsolete inventory, costs associated with managing reverse logistics, managing disposal of products and product scrap material (Lee, McShane, & Kozlowski, 2002). It seems, however, that the current studies have not examined the effects or challenges of consumer behaviour in reverse logistics establishment.

Traditionally, product returns have always been a problem for all parties in the supply chain due to the disruptions and the headache in the processing of returned merchandise (Mukhopadhyay & Setaputra, 2007), yet properly established logistics affords companies the ability to recapture value that otherwise would have been unavailable or lost (Hellier et al., 2003). However, for an online retailer, where the returns flow is usually quite diversified depending on the consumer's shipping location, the process of establishing reverse logistics services requires an extensive knowledge and understanding of the customer base characteristics and behaviours (Blumberg, 1999), thus adding additional challenges and restrictions on the logistics channel.

2.4   Organizational Considerations

This section examines some of the concerns and challenges that companies face when operating their online and traditional sales channels. Electronic retailing or e-business, can be loosely defined as a business process that uses the Internet or other electronic medium as a channel to complete business transactions (Swaminathan & Tayur, 2003). Unlike traditional retail operations where a single store services a particular area, the internet has allowed retailers to expand their services to a global scale by blurring the lines on which customers, which geographical areas and what particular product segment the retailer is servicing.

The major difference between an online retailer and a brick-and-mortar retailer is the difference between reach and time of its operations. Because of the automatic billing systems employed by online retailers, it became possible to stay open for business 24 hours a day and to service customers all over the globe. A traditional approach to dealing with product returns in retail involves the customer physically returning the product to the store. After the company received the product, it would decide whether to scrap the product, recycle or put it up for resale.

Since reverse logistics efforts are likely to be more successful in a long-term partnership relationship where all the parties are committed to the most efficient reclamation of assets, it tends to make retailers resist the short-term alternatives in the supplier choice in favour of ongoing long-term relationship (Daugherty et al., 2002). Additionally, due to the high costs associated with the development and integration of information systems, a long-term partnership is necessary to ensure the security of the information exchange and the recovery of system costs over the length of the relationship (Daugherty et al., 2002). This research seeks to examine the importance of such

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commitment on the establishment of a return policy. It is logical to assume that if a retailer is committed and depending on a relationship, it will be more likely to create policies that are favourable for all the partners in the supply chain and not necessarily the most cost effective.

Table 2.3 summarizes the relevant research constructs that retailers consider in designing a return policy.

Construct	Explanation	Related Studies
Corporate Image and Policies	A retailer may be inclined toward a certain policy because of his desire to establish a specific perception of an organization that would be held in consumer's memory. Equally, a retailer's internal policies or marketing initiatives may dictate a return policy.	(Downling, 1988); (Andreassen, 2001); (Daugherty, Myers, & Richey, 2002)
Market Competition	A retailer may be forced to select a particular policy in order to remain competitive in the marketplace. This concept has received little attention in the reverse logistics literature.	(Mukhopadhyay & Setaputra, 2007);
Customer Switching Costs	The customer's estimate of the personal loss or sacrifice in time, effort and money associated with changing to another service provider. Switching costs are often used to prevent migration of customers and strategic partners to competitors.	(Hellier et al., 2003); (Amit & Zott, 2001);

Table 2.3: Relevant Retailer's Organizational Considerations for a Return policy

Online business involves little face-to-face contact, which makes trust and loyalty of the customer one of the most important elements of the business (Swaminathan & Tayur, 2003). Because the customers cannot physically inspect the product before purchase, they trust that a retailer is willing to offer a return or possibly an exchange if the product fails to please for some reason (Mollenkopf, Rabinovich, Laseter, & Boyer, 2007). For online customers, liberal online return policies play a reassuring role against a negative experience related to size, color and product quality (Padmanabhan & Png, 1995) and encourage the customer to purchase the product. Thus, a return policy is able to foster a certain corporate image while playing an important part in consumer vendor selection and re-purchase decision (Smith, 2005).

Online retailers offer return policies to their customers for a variety of reasons, including the desire to stay competitive with rivals who also have liberal return policies (Mollenkopf et al., 2007). However, few of the models for creating a return policy take competition among retailers into consideration. It is unclear if the omission of competition is deliberate due to the challenges of including it in the models, or because its influence on the decision-making process has legitimately not been considered. In any case, this research will examine the importance of competition considerations on the creation of a return policy in order to contribute to our current knowledge of the returns establishment. Additionally, although the literature suggests that ecommerce creates different needs for returns policy due to the lack of physical presence, this study did not find significant differences between the online and traditional retail channels in the cases studied.

2.5   Consumer Behaviour

Consumer behaviour as a whole has been a subject of extensive study over the last 20 years. As the variety of products offered by retailers becomes more and more similar, and large retailers are able to provide a larger variety of products, retailers are less able to be competitive by product differentiation and they seek to find new avenues of competitive advantage (Christensen, 2001). Thus, in order to get a competitive advantage over the other retailers, organizations focus on understanding consumer behaviour, consumer needs and building customer loyalty (Gefen, 2002). Moreover, return policies and the product return procedures seem to have a major influence on consumer loyalty and satisfaction (Wood, 2001). As of 2003, there were more than 50 articles empirically examining the relationship between some aspects of the complaint and post complaint consumer behaviour, including both formal policies for dealing with customers in a product return situation and non-formal organization behaviour (Davidow, 2003).

An important aspect of consumer behaviour is customer loyalty, and in terms of product returns, customer loyalty depends on the satisfaction with the returns process and not on the overall satisfaction with the retailer (Homburg and Füst, 2005). This means that after a customer enters into a product return process, his previous satisfaction with a retailer has little bearing on his future loyalty. Overall, customer satisfaction after a complaint response failure in a service industry is highest after the company offers a good recovery process that consumers deem satisfactory (McCollough et al., 2000). Additionally, consumer dissatisfaction is primarily driven by a service or product failure, but it can be mitigated by a satisfactory recovery option. Unfortunately, although a successful recovery option

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mitigates the loss of customer satisfaction there is no evidence that a successful recovery option will automatically build customer loyalty.

In terms of return policies, customer loyalty is essentially dependent on the treatment a customer receives during the return process and the number of restrictions posed by a return policy (Maxham & Netemeyer, 2002). Typically, the process of recovery for an organization can either take a mechanical approach (based on established guidelines) or an organic approach (based on creating a favourable internal environment). However, Homburg and Füst (2005) have shown that although both of these approaches build customer satisfaction and loyalty, a mechanical approach of established guidelines has a stronger total impact. Additional studies have found similar results and confirmed that a successful complaint handling process positively impacts corporate image and customer repurchase intention (Huppertz, 2007), as well as leading to an increase in overall customer satisfaction and loyalty (Andreassen, 1999; Davidow, 2003).

High levels of customer satisfaction and repurchase intention are especially important for a retailer, because they increase the overall profitability as well as increase the company's growth rate (Babakus et al., 2004). With an ever-increasing competitive market, retailers are striving to provide generous return policies as a means of increasing consumer repurchase intention and satisfaction. These tendencies toward generous return policies by retailers are shaping consumer expectations on what constitutes an appropriate return policy (McCollough et al., 2000), however the return costs are higher and retailers are sometimes not able to provide the same level of return policies. Therefore, since not all retailers are able to provide a full refund "no questions asked" return policy, it is important to understand how managers establish return policies and how they establish an acceptable balance between the extremes of a generous full refund policy and a strict no return policy.

Table 2.4 summarizes the relevant research constructs from the literature analysis on consumer behaviour for designing a return policy for retail businesses.

Construct	Explanation	Related Studies
Customer Satisfaction	Customer satisfaction is the overall level of customer pleasure and contentment resulting from experience with the retailer. This stems from the ability of the retailer to fulfil the customer's desires, expectations and needs.	(McCollough et al., 2000); (Hallowell, 1996); (Hellier et al., 2003)
Customer Expectation	Consumers learn from their experiences of product/service usage and these experiences give information to consumers and contribute to the existing beliefs of what customers feel they should be offered.	(Parasuraman, Zeithaml & Berry, 2004)
Consumer Repurchase Intention	This is characterized by the customer's judgement about purchasing a product from the same company, taking into account his or her experience and overall satisfaction with the retailer. This can also be viewed as customer retention.	(Hellier et al., 2003); (McCollough et al., 2000)
Customer Loyalty	Loyalty is often defined by the consumer's belief that the quality of value from a specific retailer is greater than the value from other retailers. Loyalty may be demonstrated by the overall attachment to the product or service, or repeat purchase behaviour from a particular company.	(Hallowell, 1996); (Hellier et al., 2003);

Table 2.4: Relevant Consumer Behaviour Constructs for a Return Policy Creation

Although the majority of the literature agrees that customer loyalty and satisfaction increase profitability, it may not be profitable or beneficial to satisfy all customers because some customers will never be satisfied (Hallowell, 1996). Some have argued, that organizations may find it beneficial to focus on satisfying only the customers whose needs they meet better than their competition. However for a specialized retailer that focuses on one or two product categories as its main product lines, this is not a viable option. A specialized retailer might instead offer a full refund on the main products in order to increase its competitive advantage through customer satisfaction, and provide partial refunds on the other merchandise.

There have been multiple studies examining the correlation between customer satisfaction, loyalty and repurchase intention (Hansemark & Albinsson, 2004; Hellier et al., 2003; Söderlund, 1998; Yi & La, 2004) and how these concepts are influenced by return policies. However, there has been little

research aimed at exploring if these concepts are actually taken into consideration during the establishment of a return policy. It seems logical that since return policies have an effect on customer satisfaction, loyalty and repurchase intention, management would at least consider these concepts when establishing policies. In a recent study examining the different return policies on the internet, researchers found it surprising that with the ever-increasing interest of customers in online purchasing, there has been little research examining the effects of return policies on consumer behaviour (Bonifield, Cole, & Schultz, 2010).

2.6   Conceptual Framework for Designing Return Policies

This section outlines a preliminary framework that will guide the research during the investigation of return policy creation. This framework emerges from the relevant concept identified from the existing literature. Similar to other studies (Frankel & Russo, 2010; Stuart, McCutcheon, Handfield, McLachlin, & Samson, 2002), its main purpose is not to be validated by hypothesis testing but rather to offer a visual representation of the proposed relationships among constructs and provide guidance for exploring the research questions (Frankel & Russo, 2010).
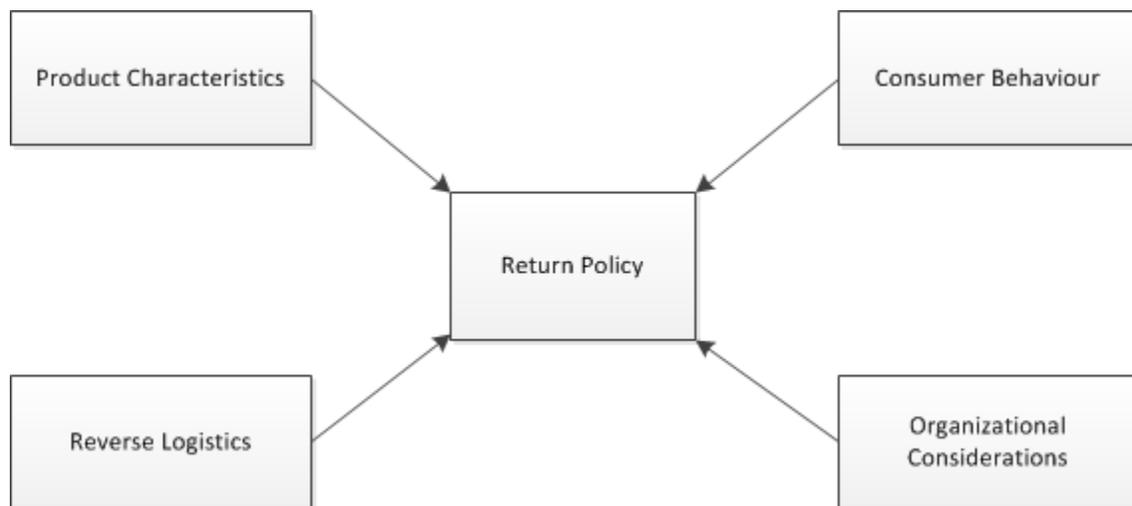
Figure 2.1: Research Framework for Designing Return Policies for Retail Organizations

As previously discussed, the concepts of product characteristics and reverse logistics have been the subject of extensive studies within supply chain and operations management literature, and now researchers are able to propose models that balance these different concerns and create optimal reverse logistics procedures. However, this thesis proposes that consumer behaviour is also an important part in a retailer's decision during the creation of a return policy, and seeks to explore the

process of return policy establishment in retail organizations and expand our understanding of the major considerations that affect that decision.

2.7   Research Questions

The research objective for developing a theoretical model for return policy creation can be addressed using the conceptual framework introduced in Figure 2.1. Figure 2.2 illustrates the research questions to be addressed.
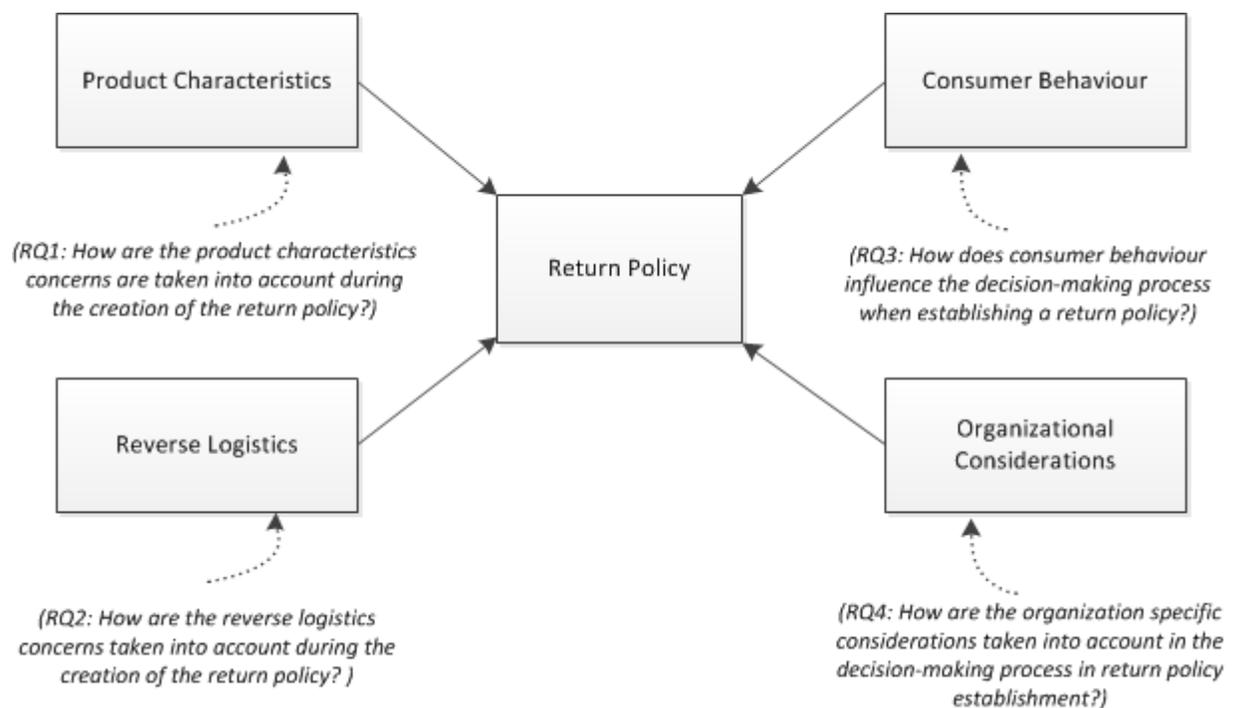
Figure 2.2: Research Questions for Return Policy Creation Framework

This research seeks to fill the gap in knowledge on the different considerations and influences that motivate one retailer to have a more favourable policy than another retailer. Thus, the overall research question that provides focus and direction for this research is:

What are the factors that influence the design of a return policy in retail organizations? (RQ)

In order to narrow down the scope and provide guidance and direction for this exploratory research, additional guiding research questions are investigated. These research questions are designed to guide the research along the proposed research framework.

Within the logistics and returns process literature, the concept of product characteristics has been given a significant amount of attention. All of the previously examined models have focused on optimizing the reverse logistics channel by designing systems that try to offset the product characteristics and logistics costs. However, following the exploratory research model, this research takes a step back and instead of trying to optimize logistics and product costs, it builds from the ground up by examining the importance that practitioners and organizations place on these concepts.

How are the product characteristics concerns are taken into account during the creation of the return policy? (RQ1)

How are the reverse logistics concerns taken into account during the creation of the return policy? (RQ2)

The research examined in the literature review indicates that a return policy has an effect on consumer behaviour (customer satisfaction, repurchase intention and loyalty). This means that any organization involved in the creation of a return policy must be aware of the effects a return policy will have on consumer behaviour. Therefore, this research will explore if a reverse relationship exists and will explore if any of the consumer behaviour aspects are taken into account during the managerial decision-making process for establishing a return policy.

How does consumer behaviour influence the decision-making process when establishing a return policy? (RQ3)

The literature review indicated that there is a multitude of organization specific considerations that have an effect on return policy creation. Thus, the last research question that this research will investigate is the importance of corporate policies, competition, strategic goals, corporate image and branding to the return policy creation.

How are the organization specific considerations taken into account in the decision-making process in return policy establishment? (RQ4)

CHAPTER 3: RESEARCH METHODOLOGY

3.1   Introduction

This chapter describes the general research methodology guiding the study. The chapter starts by outlining the research approach and then provides a discussion on the appropriate use of the multiple-case study approach for this study. The following section provides an overview of the interview design and the data analysis techniques. Section 3.7 describes the cases, participants and the methods used for selecting each. The chapter concludes addressing the ethical concerns that arose during research.

3.2   Research Approach

Following Eisenhardt (1989), this research adopts an inductive theory building approach using multiple case studies in order to develop testable theory that is generalizable across different settings. This research adopts Yin's (2003, pg. 13) definition of a case study as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident". Since this study investigates the influences that retailers experience, it follows a multiple case study approach rather than an intensive single case study approach in an attempt to generalize the findings to a retail organization level and not limit the findings to one particular type of an organization.

Following recommendations on designing case study research, the researcher proposed an initial definition of the research questions and illustrated a preliminary framework to guide further theory development into return policy creation in retail businesses. The research questions served as a defined focus for collecting data systematically and allowed the research to stay on track (Eisenhardt, 1989). In accordance with the nature of theory building research, the research questions have been revised as the theoretical model developed (Pare, No, & Titulaire, 2004). The *a priori* identification of relevant constructs from existing theory allowed the researcher to shape the initial design of the theory and as the theory developed and these constructs proved important they provided firmer empirical grounding for the emergent theory (Eisenhardt, 1989). Similarly, not all of the initial constructs have been included in the final theory but rather all constructs were treated as tentative until the researcher identified the strongest and most relevant constructs.

According to Eisenhardt (1989), it is best to approach exploratory research with no theory under consideration and no hypotheses to test in order to avoid thinking about specific relationships between constructs and allow a new theory to emerge. However, the initially outlined research framework is composed from a selection of concepts grounded in theory, to enable the researcher to easily see the major concepts simultaneously and their potential influences to one another. This approach is aimed at allowing the researcher to focus on discovering the objective reality by creating measures that will detect the dimensions of reality that are of interest to the researcher (Pare et al., 2004).

3.3   Exploratory Multiple Case Study Design

This research conducted interviews with the objective of collecting further evidence to investigate, triangulate and to explore the details and nuances of each case's experience with the return policy design. This study collected data about the phenomena through semi-structured interviews with managers who are directly involved in the process of establishing their company's return policies. In the cases where a manager did not have enough knowledge about the return policy creation process, the interviews were conducted with the persons who were directly involved in the process and had the most insight. All of the interviews were of different durations, with the average time per interview being one hour. This time allowed the participant to answer the questions and the researcher was able to probe them with additional clarification questions when the need arose. In order to increase the consistency, efficiency and flexibility of data collection, the semi-structured interviews were used in the technique known as "grand tour" (McCracken, 1990). Using semi-structured interviews instead of questionnaires allowed for spontaneous questions as well as follow up probes that were designed to better understand the participants' experiences, perceptions and insights within the given subject matter. By anticipating probe questions before hand, the interview questions were largely consistent through all cases.

Although it is common for a case study to use both qualitative and quantitative data, using only qualitative data is also appropriate (Yin, 2009). Because this research has adopted a theory building from a case study approach, the cases were chosen for theoretical and not statistical reasons (Eisenhardt, 1989). Such selections were made to provide diversity and wider coverage of retail organizations. Additionally, by selecting cases from retailer organizations of various sizes the researcher was able to

conceptualize the findings by identifying which constructs are more influential for a retailer of a specific size.

The decision to utilize a multiple case study approach for this research allows this research to avoid the frequent criticism of case study research in that its dependence on a single case can render it incapable of providing a generalizable conclusion (Pare et al., 2004). In an ideal study, the researcher would continue evaluating new cases until the incremental learning from each case becomes minimal (Glaser & Strauss, 1967). However, this was not possible, because this research is bound by the pragmatic considerations of limited resources and time available in which to conduct this research. Thus, the case selection is focused on selecting cases that provide the best sample on the subject matter in order to gather information in a focused manner based on the tentative theory outlined earlier. Additionally, this research acknowledges the concerns some researchers have that fewer than two cases might create difficulties with generating a theory with much complexity (Eisenhardt, 1989). In order to alleviate these concerns, three cases were selected for this study and due to the scope of this project and the grounding of the proposed theory in existing literature, the three case selection for this research seems appropriate.

3.4   Interview Design

The interview protocol is attached in Appendix A. Each interview question was designed to investigate the major constructs identified in the research framework and allow for between case comparisons and comparison with evidence and theoretical expectations (Yin, 2009). Appendix A also provides examples of potential probing questions that were used in order to fully explore the evidence and the emerging theories, depending on the responses to the initial interview questions. The interview questions were evaluated prior and after the case study interviews, to ensure the questions provide appropriate coverage of all the emerging constructs of interest. When modification to the questions was needed due to emerging concepts, additional interviews were conducted. In total, six participants were interviewed over the course of the study.

With the permission of the participants, the interviews were audio recorded and later transcribed. The interview transcripts were organized and coded using QSR NVivo qualitative analysis software and the results were combined with other documentary data to gather evidence on the case's area of interest:

A. The particular product characteristics that affected the company's decision when the return policy is selected

B. The overall setup of the reverse logistics channel as well as challenges, barriers and opportunities that the reverse logistic channel presents in relation to the return policy of the company

C. Organizational perceptions on the importance of consumer behaviour and preferences and how consumer related concerns are considered during the return policy establishment process

D. The importance of organizational considerations to the return policy, in particular how corporate policies, internal processes and concerns for corporate image and branding affect the return policy creation.

3.5   Case Study Selection

To avoid cross-industry differences confounding the analyses, the selected cases are all from retail industry. Focusing primarily on a single industry facilitated comparison and theoretical replication among similar organizations, while reducing extraneous phenomena and cross-industry differences (Dess 1990; Weill and Olson 1989; Yin 1994). The original plan for selecting case study participants included a contingency on managing the volume of data that could be gathered. The original fears were that the researcher would be in a situation where the volume of data regarding return policy establishment was too much and difficult to handle, which would be a cause for limiting the scope of the study.

To enable the preliminary theory to be explored in a timely fashion, three initial cases (Cases A, B, C) were identified as having met several criteria for this exploratory study. The first criteria is that the company must be operating in Canada, it is not relevant if the company has operations in other countries, as long as it has a significant present in Canada. Only one of the investigated cases was a non-Canadian company; however it still has a very large market share in the Canadian retail sector. In order to answer some of the research questions, the participants were required to have a traditional brick and mortar store as well as an online presence. Because of the large variety of similar products that the retailers offer, it was not necessary to only interview companies that specialize on identical products.

The main requirement for identifying individuals to interview from each case was that the participant must have had sufficient experience in return policy management and policy creation to provide useful evidence for developing the theoretical framework. The second requirement was that the evidence anticipated from the interview covered as much of the theoretical constructs as possible.

Following the iterative process of the research it became clear during the first rounds of data analysis that some of the emerging categories and themes required the involvement of not only retail organizations but also manufacturing organizations. In order to fully explore some of these concepts a manufacturer's perspective on the retailer-manufacturer relationship was necessary. For this reason, additional participants that represent manufacturing organizations were interviewed, but the analysis of these interviews is beyond the scope of this thesis.

In total, this study examined three companies. As previously stated the number of companies was not specifically selected but rather expanded as the theory expanded and additional constructs were needed to complete the investigation. Because the purpose of sampling case study research is not to collect data that is statistically representative of the population but to find evidence that allows theories to be explored, using three cases is seen as acceptable to enable theory to be sufficiently developed (Eisenhardt, 1989).

3.6   Data Analysis

Because this exploratory study provided initial constructs for examinations, principles of pattern matching (Yin, 1994) and coding were used to analyze the interview data and develop the theoretical model. It is important to note that although the pattern matching approach was used to examine the initially proposed constructs, formal hypothesis were not pre-specified. This allowed the research to stay flexible by discarding and adding new theoretical constructs that arose during evidence analysis. This approach adds validity to the overall research as it ensures that the theoretical model is based on the evidence and not on the researcher's preconceptions.

Following the theory building approach, after the data was loaded into NVivo it was analysed for reoccurring themes and patterns and coded into categories and then themes. The whole process was an iterative process of pattern matching and coding, analyzing and refining the model to reflect the new evidence. Once the data was coded and analyzed in NVivo, Excel tables were created in order to help

keep track of the current categories and themes. With the introduction of new evidence, the categories and themes were re-evaluated and redefined in accordance with the new evidence. This process of data introduction and analysis was repeated until a level of theoretical saturation was achieved.

3.7   Discussion of Cases

This section contains detailed descriptions of the cases explored in this study. Each subsection provides an overview of the role the company plays in the industry, the products they sell, an overview of the return policy and scale of operations.

3.7.1   Case A

Case A is a private Canadian organization that specializes fashion clothing. Although the company started as a Canadian only organization, it has been in business for over 30 years and over the years it has expanded its operations into the United States. Because the company aims to present itself as a high fashion boutique, it prides itself on providing a one of a kind experience in each of its stores by creating unique store designs filled with artwork and graphics.

The company's product line includes sweaters, dresses, blazers, jackets, outerwear, bottoms, denims and accessories. Although the majority of available products are from the in-house brand, the stores also carry other popular brands. This case was selected as a representative of a medium to large retailer that has multiple retail locations across Canada as well as a web channel that allows its customers to purchase its products online.

Industry	Role	Scale	Products	Return Policy
Retail	Retailer	Medium /Large	Sweaters, dresses, blazers, jackets, outerwear, bottoms, denims, and accessories	Exchange or refund within 10 days. After 10 days, exchange or credit will be issues for up to 21 days from the date of purchase. Merchandise must not be washed, worn or damaged. All original tags must be attached and accompanied by a valid receipt.

Table 3.1: Overview of Case A

Case A's return window is rather short compared to its competitors, only 10 days for a full refund and after 10 days only exchange or store credit is available for up to 21 days from the date of purchase. Restrictions applied to this return policy are similar with many other retail organizations; the returned product must not have been washed, worn or damaged and all original tags must be attached and accompanied by a valid receipt that clearly states how much the product was purchased for.

This company was selected for the case study because it does not have an overwhelming amount of products but instead focuses on several well-defined categories. The second major benefit for selecting this company was that it manufactures its own product and runs all of its logistics system. As an initial sample this case allowed the conceptual framework to be explored more quickly and provide valuable insights into the different concepts.

3.7.2 Case B

Case B is a Canadian organization that specializes in providing the latest fashions for the entire family at highly discounted prices. It is a Canadian organization that has over 60 retail locations across Canada and offers the products of multiple popular brands, as well as a series of in-house brand products. Although the original company was founded over 50 years ago, the current version of the company opened its doors in 1992 and became an instant success. Today, Case B is one of the retail leaders in Canada that prides itself on providing the customer with the best possible prices, discounts and special promotions.

The company's product line includes handbags, sunglasses, hats, clothing, socks, umbrellas, shoe care product and shoes. The majority of the products available for sale are from well-known brands that offer products of high quality. The store also carries several in-house brand product lines that are highly popular with the customers. This case was selected as a representative of a large-scale Canadian retail organization that has a very heavy web presence.

Industry	Role	Scale	Products	Return Policy
Retail	Retailer	Large	Shoes, men's and women's clothing, handbags, accessories, hats, clothing, socks, umbrellas, shoes	Two weeks return policy for refund or exchange. Product must be not used, worn or damaged. All original tags must be attached and accompanied by a valid receipt

Table 3.2: Overview of Case B

Case B's return policy is shorter or on par with its competitors. After receiving a product, it is a 14-day return policy for refunds or exchange, and after this period the products are not eligible for return. All products must be unused and unworn, all original tags must be attached and accompanied by a valid receipt. Although some retailers choose to keep the receipts in the system and thus can pull up the information at any time, the company specializes in offering high discounts and often even negotiate the price on the spot, which means that for in store return without a valid receipt, it is unable to track exactly how much the customer paid for the product.

There were several benefits to selecting this company as one of the cases for this study. First, the company is a large-scale retailer that has some crossover of products with Case A, which allows for a fair comparison between the companies, even though the scale of operations is different. Second, the company's main line products are very seasonal. The company's main objective with the return products is to put them back on sale within two weeks in order to re-sell the product within the sales season. Third, although the company will accept product return, it does not return any of the products to the manufacturer and does not have a strong reverse logistics system. Such a setup allows the research to examine unique organizational setup and to investigate the different nuances that arise during the retailer-manufacturer contract negotiations.

3.7.3 Case C

Case C is another Canadian organization that considers itself a full-service provider for its customer. It specializes in providing its clients with the newest promotional merchandise available on the market as well as an in-house embroidery department. Although the company's size can be considered as small to medium size, it not only services the everyday consumer, but also has a large portfolio of some of the largest Canadian corporations as its clients.

The company has over ten thousand different products available for purchase through the website, as well as a full creative team to deliver ideas and designs specific to the client or client's marketing program. In order to meet all customers' needs, the company offers full service fulfilment program that takes care of all the client's needs including providing web design services and marketing consulting services that allow the client to take his initial ideas to completion. In short, the company offers a large variety of products that can be purchased as is, but for customers that purchase customized products, additional services are available.

Industry	Role	Scale	Products	Return Policy
Retail	Retailer, Service Provider	Small / Medium	Apparel, Shoes, Clothes, Writing Instruments, Drink ware, Bags, Sports, Badges, Pins, Computer Accessories, Cleaning Products	No written return policy, all returns are evaluated on individual basis. On large orders, any damaged or defective products are exchanged for new ones. On small orders no refunds are available. Exception to full refund only in cases where the retailer made a mistake.

Table 3.3: Overview of Case C

Case C provides a good example of a retailer that does not advertise its return policy, the policy is not listed anywhere and it cannot be found on the company's website. The return policy is created on client-by-client basis, depending on the quantity of the order and the income it could potentially generate. Although the company does not have a listed return policy, it does have an unwritten return policy that it strives to adhere to as much as possible, it is outlined in Table 3.3. One important factor that distinguishes this retailer from other small retailers that do not advertise the return policy, is that the company considers itself a partner with its clients and not just a retailer, and works with the client in order to resolve any issues that might arise with the products.

This particular case was selected because it filled several important selection criteria. The company provided an opportunity to examine a retailer that has no written return policy but chooses to negotiate a policy on a client by client basis. This company also filled the gap in the small to medium scale retail enterprise that was required in order to get a fair comparison of how the theoretical constructs influence organizations of different sizes. Additionally, due to the nature of the company's products and clients, it places a special focus on maintaining and improving the relationship with its clients. The company has over 1700 different suppliers that it interacts with on the regular bases in order to offer such a large product variety for its clients. Such a large supplier base provided a wealth of interesting information about the day-to-day interaction and relationships between a retailer and a manufacturer or supplier, as well as provided an opportunity to examine how the manufacturers of different sizes use their bargaining power in order to influence the retailer's returns policies.

3.7.4   Summary of Case Selection

This section provides a summary of the cases selected for this study. The selection of each case was based on the needs of the research as they arose during each iteration. An overview of the selected cases is available in Table 3.6.

Case A was the original case selected for the study; it represented a medium/large scale retailer that has a variety of products and a standard return policy. This case was chosen as a starting point because it represented an average Canadian retailer with a standard return policy.

After the initial analysis of the gathered data, a second case was selected that would not only have common factors with the first case but also provide an opportunity to explore certain aspects of the framework that the first case did not cover. Case B is a large-scale retail company with a variety of products but that operates in a highly seasonal environment, this makes the retailer more focused on creating return policies that complement the seasonal nature of its sales cycle.

Name	Industry	Role	Scale	Products
Case A	Retail	Retailer	Medium / Large	Sweaters, dresses, blazers, jackets, outerwear, bottoms, denims, and accessories
Case B	Retail	Retailer	Large	Shoes, men's and women's clothing, handbags, accessories
Case C	Retail	Retailer and Service Provider	Small / Medium	Men's and women's clothing, Writing Instruments, accessories, Drink ware, Bags, Sports, Badges, Pins, Computer Accessories, Cleaning Products

Table 3.4: Summary of All the Selected Cases

Case C is a small/medium retail company that has an extremely large number of products and over 1700 suppliers. Because this company has such a large number of suppliers, it has a lot more choice when it comes to selecting a supplier, which increases its bargaining power when they are negotiating contracts. Such a one-sided relationship provided a great opportunity to explore what happens in a manufacturer-retailer relationship where a retailer has the upper hand in negotiations. Additionally, Case C also has a unique return policy that differentiates them from other retail companies and allowed the researcher to explore the decision-making process that lead to the creation of this policy.

3.8   Ethical Concerns

Any research involving human subjects raises a number of ethical concerns that must be addressed. Most of these concerns deal with not harming the participants, keeping their anonymity and information confidential, as well as not presenting misleading results in the study. This study passed an ethical review by Ryerson University Research Ethics Board.

All of the information regarding the organization, business unit and participants has been disguised in all the written records and audio tapes. All organizations are referred to by a sequential numbering system (e.g. Case A, business unit A1, participant A1-1, etc.). The real identities of the participants and organizations are only known to the researcher and the research supervisor. All of the information containing real identities of the participants will be disposed of after the conclusion of the study.

All of the participation in this study was voluntary and participants were not paid.

CHAPTER 4: DATA ANALYSIS

4.1   Introduction

This section describes the evidence used to develop the theoretical framework that will be covered in the final chapter. Each section of this chapter addresses a different research question that was outlined in Section 2.7 and the evidence presented is used to further develop the conceptual framework outlined in Section 2.6. The findings presented here are based on the analysis of qualitative evidence. Figure 4.1 presents a visual road map of the different research questions this section will address.
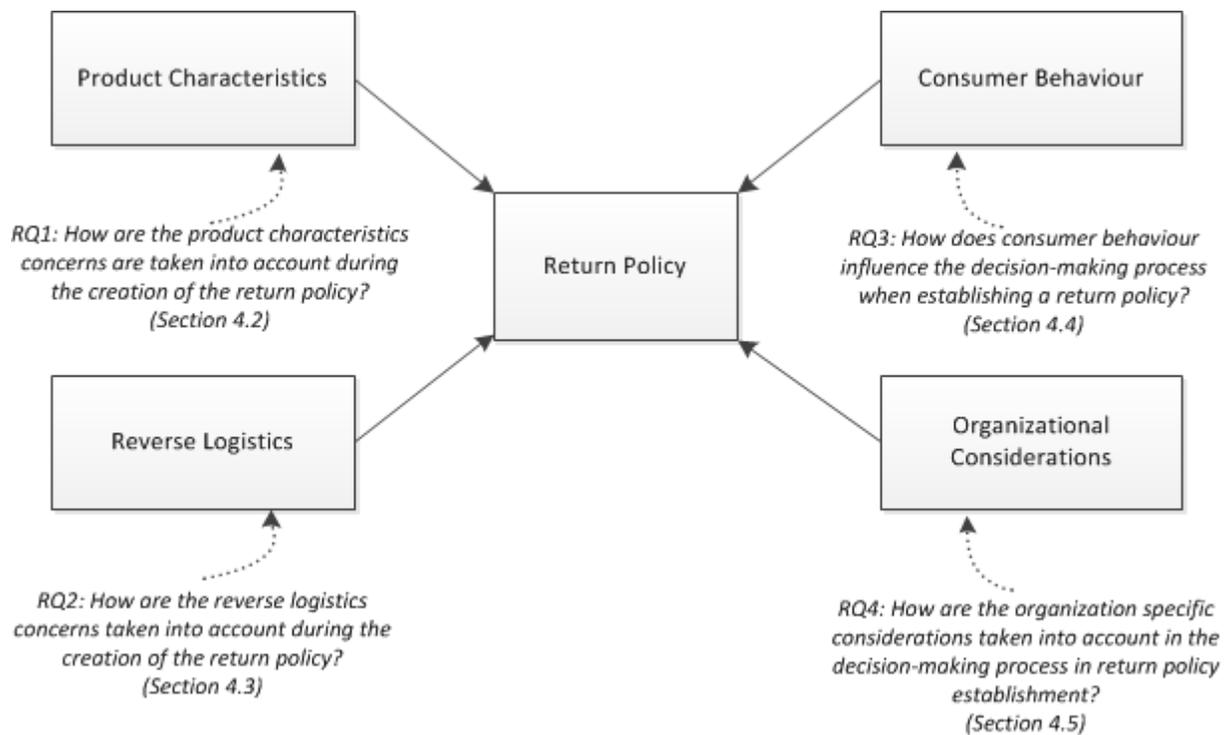
Figure 4.1 Chapter Outline for Addressing Research Questions

Section 4.2 examines the importance of product characteristics when it comes to return policy creation; it examines the effect of individual item characteristics, product's category, price and quality. Section 4.3 focuses on reverse logistics concerns, including salvage value, re-sale value, shipping costs, disposing costs and logistics capabilities. Section 4.4 examines how consumer behaviour plays into returns policies, specifically customer expectations, customer satisfaction, loyalty and repurchase

behaviour. Section 4.5 examines the individual organizational considerations and the influence on return policy, including corporate policies, strategic goals, competition, corporate image and brand.

4.2   Product Characteristics

RQ1: How are the product characteristics concerns are taken into account during the creation of the return policy?

The first step in developing the framework further was to identify any product related patterns in the coded interview data. After these patterns were identified they were matched with the description of the important product characteristic constructs identified in the literature, these products related constructs include product category, price and quality. Figure 4.2 provides an overview of the major concepts of product characteristics, the codes used to identify these patterns are outlined in the Appendix C.

Figure 4.2: Product Characteristics in Return Policy Establishment

Along with the interview transcripts, archival documents, such as publicly available returns information, were analyzed for information about the specifics of return policies and the details as it pertains to the specific product characteristics. Although these documents have provided further evidence of product characteristics, they were not relied upon as heavily as the interview transcripts since these documents tended to describe intended rather then realized policies.

For the importance of each construct, the researcher assigned a relative value of High/Medium/Low depending on the importance of the particular construct to the organization's decision-making process. For example, although a respondent for Case B noted that in general, the quality of the product is important, the respondent also noted that Case B does not concern itself with

the product's quality because the company sells brand items, it relies on the manufacturer to provide quality items.

4.2.1   Product Category

Yue & Raghunathan (2007) state that depending on the type of the product, different return policies are likely to apply. Food, beverage, office supplies, software and technology products all have different characteristics that must be considered. Although this statement is accurate, the case studies examined in this research found that most retailers actually prefer to have one "blanket" policy for the store that covers most of the product categories and to ignore the individual characteristics of the product. There are several reasons for selecting a blanket policy, but the main reason is to keep it simple for the consumer. It is easier for the customer to remember one main policy for the store, it sets their expectations and they know what to expect when they come with a return to that store. The other major reason for keeping a blanket return policy is to simplify the internal processes, having a different return policy for individual products creates a logistical nightmare in terms of internal processes. Not only will this require every store to have access to a complex ERP system to keep track of all the return policies, but also the different shipping processes and guidelines for individual products would create unnecessarily overhead.

Even in the retail store that has a "blanket" return policy some exceptions occur. Such exceptions are usually found in the technology products, software and perishable product categories. For technology products, if a product is functioning perfectly but the user still wants to return it, a restocking fee is usually charged. Products in the software categories are not allowed to be returned due to the one time use licences that are associated with such products, these licenses make the products not resalable. Similarly, perishable products such as beverages and food usually have a no return policy.

The pattern analysis of the cases has also identified the sub-constructs of the product category construct. These sub-constructs represent the dimensions of the construct, however there is not enough data to evaluate the individual importance of these sub constructs to the decision making process. Thus, they have been grouped together for evaluation. For example, product's size and weight have been grouped together to represent item characteristics. Grouping these sub constructs together allowed the researcher to analyze the data and evaluate their importance to the decision-making process.

	Case A	Case B	Case C
Product Category	Low Importance	Low Importance	Low Importance
Example of Supporting Evidence	"There is an understanding with closing that you wear it out and it depreciates like a car would. … When you doing a return with a worn item, you can't put that back on the floor and you have to look at quality of what is actually being returned."	"I think that the product characteristics play a lesser role and it's more of a seasonal resale and discount driven."	"None. Any items that are ordered … can only be replaced if there is a mechanical or some other error on the product. But if they get a t-shirt with their logo on it and they say we really don't like the look of it, well sorry we don't have a return policy for that."

Table 4.1: Relative Importance of Product Category in Return Policy Establishment

Table 4.1 provides an overview of how important a products category is to each of the cases. The rest of this section is aimed at explaining how each of the individual rankings have been allocated. The main reason for this explanation is to provide an example of how other considerations in the analysis have been ranked.

The relative importance of the product category could be marked as having "Low Importance, "Medium Importance" or "High Importance". These rankings either come directly from participants interviewed, or from other organizational data. For example, when the participant from Case C was asked how important the category of the product is in the return policy establishment, they clearly indicated that the product's category was not important. Further investigation revealed that the company deals with over a thousand different products of different categories, so the category does not matter because the return policy is the same for all of them. What does matter is the condition of the product when it is returned and the reason for the return. If the reason for the return is an error on the customer's side, they will not be reimbursed, but if the error is on the company's side, then the customer's order will be reimbursed. Thus the product category has been ranked as having "Low Importance" to the decision-making process in return policy establishment process.

Similarly, when the participant from Case B was asked about how big of a consideration the product's category is in the returns process, they clearly indicated that the product characteristics play a lesser role. The focus of the company is on getting the product back from the customer as quickly as

possible in order to get higher profit margins. Further questioning of the participant revealed that the company's prime focus in regards to the return policy is in turning the product around and placing it back for sale within the same sales season. The company's return policy is designed to have a smaller return window in order to encourage the customer to return the product as quickly as possible. Considerations about product category, size or weight, have no bearing on the decision-making process, thus a relative ranking of product category is ranked of "Low Importance" for Case B.

4.2.1.1 Item Characteristics

In relation to the individual product details, it seems that the particular characteristics of the product have little significance on the return policy. Evidence from Cases A and C indicates that since the return policy is set for the whole store and not individual products, the size and weight of the product has no influence on the policy. Supporting evidence was also found in Case B:

> *I think that the product characteristics play a lesser role and it is more of a seasonal resale and discount driven. The idea being is that if someone doesn't want the product, you want them to get off their butt, get to the store and returned it in time so that you can have a chance to put it on the shelf and sell it before it has to go on the end of season sale or other discounts which give us even less margins.*

4.2.2   Product Price

Comparison of the average product price revealed that the company in Case A was higher priced than its immediate competitors. Organizational justification for having higher priced items is based on the quality of the products as well as the uniqueness of its fashionable merchandise. In the analysis of the interview data, participants from Case A were specific on the fact that although the prices of the products are very important for organizational image and profit, these prices are not considered during the creation of the return policy because the "blanket" return policy is set for all products, across all stores. Follow up questions with the immediate store managers who are directly responsible for making a judgment call on whether to accept the product back from the customer or not, clarified that the majority of the focus managers place is on the product quality, the overall condition of the returned product and any special circumstances.

The business objective of Organization B is to focus on reducing the initial price of the product as much as possible so as to provide the customer with the best possible discounted deal. The company

has many different ways in which it tries to achieve this goal, one of these ways is to negotiate better price points with the manufacturers by giving up some of the agreements within the return policy. The company orders the needed amount of inventory for each store individually and replenishes it directly from the manufacturer when needed. This structure allows the retailer to constantly re-negotiate the contracts and to attempt to lower the product prices each time new requests for inventory are made. Because every manufacturer has some kind of a return condition for its products, be it warranty or some additional return restrictions attached to the products, Company B uses these manufacturer established return policies to reduce the price of the products by removing the right to return products to the manufacturer:

> My understanding is that some of these manufacturers do have better return policies that we can use, but in order to get a better price on the products we buy, we essentially give up some of these abilities. So in essence, we always ask for the most dirt-cheap price on the product and in order to get this price, we do not care about their return policies, we get rid of all these additions to the contracts… There are may be better policies in place, but for us, we just take the worst ones because we can get a better price on the product this way. And although some vendors and wholesalers have better return policies then other vendors or wholesalers, we only use that policy as a leverage to negotiate a lower price, so in the end, all the vendors even out and we are left with terrible abilities in returning stuff back to vendors.

Because more of the retailers tend to ship the returns back to the manufacturer and not worry about the logistics processes behind it, the system that Organization B uses seems counter-productive at first glance, however in this business model the system works. The chief reason for the success of this model is that the company does not scrap any of the products it sells. After the products are returned to the store, they are resold at a small discount price, and if the product is not sold after two or three weeks, it is discounted again. This process of discounting price continues until the product price is reduced to just above inventory and operational costs, at which point the item is placed for sale at a final clearing discount and is kept at this discount until it sells. In this system, the product is never discarded, sent back to the manufacturer or is left unsold. In some cases the merchandise stays on sale for a few years until it is sold. Under such a model, it is not surprising that the original price of the product plays no role in the return policy creation. The return policy window is designed to be short as to facilitate a fast return turn around and allow the company to make profits by reselling the product.

	Case A	Case B	Case C
Product Price	Low Importance	Low Importance	Medium Importance
Example of Supporting Evidence	"Only logistically speaking. If you are going to be returning something that is low in price and something we have a lot of quantity in… returning it back to the head office is a waste of time."	"What it really boils down to is that if it takes them longer to bring it back, we might have to sell it at a discount, which cuts into our profit margins."	"Let's say we printed a logo that was supposed to be red and we printed it in blue, the product is being returned, it was our fault and we will admit that it's our fault. What we will do is to try to sell these same products to the customer at lower margins. … Anything we can do to reduce our losses and partially replace our costs."

Table 4.2: Relative Importance of Product Price in Return Policy Establishment

Case C is a good example of a small to medium retailer with no written return policy. The company is very focused on being customer friendly and thus considers every single request for return on a customer-by-customer basis. The majority of the products that this company sells are customized and branded in accordance with the customer's request. Therefore, if the company makes a mistake in fulfilling the order, it will have no chance to re-sell the product to another customer and thus must do all it can to reduce the losses on returns. The only way for a company to re-capture at least some of the losses associated with the return is to offer these products to the same client at very deep discounts, sometimes up to 80 percent discount. Although it seems that this is a prime example where the price of the product plays an important role in the returns decision-making process, it is not the case. Company C chooses to deal with the issue of the product price before it gets to the returns process. The higher the price value of the total order of products, the more procedures are implemented in order to avoid the making of mistakes on the retailer's side. This includes producing small samples to show case the product before all of the products are made, getting verbal and written sign offs on all production stages in order make sure the only possible mistake in design will come from the customer. This system of constant approval during all stages of the production process reduces the possibility of making a mistake to less than one percent. Thus although the price of the product does play an important role in organizational process, it does not affect the decision-making process of the return policy.

4.2.2.1 High-Priced / Low-Priced Products

Mukhopadhyay and Setaputra (2007) state that the price of the product often reflects the potential for resale because a higher priced product may be recycled through the supply chain and resold at lower profit margins. Although this statement is correct in essence, it is important to note that this only applies to the manufacturing organizations and retailers that have a very specific logistics model.

Of the retail organizations investigated in this study, Organization B was the only retailer that had a business model focused on not returning the products back to the manufacturer but instead re-selling the product at lower and lower discounts. However, in such a unique retail model the price of the individual product had no relevance during return process because the return policy is set as a "blanket" policy for the whole organization. Even the different levels and categories of discounts that can be applied to a product are established company-wide for all the products and are not influenced by the higher or lower prices. Thus, even though higher priced products yield higher profit margins during resale, the price index of the product is not taken into account.

4.2.3   Quality

The analysis of the data indicates that a retail organization only considers the quality of the merchandise in the return policy context when the retailer is focused on selling in-house brands. In cases of in-house brands, the company acts as a retailer and the manufacturer, which means that the retailer cannot simply ship the product back to the manufacturer without taking a financial loss. For all other retailers that do not consider the returns process on a customer-by-customer basis, the quality of the returned merchandise does not have any significance because the whole process falls under the corporate wide "blanket" policy for all products.

Case A provided the opportunity to examine a retailer that focused on selling only in-house brands. This company places a significant emphasis on the higher quality of its product, in comparison to the competition. This emphasis is clear in the image the company portrays about its products and the fact that the company easily justifies the higher prices for its products because it feels that the products are of superior quality. As the participant from Case A illustrates, this belief in quality even affected the duration of the return policy:

We do have that image that we offer high quality products. That is our competitive edge, our products may be a little bit pricier than the other company's but the quality is greater, you won't even have to use the return policy - that's how strong we feel about it. That's how we get the loyalty of the customer to come back and understand that we do have a return policy. It's a little bit shorter than the most, however they know that they might not even have to worry about it. When they are buying this item and spending hundreds of dollars on this piece, they know that the money is going to be worth the merchandize.

	Case A	Case B	Case C
Product Quality	High Importance	Low Importance	Low Importance
Example of Supporting Evidence	"That's where we want to differentiate ourselves. It might be a shorter time frame [for return], but that time frame is short because we know our quality is good and the quality of our merchandize is exceptional compared to the other one."	"Again, I say that the product's quality has a much lesser focus for us. We are selling well-known brand named shoes. So the question of quality is a very minor factor for us because people are not really buying our quality, they are buying the quality of the brand that we are selling."	"No, we don't have a better policy for better quality products, they all have the same return policy."

Table 4.3: Relative Importance of Product Quality in Return Policy Establishment

It is important to note that just because the company does not sell in-house brands, does not mean that the company does not care about the quality of the product. Both Cases B and C demonstrated that the quality of the merchandise is important to the success of the business. However within the context of returns policies, the quality of the product does not affect the decision-making process. For most retailers the question of quality is very minor because they are not selling their own product, they are selling the brand and the quality of the manufacturer. Placing the question of quality on the manufacturer allows the retailers to act simply as the intermediary and not have to concern themselves that the quality of the product might act as an indicator about the retailer.

Case B actually had several in-house brands that the company sells in competition to the more popular and global brands like Adidas and Nike. However, the company creates a new brand for each of these product lines so they are not under the same corporate brand but have their own brands. Such a

structure allows the company's brand to remain unaffected and not take responsibility for any issues that might arise in relationship to the product.

4.2.3.1 Warranty

Warranty is essentially an insurance policy that tells the retailer that for a certain period of time, the manufacturer stands behind the quality of its product. Warranty is often used by retailers to sell the product to the end-user by emphasizing that the product will be in working condition after the retailer's return policy expires, and if it breaks, the manufacturer will replace it. Manufacturer's warranty on the product also affects the return policy between a manufacturer and the retailer. A customer views the warranty as a guarantee that the product is of good quality and that the manufacturer stands behind the product. However, the manufacturer also uses the warranty to encourage the retailer to have a faster inventory turnover period.

From a retailer's point of view, a warranty can be used as a sales point with the end-consumer as well as being used in negotiations between a manufacturer and a retailer. By declining or removing some of the conditions within the warranty, a retailer is able to negotiate a better price point or other favourable terms to their particular business model.

4.2.3.2 Product Customization

Product customization is one of the most straightforward and non-negotiable aspects of a return policy. Many retailers will go to great lengths in order to satisfy their customers. They will provide a warranty, give store credit or full refunds. However aside from a very serious issue like an error or major malfunction, they will not accept returns on the products that have been customized and have zero opportunity for resale. Product customization is one of the most common situations where the quality of the product becomes irrelevant to the returns process.

4.3 Reverse Logistics Concerns

RQ2: How are the reverse logistics concerns taken into account during the creation of the return policy?

4.3.1 Product's Salvage Value

Product's salvage is usually characterized as the product's re-sale value, however when organizations look at the salvage value they often look at it as a sum of several factors, including repair cost, labour costs, parts costs and profit margins on the resold product. Within the reviewed literature, a product's salvage value is often cited as one of the most important aspects of product's characteristics. However, analysis of the data indicates that whenever the salvage value is considered, it is always within the context of reverse logistics. Retail organizations that do not operate their own reverse channels but rely on the manufacturer to pick up the returned products, do not place any importance on the product's salvage value. Additionally, companies that do place an importance on the salvage value of the product, indicate that the value changes depending on the efficiency and the individual characteristics of the logistics channel. Thus for the development of the model a product's salvage value has been classified under reverse logistics concerns. Figure 4.3 provides a visual representation of the reverse logistics concerns and the major concepts that are included in it, the full list of codes used in identifying these concepts in the qualitative analysis can be seen in Appendix C.
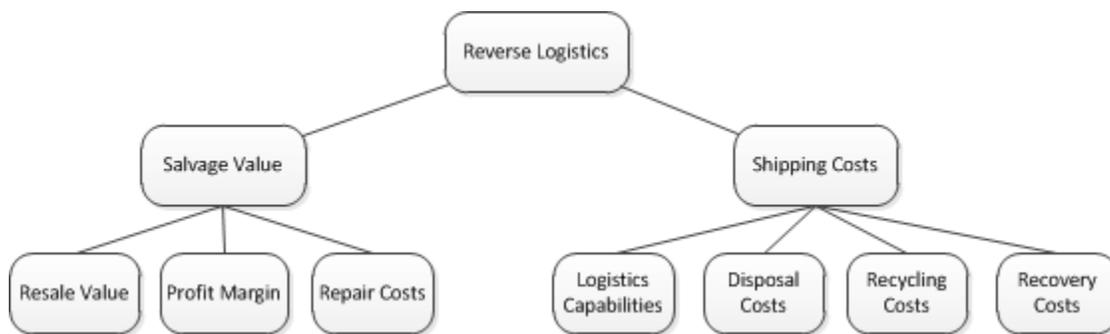
Figure 4.3: Reverse Logistics Concerns for Return Policy Establishment

For retail organizations that specialize in highly seasonal merchandise, a quick inventory turnaround and a quick processing of the returned products is essential for making profit. Analysis of Case B indicates that within a seasonal sale environment, the main goal of the returns process is to get the product back from the consumer in a timely manner and if possible to place it back for sale within the same sales season. This strategy allows the company to re-capture the highest profit margins on the returned products. If the return process is not efficient and it takes too long before the product is back for sale, the retailer is unable to place the product for sale within the same season and this significantly

decreases the value of the product. Although the situation is different when the retailer does not resell the returned product but chooses to ship the product back to the manufacturer, organizational profits are still affected by this process because the retailer is out of inventory for that product and missing on the opportunity to sell the product when it is most popular. Thus the most profitable resale value, the value that offers the highest margins, is of crucial importance to the organization. Case B demonstrates this notion:

> *It all comes down to the sales season and our ability to turn the return around quick. That is what plays the heaviest role in the return policy. Basically the ability to take care of the return, put it back on your shelf and sell it at full price before we hit end of season, that's the number one defining characteristic behind the strategy of our return policy.*

Additionally, it is important to note that for a retailer with the traditional business model of sending the product back to the manufacturer, instead of reselling the product at higher discount, the salvage value also plays a significant role because the store managers have to make the on the spot decision on whether the product can be returned or not. When managers look at the product and decide if it is an acceptable return or not, the first thing they consider is the re-sale value of the product. This re-sale value is how much the store can sell this product for after it has been returned, repackaged or repaired (Case A). Evidence suggests that this also holds true even for organizations with a strict "blanket" return policy; managers can, and often do make exceptions based on the facts they have at the time.

	Case A	Case B	Case C
Product Salvage Value	Medium Importance	High Importance	High Importance
Example of Supporting Evidence	"Somewhat, it effects profit margins. Whether a customer returned it because it doesn't fit, just doesn't go with their outfit or any defects in the material, there is a way that we can take that merchandise back, do a return policy on it and put it back on the floor at a lowered price because of that defect."	"The salvage value is what I was getting into before; it all comes down to the sales season and our ability to turn the return around quickly. That's what plays the heaviest role in the return policy."	"Yes, if I can get undamaged or un-altered products back into the supplier hands, in most cases they will take it back with no problems and no financial losses."

Table 4.4: Relative Importance of Product's Salvage Value in Return Policy Establishment

For a retail organization that primarily focuses on selling product that has been customized to a particular client's needs, salvage value becomes of extreme importance. In such a business model, there are two main reason for why a product is being returned. Either a retailer has made a mistake and the product is damaged after the client has ordered it, or the client has made a mistake, in which case the client takes full financial responsibility. In the situation where the retailer has made a mistake and they have to ratify the situation, there are only a few available options. In the analysis of Case C, a retailer that made a mistake or produced faulty merchandise for a client attempts to negotiate with the client and attempts to proceed with the sale of the product but at a highly discounted price, in some cases up to an eighty percent discount. This decision is based on the evaluation of the salvage value of the returned product. If the product is returned, because it is customized for the needs of one client, it has no resale value for other clients, thus the company chooses to salvage at least twenty percent and absorb the total loss.

Additionally, data indicates that if a customer is returning a product that is not customized, undamaged, un-altered, un-used and still in the original packaging, most of the retailers are willing to accept the product back because it has a 100% resale value, as long as it isn't a seasonal product.

4.3.1.1 Resale value

A product's resale value is one of the main aspects of the salvage value that is considered by an organization during the return processes. Even though most retailers have a "blanket" return policy that applies across the board, individuals on the ground who actually make the final decisions on whether a product can be returned or not, pay close attention to the resale value of the product. The first thing that is considered is if the product's condition is good enough for immediate resale. If a product is unused, undamaged and unworn, it can be placed immediately for sale with no extra overhead for the store, thus allowing the store to not only recover its losses, but also make the customer happy by providing them with a good customer service.

On the other hand, if a product's resale value is low, and the product needs to be shipped back, repackaged or returned to manufacturer, then the managers are more likely to fall back to the "blanket" policy and follow the normal return policy guidelines. The use of managerial discretion when it comes to evaluating returns and overriding the established return policy demonstrates that the resale value of the

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product plays a significant role in boosting the total salvage value of the product, thus increasing the likely hood of a product return that's outside of an established policy.

4.3.1.2 Profit Margin

Profit margin is the also an important part that organization looks at when considering the salvage value of the returned product. However, it not only affects the decision-making process on the returns procedure, it can also effect the strategic decision of the company. Data from Case B indicates that the corporate wide two-week return policy was selected as a compromise between what a customer wants and what the retailer wanted. The decision on the duration of the return period was a judgment call between what is considered a reasonable amount of time required for a customer to try on a product and choose to return it, and what time the retailer thinks is the maximum possible time that the retailer can afford to wait, given the operational priority is to place the returned product for sale at a discount within the same sales season. A respondent from Case B stated that the company did consider extending the return policy to thirty days in order to be on par with its competitors, but the decision was voted against because a thirty-day return policy offers no opportunity to resell the product at the highest possible profit margins.

4.3.2   Shipping costs

Shipping costs for a returned product play an important role in the return process. Because most organizations focus on optimizing forward logistics and not reverse logistics, the costs associated with moving the product backwards through the supply chain are usually higher. In order to avoid dealing with reverse logistics, most retailers choose not to deal with their own logistics, but instead choose to return a product back to the manufacturer using manufacturer's logistic systems. However such an option is not always available for retailers that focus on selling in house brands. Because the retailer and not the manufacturer pays the shipping costs, a standard operating procedure for a retailer is not to ship the product back but to put it back for sale, and only ship the product if it's damaged beyond repair and needs to be scrapped. Case A expands on the shipping requirements in such cases:

> *We collect the damaged products and send them in bulk. We saving money in that sense, we are not sending one item at a time but we are sending back a multitude, a variety of items. This way it is a little bit cheaper to send out, as far as the weight goes for the box, as well as when it actually gets to the head office, there can be a little bit of cheaper price involved to either destroy product or leave it in a warehouse.*

	Case A	Case B	Case C
Shipping Costs	High Importance	High Importance	Medium Importance
Example of Supporting Evidence	"We have our own private collection in our store but we also deal with other brands as well. So when we buy those pieces from those labels and brands, we have to bulk buy and you have to be able to sell that. If we don't sell that then that's the cost of sending things back."	"This is why shipping costs are such a big deal for us, shoes are large and heavy as opposed to general apparel and the shipping costs. Even five or six dollars take a large cut out of the margins you making on that sale."	"Yes, if someone needs to send something back, we will provide our UPS account to them and they can ship back the item with no charge to themselves. We do make sure that if they are being inconvenienced by the fact that something is wrong, we will make sure that there isn't a further inconvenience of having to pay to ship it back."

Table 4.5: Relative Importance of Shipping Costs in Return Policy Establishment

In order to stay competitive, retailers find a variety of ways to save money on the shipping costs for each product. One of the most common strategies that Canadian retailers use in order to stand out from the competition in e-commerce is to offer product shipping free of charge. Analysis of Case B indicates that the shipping costs are one of the main factors that reduce the overall profitability of the product because the shipping costs are coming out of the profit margin on that product. What this means is that the shipping costs are not included in the product price, but come directly out of the retailer's profits. This kind of a setup presents a larger concern in the context of returning products that have been purchased through the online channel. Because a majority of companies offer free return shipping, profit margins on these products are additionally reduced by returned shipping cost, which affects the decision-making process on whether the product should be repaired, repackaged or resold.

4.3.2.1 Disposal Costs

It is inevitable in the returns process that the company will have to deal with disposing costs. Disposing costs are costs associated with recycling or scrapping the product. They can be mandatory costs imposed by the government or just operational costs that are required in order to dispose of the product safely. There are, however, retail business models that are designed to avoid any disposing costs. Organizations B and C have adopted business models designed to minimize or eliminate disposing

costs. For Organization B, the whole business structure is designed in a way that does allow a product to be disposed of. When the product is returned it is placed back for sale at a discounted price, if the product has minor damage it is placed for sale under a bigger discount. In situations where the product is seriously damaged and cannot be resold, it is shipped to a centralized warehouse where the product is repaired or used for parts to repair other products. Repaired product is sent back for resale at a discount and the left over parts are placed in storage until they are needed for some other time, no product or part is ever discarded or trashed.

Because Organization C focuses on selling products that are customized and branded for the particular customer, these products offer zero opportunity for resale. Therefore, all the shipping costs that the company would incur during the process of getting the product back just to dispose of the product are an extra cost on already non-recoverable loss of profit. Thus the company has a policy of never taking the product back from the client, it gives the customer permission to keep the product or dispose of it in any way they want.

4.3.2.2 Logistics Capabilities

One of the aspects of reverse logistics examined in this study is the importance of the overall logistics capabilities to the decision-making process. The initial assumption was that managers in charge of the returns process would consider if they have logistics capable of processing the return before accepting it. However, the data analysis of all the examined cases shows that the capabilities of the logistics channels are not taken into account during the returns process. If a product falls under the return policy, the product is accepted back and only then is the decision made on what to do with that product. The generally accepted view towards reverse logistics capabilities is that if the company delivered the product to a customer, then there is always a way to get that product back, the only question is how much it will cost in shipping.

4.4   Consumer Behaviour

RQ3: How does consumer behaviour influence the decision-making process when establishing a return policy?

4.4.1   Customer Expectations

Over the years consumers have developed certain expectations of what a return policy should be, how long it should be and what state the product should be in when it is returned. The customer expects that the product will be in good condition and working order. However, perhaps most important is that the customer expects that given the shipping times involved, the duration of the return policy is sufficient for him to examine the product and to return it back to the retailer. Retailers are well aware of these expectations and accommodate by having a 30 day return policy. Examination of Organization B, which has only two weeks duration on its return policy, indicates that the company is well aware that it is behind the competition and is in the process of changing the return policy:

> *Although we currently only offer 14 days, I am constantly petitioning to extend our online return policy and make it longer. Mostly because it is very short when you compare it with competitors that usually have a month, two months and some even have three months. So I have been trying to get ours extended to about four weeks, just because we are literally the shortest online return policy and I'm trying to get four weeks just so we can be more competitive.*

Examination into the different methods retailers use to gauge if the return policy meets the customer expectation revealed that not a single retailer examined in this study has ever conducted any customer survey to measure it. However, although none of the retailers has ever used any formal method for gauging if the return policy meets the customer needs, all of them feel that they meet their customer expectations. Upon further examination, it appears that retailers strive to meet the customer's expectations by accommodating the customers and providing them with an opportunity to negotiate certain return policy terms. The most common example for most retailers is with consumer purchases that are intended as gifts. When customers travel a long distance to purchase a product at a store as a gift for someone else, they have an expectation that the store they are buying a product from will be understanding and flexible when it comes to the terms of the return policy by extending the return date. The exact number of days that the policy is extended for depends on the individual customer, but as an example, Organizations A and C are willing to extend the policy up to a week and Organization B for two weeks. The general idea is that consumer expectation do matter, customers expect a fair treatment and understanding from the retailer, and judging by the data it seems that most retailers are willing to accommodate these expectations.

	Case A	Case B	Case C
Customer Expectation	Low Importance	Medium Importance	High Importance
Example of Supporting Evidence	"It's very minimal in my point of view. When you're selling a product, you have to believe in it, so you want to have a return policy that is strong enough that the customer will see it your way. However it doesn't always happen that way. Some feel that seven days is too short, or too long."	"I would say that our policy meets the consumer's expectation minimally, because our in-store 14 day return policy is on par with the competition. Our online 14 day policy is very short in comparison with other online return policies, so we have room for improvement to meet their expectations."	"Yes, absolutely, I would say that no one can complain. We deliver products that are exactly what you want, but if it is not exactly what you expected or if there is damage to the product, we will make sure that we replace it for you."

Table 4.6: Relative Importance of Customer Expectation in Return Policy Establishment

Retailers that sell in-house brands seem to be less willing to meet customer expectations when it comes to the return policy. Evidence from Case A suggests that although the company is willing to provide small concessions on the policy, it considers its merchandise to be of such great value and quality, that if customers did not return the product within the first two weeks he will never return the product. This justification is one of the main reasons why Organization A has only two weeks return policy and does not even consider extending it in order to meet the competition.

Figure 4.4 provides an overview of the major consumer behaviour concepts that have been identified in the qualitative analysis.

Figure 4.4: Consumer Behaviour Concerns in Return Policy Establishment

4.4.1.1 Perception of Fairness

Perception of fairness is one of the aspects that play a role in setting consumer expectations; however, there is not enough data on what exactly consumers perceive as fair. Organization A's short return policy is considered by the retailer to be fair towards its customers because the company offers products of very high quality and of an in-house brand. The company insists that if there is ever a problem with a product it will be obvious within seven days, which gives the customer more than a fair amount of a whole week to bring the product back. Organization B thinks that because it offers its clients high quality branded products at large discounts its being more than fair to the client by only giving them two weeks to return a product. Organization B is the only company that actually actively conducts customer satisfaction surveys from which they extrapolate how satisfied the customers are with the returns process, and by just having a survey they feel that they are more than being fair to the consumer. It appears that the perception of fairness in consumer's eyes is interpreted differently by the retailers and seems to be based on what the retailer consider if not a competitive advantage, then something that clearly distinguishes them from the competition.

4.4.2   Customer Satisfaction

Analysis of the cases indicates that although organizations identify customer satisfaction as a strategic priority in all of the examined cases, a closer examination reveals that customer satisfaction still ranks below the strategic objective for profit gain. Within the context of return polices, there are several ways that the retailers can increase customer satisfaction, including customer service, offering free return shipping and offering concessions on the return policy.

Offering free return shipping is the most obvious way to keep the customer happy during the return process. The customer has already been inconvenienced by purchasing a product that did not meet their needs and needs to be returned, they should not be further inconvenienced by having to pay additional return shipping fees. This is especially important in an online retail environment where shipping and return shipping fees are seen as major barriers to purchase. In e-commerce, a competitor's products are available to the consumer just a few clicks away and if the price for the product is a close match, shipping and return shipping fees can play a deciding factor with whom the customer does business. Removing hustles and barriers in returns is one of the most important things that retailers can do in order to keep the customer satisfied and to encourage the customer to purchase a product that they are not sure about.

Retailers also use product discounts in order to keep the customer happy. Organization B has corporate wide policies that are designed specifically to make the return process as easy and as convenient as possible. One example of such policy involves giving a customer an automatic discount on the next product the customer purchases. Similarly, if the customer has been waiting in line to see a cashier for more than five minutes, regardless if it's purchase or products return, the customer is rewarded with another automatic discount. These policies are specifically created to increase customer satisfaction by making the customer feel appreciated and to encourage the client to come back and purchase another product. However, as stated earlier, even with all these policies and seemingly large discounts, Company B is still primarily focused on the profit margins:

> *However, I would say that customer satisfaction is trumped by the importance of our ability to get that returned item back out within the selling season. I think so because if customer satisfaction was a greater concern, then our policy would probably be 30 days, or 45 or 50. But the reason it is at 14 days and has not changed in years is because being able to turn that product back out within the sale season allows us to capture that margin.*

	Case A	Case B	Case C
Customer Satisfaction	High Importance	High Importance	High Importance
Example of Supporting Evidence	"Dealing with customers is very important, that's the only reason why we are in business. You have to please them a hundred percent of the time. There will be issues because some customers won't see a return policy as fair and think that we are imposing a harsh one. In any case, you definitely have to keep the consumers in mind when you are doing your return policy."	"Customer satisfaction is definitely a strategic priority. One of the non-marketed but selling features of the [company name], is the customer service aspect. There are many policies in place that are very customer focused, friendly and aimed at valuing customer's time."	"We are calculated in allowing our returns, but at the end of the day it's about customer loyalty and customer satisfaction. We make sure that if we have to bite the bullet on this one return, we will do it to make sure that the client is happy."

Table 4.7: Relative Importance of Customer Satisfaction in Return Policy Establishment

Data analysis indicates that companies are very much aware that the high usage of the internet for product reviews introduces an increasing demand to deliver customer satisfaction. Thanks to Google, Yahoo and Bing, user reviews for almost any product in the world are available for access within seconds, and due to the nature of the internet, several bad reviews could be seen by thousands of users thus reducing the potential profit for the company. Bad customer service seems to compound the negative experience the client has with the product and tends to generate additional negative reviews that effect sales. Alternatively, a hassle free and seamless return process encourages the customer into believing that the problem with the product was an exception rather than the rule, and the customer provides a positive review on the product regardless of the problem with the product.

4.4.2.1 Customer Loyalty

Data indicates that organizations consider customer loyalty to be one of the most important aspects of customer satisfaction, and a customer friendly return policy is one of the critical ways of maintaining customer loyalty. With the ever-growing popularity of e-commerce and the introduction of more sophisticated product comparison tools, users can easily compare product prices across multiple retailers and purchase the product based on the lowest price.

However, even in an e-commerce environment, companies still find ways to build customer loyalty. A prime example of this is the loyalty and point reward programs designed to encourage the customer to shop with the retailer and not the competition. However, it is important to note that the companies examined in this study do not think that customer friendly return policies actually build customer loyalty. The return policy is seen as a tool for maintaining customer loyalty and customer satisfaction because it removes barriers and hassles that inconvenience the customer and generate dissatisfaction.

4.4.2.2 Repurchase Intention

A favourable return policy can encourage the customer to make a product purchase and a successful conflict resolution during the returns process can increase the likelihood of repeat business. Repurchase intention is often characterized by the customer's judgment about purchasing a product from the same company, taking into account his or her experience and overall satisfaction with the retailer (Hellier et al., 2003). Analysis of the data provided additional evidence that repurchase intention and customer satisfaction are closely related in the context of return policies. A hassle free

return policy encourages the customer to make the original purchase as well as increases the chance that a consumer will purchase from the same store again. Case A illustrates this point:

> *If you make the whole process seamless and hassle free, then they are going to come back to the store. People have to be reasonable with their expectations, but if you make it simple for them to return a product when something does happen, then they will remember that.*

4.5   Organizational Considerations

RQ4: How are the organization specific considerations taken into account in the decision-making process in return policy establishment?

4.5.1   Corporate Policies

The influence of internal and external corporate policies on the return process is not to be underestimated. Although the majority of retail organizations have opted for a simple corporation wide return policy that applies to all products sold by the company, the individual store managers in each store have the ability to overwrite a return policy when they need to. In such situations the different restrictions and the strictness of the return policy are ignored. The mandate of a store manager is to keep the customer happy in order to maintain a positive image within the community while at the same time maintaining profitability. The objective of the corporate as a whole, however, is to increase profits, which puts customer satisfaction in second place. This slight difference in operational objectives creates the situations where managers make judgment calls on the ground on product returns on a client-by-client basis in order to keep their customers happy. Decisions of the participants in the return policies are influenced by several major concepts, including internal policies of the organization, the particular corporate image the company is trying to portray, and the external corporate policies and objectives. Figure 4.5 presents a visual illustration of the organizational considerations.
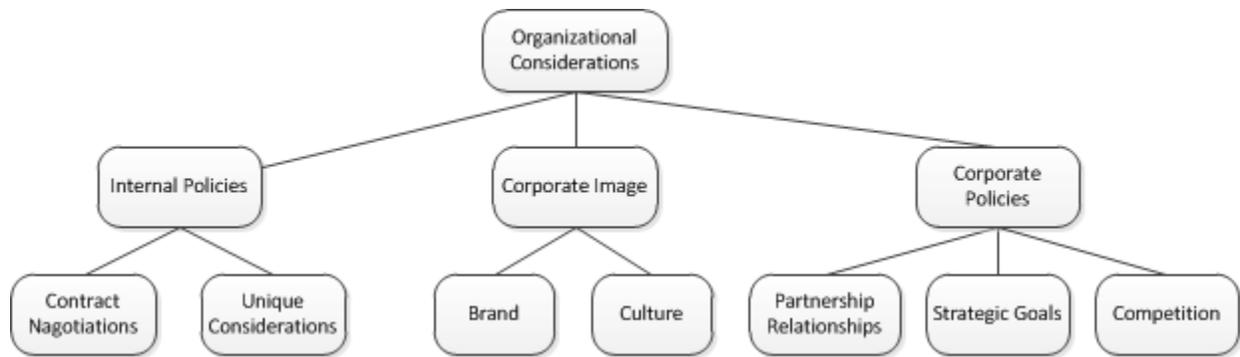
Figure 4.5: Organizational Considerations in Return Policy Establishment

Only a few retailers have adopted returns policies that are specifically designed to be very customer friendly and are aimed at removing all possible barriers to purchase. One retailer examined in the analysis even selected a 365 days return policy. This policy is specifically designed to encourage the customer to purchase multiple versions of the same product, assess the products in the comfort of their own house, select the product they like the most and ship the rest of them back within a year. However, such extremely friendly customer policies are not seen as favourable by other retailers because they are not always compatible with the business model of the retailer, as explained by participant from Case B:

 If you got a customer-centric corporate culture like [Company Name] you have 365 days return policy. Does that make sense? None at all. One can argue it makes sense from the overall strategic objective because you remove all of those barriers to purchase, but generally speaking no. Because after 365 days you would be lucky if the product is back for sale for the season in the following year. It doesn't make financial sense.

In many cases the return policy of the company is influenced by the size and culture of the organization. Many of the small and medium retailers operating in Canada just do not have the economies of scale available to large retailers like Wal-Mart and Sears. For these smaller retailers offering a 30-day return policy is just not an option because the company cannot financially afford it. In the investigation of Company C it became clear that the company does not advertise the return policy because it wants a chance to negotiate the policy based on the size of the client and the size of the order. If this company agrees to a full refund return policy on a huge order that will stretch its operating budget, a return of this non-resalable order will place the company in tough financial situation. Thus, the policy is specifically designed to be negotiable and allow the retailer to only take orders that are within acceptable parameters.

	Case A	Case B	Case C
Corporate Policies	High Importance	High Importance	High Importance
Example of Supporting Evidence	"Most definitely [it's important], although other factors do come into play. However, at the end of it, I believe that a customer who is happy with service and policy, will always come back."	"All our policies are designed to build the relationship and earn loyalty. All the retailers are realizing that one return is nothing; it's a battle, and what we want to win is the war. The war is the next 60 years that person will be coming to their store and purchasing items, and the money they will spend there over their entire lifetime."	"We would consider many things when it comes to a return policy. Including our focus on making profits. For example: refusing a ten dollar item return and jeopardising a thousand dollars in future sales."

Table 4.8: Relative Importance of Corporate Policies in Return Policy Establishment

Corporate culture and the company's unique views play an important role in return policy creation. A company's decision to provide a 365 days return policy is based in the overall culture of the company and its desire to satisfy the clients and all their needs. Even the general view of how the company sees its clients can affect the return policy decision. Analysis of Case C indicates that the company strives to present itself as a business partner for its clients and not simply a retailer that offers them products. This decision heavily affects the decision-making process during contract negotiations, especially in return policy negotiation. A prime example of this is how Company C views the client returns and what remedies it offers:

> We most definitely make sure that our image is that we are a partner. And I would say that the return policy plays into it because if you are a true partner and there is something going wrong or there is an issue, we both kick in to provide resolution. If it's not a partnership then only one side has to kick in and usually we find that when there is any sort of return, the client and ourselves will share the financial loss or jointly proceed with whatever needs to happen.

4.5.1.1 Competition

Competition is an important factor in any retail decision-making process, including returns policies. In order to be successful, a company must stay ahead of the competition. Retailers need to be

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aware of what the competitors are doing and react accordingly, whether it is in the products they offer, customer service or company policies.

Data analysis indicates that the retailers are well aware that a good return policy is necessary to be competitive in the business, especially in the e-commerce sector. However, there is no consensus on what exactly is considered a good return policy. The definition of a "good" policy is highly subjective and seems to be dependent on the details of the market, organizational culture, brand and strategic goals. For example, in Case B, the company conducted an investigation into the return policy of ten of their direct competitors. The results of the study indicated that among the competition, Company B had an equal or shorter time on their return policy and in most cases had more restrictions on the returning product's condition. All suggestions to adjust the duration of the policy in order to be on par with the competition were declined on the basis that the current return policy had been established a long time ago, and it has served the company well and is now part of the company's image. However, more importantly, corporate leadership considers an increase in the duration of their return policy out of the question, because it would decrease the profit margins the company can recover from a product that is returned within the same sales season.

The interview data for all cases indicates that, although all of participants consider a return policy necessary in order to compete with the competition, they do not think that a return policy gives them any direct competitive advantage. A return policy is viewed as an equalizer. Even if one of the companies does something unique and innovative with respect to a return policy, which is very hard to do, the competition will immediately adjust and incorporate the same changes in order to even the playing field. A prime example of this is the free return shipping that was once a competitive advantage but has now became a standard part of retailers' return policies.

4.5.1.2 Strategic Goals

A return policy can either act as a facilitator to the success of strategic goals, or act as a barrier. If the overall strategic goal is to create a corporate image of a company that strives to achieve the highest possible customer satisfaction, a 365 days return policy will help to portray that image. If the corporation is operating in a highly seasonal environment and focuses on getting the most profit margins out of every product, then a longer duration on a return policy will act as an inhibitor to these strategic goals, and a shorter return policy will act as a facilitator.

If the company is focused on creating a partnership with the client and portray an image of a partner rather than a simple supplier, a negotiable return policy that can be redefined on a customer-by-customer basis allows the company to adapt to the needs of every client and to develop that partnership relationship.

4.5.2 Corporate Image

Data analysis indicates that the corporate image a company wants to portray can influence its decision when selecting a return policy. All of the participants interviewed in this study stated that the corporate image their company seeks to portray is directly reflected in the return policy. Retail organizations that focus on product quality and emphasize the superiority of their merchandise often have a return policy that reflects this. Shortening the duration of the return policy and requiring that only defective products are returned is seen as a fair trade off, because the customer is seen to be getting a better deal when they purchase premium quality merchandise. Such policies derive directly from the corporate image of a company that sells superior merchandise customers will be happy to own.

Similarly, retailers that are less focused on the quality of the merchandise but are focused on providing medium quality products at an affordable rate, tend to offer the customer a longer duration on the return policy. This change in the corporate priorities has an immediate effect on the return policy. Since the product quality is seen as mediocre and the company's objective is to sell a large quantity of the product, removing time constrains from the policy allows the company to make more profit. Even of thirty percent of the product is returned, because of its low price but large quantity of sold products, the company still makes a profit.

When the company is willing to pay the costs it takes to ship the product back to the warehouse for repair or repackage, it is seen as standard procedure. However, if the company is not willing to pay the shipping fees to take its own products back and just tells the customer to dispose of the product, it sends a signal that the company does not pay any value to its own products. An organization must be aware of what signals a particular return policy sends to the consumer.

	Case A	Case B	Case C
Corporate Image	High Importance	Medium Importance	High Importance
Example of Supporting Evidence	"You always have to uphold the image. Depending on who you are and what you are known for, you want to make sure that the return policy reflects that."	"If your corporate image is that you are a super friendly company that will give you at least 30 days to return. Then that's one of the internal policies that will influence the decision process."	"We definitely make sure that our image is that we are a partner. The return policy plays into it because, when you are a true partner and there is something going wrong or there is an issue, we will both kick in to provide a resolution."

Table 4.9: Relative Importance of Corporate Image in Return Policy Establishment

Organizations like Company B and C strive to portray an image of a consumer friendly organization by creating an image of a partnership instead of a customer-retailer relationship, do not only rely on the return policy to create that image, but instead use it alongside other policies to achieve the desired effect. It is the combination of all the policies and services that the company provides that create a certain image, not just the return policy, as supported by Case C:

> We try to do more than just sell them the items that we sell, we try to help them with the overall branding of corporation and try to help them with their presentation to their customers because we provide stuff that they usually either give away or sell. We most definitely make sure that our image is that we are a partner.

4.5.2.1 Brand

Within the context of a return policy, retail organizations place little to no consideration into corporate branding. Data indicates that the most common corporate view on the return process and branding is that a return process does not affect the brand of the retailer. This view is generated from the fact that the retailer is the selling products and brands of companies. A retailer does not associate the outside brand of products with its own brand, thus if there are any problems with the product and the product is being returned, the company simply acts as an intermediary and follows the established "blanket" return policy for all products and brands. Any consumer dissatisfaction caused by the product failure is attributed to the manufacturer's brand. This view leaves the retailer's brand untouched and dissociated from all negative experience associated with the product failure. In such

scenarios, retailers that sell in-house brands take on the role of a manufacturer as well as a retailer and thus have to put higher level of importance on the return process.

4.5.3   Internal Processes and Policies

This section covers the internal policies and processes that are a part of the everyday operating procedures of the organization that happen to influence the selection of the return policy or policies that are very specific to the organization but that also have an impact on the returns procedures.

Most of the companies examined in this study have very clearly outlined policies when it comes to returning products. When asked, participants reported that the return policies are very strictly enforced and that the company wide return policy applies to all the sales locations without exception. However when probed deeper, participants revealed that the store managers have full authority to override the corporate return policy when deemed necessary. Similarly, when the store managers were asked about how strictly they follow the outlined corporate policy, the majority of participants indicated that they often made exceptions for the customers and disregarded the corporate policy quite regularly. This indicates that organizations are well aware that no matter how strict a return policy is, and how strictly the stores are required to uphold it, there are always exceptions that are ignored as standard operating procedures. However, most retailers consider these exceptions a good thing because in cases where the managers have to make a decision, the customer is already very disgruntled and making an exception allows the company to increase customer satisfaction.

	Case A	Case B	Case C
Internal Processes and Policies	Medium Importance	Low Importance	Medium Importance
Example of Supporting Evidence	"You have the corporate policy that you stick to as much as you can. However, there are internal exceptions for people who return things over and over again because the product has a legitimate problem."	"I would say no, the internal procedures and policies have very little impact on the process."	"Yes [internal policies are important], because there is no such thing as "I'm sorry, you don't fall in into this specific return policy and there for we can't return it". We are more of a "whatever we need to do to make the thing work, we will do". That is how we run as a business."

Table 4.10: Relative Importance of Internal Processes and Policies in Return Policy Establishment

Literature review indicated that the retailer's relationship with the manufacturer or a supplier is one of the important aspects to consider during the returns process, because a manufacturer has their own return policies that can encourage the retailer to select a policy that will complement the manufacturer's own policy. Data analysis indicates that although retailers are well aware of the manufacturer's return policies on the product, they choose to disregard that policy and not change their own policies in order to align with the manufacturer. This decision is mainly motivated by the fact that most retailers have a corporate return policy that applies to all products in the store and adjusting the policy in order to comply with one manufacturer is simply out of the question. Additionally, some retailers like Company B, use the manufacturer's return policy as a negotiation point in order to get a better price on the product. By declining the return policy and agreeing to not return the product to the manufacturer under any conditions, they are able to get a significantly lower price than the competition. Similarly, because Company C focuses on providing customizable products, they are well aware that a manufacturer will not want the product back because it offers no opportunity for resale, thus the company declines the return policy in order to get a better price.

The most important part of the internal procedures that can influence the making of a return policy is the human element of the organization. The people in charge and the people involved in the process. Analysis of the data indicates that all of the participants find the most challenging, and the most influential, aspect of creating a new return policy (or changing a return policy) is dealing with the individual stakeholders that are involved in the process. For example, in Case B, a change to the return policy was declined by the CEO because it was not something he wanted to do. The decision was justified from the operations standpoint, the CEO choose to ignore it and went with a personal judgement call. To date, the only viable option Company B found in dealing with these internal barriers is to hold off the policy change proposal for several years until the natural human resource turnover brings different people in charge, people that are maybe less resistant to policy change.

CHAPTER 5: DISCUSSION AND CONCLUSION

5.1   Introduction

The following chapter begins with a discussion on the research questions investigated in Chapter 4. Next, the answers to each question outlined in Chapter 2 are discussed. Section 5.4 covers the theoretical and practical implications of this thesis. The chapter concludes with a discussion on the limitations and future directions of the research.

5.2   Discussion on the Return Policy Design

RQ1: How are the product characteristics concerns are taken into account during the creation of the return policy?

Given that the majority of return policy establishment models examined in the literature review were centered on product handling and reverse logistics optimization, it was logical to include product characteristics as one of the main constructs for investigation.

Chapter 4 of this thesis evaluated the data about the involvement of product characteristics in the returns process and the return policy establishment process. Several major sub constructs of product characteristics were uncovered during the investigation of the importance of product characteristics in the returns process. The evidence concluded that the category of the product, the price of the product and the quality, have no influence on the returns decision-making process of the retail organizations. Such behaviour is the result of the fact that most retailers have chosen to opt for an overall "blanket" return policy that applies to all the products in all the stores, instead of having a different returns procedure for different products. Although some retailers have different returns restrictions that apply to technology and perishable product categories, the overwhelming majority of retailers choose to apply the "blanket" return policy to all products.

Mukhopadhyay and Setaputra (2007) state that the price of the product often reflects the potential for resale because a higher priced product may be recycled through the supply chain and resold at lower profit margins. Although this statement is correct in essence, it is important to note that evidence suggests that this only applies to the manufacturing organizations and not retailers. An exception to this is retail organizations that have very specific business models, for example retailers

that focus on selling in-house brands. In such cases, the organization displays great concern for the quality of the merchandise in the return process. This behaviour is explained by the fact that by selling in-house brands, which the company also produces, it also takes on the role of a manufacturer, which makes it unable to pass on the concerns about the product characteristics to the next party in the logistics process.

Table 5.1 illustrates the levels of importance that each organization places on the different product characteristics concerns. It is clear from the evidence that although product category, price and quality are considered in the current literature to be the bases for designing the optimal return policy, retailers themselves actually pay very little attention to these concepts within the return policy context.

	Case A	Case B	Case C
Product Category	Low Importance	Low Importance	Low Importance
Product Price	Low Importance	Low Importance	Medium Importance
Product Quality	High Importance	Low Importance	Low Importance

Table 5.1: Overview of Product Characteristics

In short, the theoretical models reviewed during the literature review indicate that product price, among other product characteristics, plays a crucial role in the establishment of a return policy. However, based on the evidence evaluated in Chapter 4 of this research, many of the retailers prefer to create one "blanket" return policy that applies to the majority of the products sold by the company and not worry about the individual products. Thus, from the analysis of the data, we can state a proposition regarding product characteristics in return policy creation:

> **Proposition 1**: For many retailers, product characteristics are less important than other considerations in the return policy creation.

RQ2: How are the reverse logistics concerns taken into account during the creation of the return policy?

During the literature review, the product's salvage value was often cited as one of the most important aspects of product characteristics. However, the data analysis indicates that whenever the salvage value is considered, it is always within the context of reverse logistics and not product

characteristics. Therefore, in order to reflect the business reality of return policy creation, this study classified the salvage value of the product as a reverse logistics consideration.

The concept of salvage value that retailers consider is comprised of several factors: resale value, repair costs, labour costs and the overall profitability margin. Companies with traditional retail business models who act as intermediaries between a manufacturer and the consumer, place a medium level of importance on the salvage value during the returns process, mostly because the salvage value indicates whether the product can be placed for sale right away or it needs to be shipped back to the manufacturer. Retailers that do not have the option of sending the product back to the manufacturer (for example in cases where they are the manufacturer themselves or specialize in providing products that have been customized for consumer needs) consider the salvage value to be of great importance because it plays a major role in the decision-making process on how to handle the returned product.

Shipping costs are another major concern in the reverse logistics considerations of the return policy establishment. Only a minority of traditional brick-and-mortar retailers, that do not operate a web channel, consider the shipping costs to be of medium importance. For the rest of the retailers that do operate a web channel, or product shipping of any sort, return and forward shipping costs play a high importance. Due to high level of competition among retailers, the majority of retailers offer free or partial shipping fees, and free return shipping, which highly negatively affects the overall profit each product can bring due to the shipping costs being taken out of the retailer's profit margins.

The concept of reverse logistics is characterized by the overall level of logistics capabilities, product disposal costs, recycling opportunities and recovery costs; however, these concepts do not influence a retail organization. The reason that these concepts do not affect the retailer is that many retailers choose not to operate their own logistics channels but rely on the manufacturer to provide the reverse logistics capabilities. Table 5.2 illustrates the level of importance that logistics concerns represent to the practitioners within retail organizations.

	Case A	Case B	Case C
Product Salvage Value	Medium Importance	High Importance	High Importance
Shipping Costs	High Importance	High Importance	Medium Importance

Table 5.2: Importance of Reverse Logistics Considerations

After analyzing the data regarding reverse logistics considerations for a retailer, we can state another proposition for the emerging theory.

Proposition 2: Many retailers consider reverse logistics concerns to be of high importance in the return policy creation process.

Additionally, it is clear that some aspects of product characteristics and reverse logistics seem to be overlapping. For example, product quality and product price are important in determining the salvage value of the product and a product's price is constantly used in evaluating the viability of shipping costs. Although the research framework outlined in Figure 2.1 presents the reverse logistics and product characteristics as separate constructs, it does not include any interaction among constructs. This is because the diagram is designed to provide a visual and simplified representation of the framework and not outline the inter-relationships among constructs. Thus, even though data indicates that there is some inter-connectivity between product characteristics and reverse logistics constructs, the exact nature of these relationships is outside the scope of this research and further research is required to clarify the relationships.

RQ3: How does consumer behaviour influence the decision-making process when establishing a return policy?

Over the last decade there have been multiple studies examining the correlation between customer satisfaction, loyalty and repurchase intention (Hansemark & Albinsson, 2004; Hellier et al., 2003; Söderlund, 1998; Yi & La, 2004) and how these concepts are influenced by return policies. This study took a different approach and examined if any of these concepts influence the decision-making process of the return policy establishment. In essence this research examines if the reverse relationship is also true.

The concept of consumer behaviour within the return policy setting is comprised of the consumer expectation and satisfaction. The evidence examined in Chapter 4 indicates that the decision-making process of retail organizations is influenced by customer satisfaction.

The concept of consumer expectations in the context of return policy has different levels of importance for different types of retail organizations. For organizations like Case A (a company that

focuses on in-house brands and product) consumer expectation is ranked low because the retailer is focused on providing premium merchandise at a high price and feels justified that just by providing the product, the company is meeting any and all of its customer's expectations. Although the company allows small concessions in the return policy when the customer tries to negotiate, the majority of time customer's expectations are not considered at all. The corporate view is that the products are of such premium quality and design that the company should not even have a return policy; it is there only for extraordinary circumstances. Participants from Case A indicated that they recognize that a longer return policy would put them on par with the competition and thus meet their customer's expectation on the duration of the policy, but the company's view that the premium product invalidates many of the consumer concerns.

Furthermore, data analysis indicates that retail organizations that strive for close and personal relationships with their clients place a higher level of importance on the client's expectations with regards to the return policy. The return policy becomes a negotiable point that the retailer adjusts on a client-by-client basis. This point is illustrated in Table 5.3 by Case C's high level of concern for customer satisfaction and expectations.

	Case A	Case B	Case C
Customer Expectation	Low Importance	Medium Importance	High Importance
Customer Satisfaction	High Importance	High Importance	High Importance

Table 5.3: Summary of Consumer Behaviour Concerns in Return Policies

Within the context of return policies, customer satisfaction with the policy is very important for retail organizations. Organizations strive to improve their return processes in order to make them seamless and as convenient for the consumer as possible. Companies' associate positive and satisfactory consumer experiences in the return process, with higher levels of consumer repurchase intention.

It is clear from the analysis of the data, that customer satisfaction is an important consideration in a retailer's decision-making process during return policy creation. Thus, we can state the following proposition:

Proposition 3: *For many retailers, customer satisfaction is a very important concern during the returns policy establishment process.*

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Additionally, evidence suggests that retailers do not consider a seamless and convenient return policy as a tool for building customer loyalty, but rather, a return policy is a way of maintaining overall customer satisfaction with the retailer. Customer loyalty seems to be generated by the overall positive satisfaction of the consumer with the company and the goal of a successful return policy is to be one of the tools used to reduce the amount of barriers that a customer might face while purchasing a product.

RQ4: How are the organization specific considerations taken into account in the decision-making process in return policy establishment?

Organization specific considerations vary significantly from organization to organization. However, a majority of them can be classified under two major categories, internal policies and external corporate policies.

External corporate policies are policies that the company created for dealing with the competition, achieving strategic goals, and creating and maintaining partnerships. As can be seen in Table 5.4, external policies play a high level of influence in the returns decision-making process of the retailers. The majority of models reviewed in the literature ignore these important constructs because they prove very challenging to quantify and evaluate. However, this does not mean that these concepts should be completely discarded. Data indicates that amongst all constructs evaluated in this study, corporate policies share the highest level of importance in the decision-making process, along with customer satisfaction.

	Case A	Case B	Case C
Corporate Policies (External)	High Importance	High Importance	High Importance
Corporate Image	High Importance	Medium Importance	High Importance
Internal Processes and Policies	Medium Importance	Low Importance	Medium Importance

Table 5.4: Importance of Organizational Considerations in Return Policy Creation

The second major construct of organization specific considerations is corporate image. Data analysis indicates that the particular corporate image a company wants to portray can influence its decision when selecting a return policy and during day-to-day operations of returns processes. Many of the participants interviewed in this study stated that the corporate image their company seeks to

portray is directly reflected in the return policy. Regardless of whether the company is trying to emphasize the quality of their product, portray itself as a partner with its clients, or act as a traditional retailer, the selected return policy is influenced by the corporate image.

One of the questions participants were asked was designed to identify what kind of tools or procedures the retailers use for monitoring returns processes. The analysis indicates that although large and medium scale retailers use Enterprise Resource Planning (ERP) systems to track the returned products, the feedback about the performance of these systems is not an important consideration in the return policy establishment process.

Organization from Case C was the only company that had some sort of a process in place to review the information about returned products on monthly bases, analyze the data and take corrective action. For example, if the company found that one product had a high rate of return, user comments accompanying these returns would be investigated to identify a problem and then take corrective action. The most common corrective action in such cases is removing the product from the list of available products and sending the feedback to the manufacturer. However, it is important to note that this process was not designed for improving or monitoring returns processes, but this process is a bi-product of the monthly product sales reviews that company performs. Because of this, the company only uses the information to examine which products need to be removed from sale, but no procedures or processes are in place for evaluating or incorporating this feedback into returns process. The other companies analyzed in this study did not have systems for gathering or utilizing feedback coming from product returns.

Additionally, the day-to-day decisions of the employees that are involved in the return processes are highly influenced by the corporate image and culture. The way employees perceive the corporate image influences the way they interact with the consumer. If the employees believe that the corporate policy is to establish an image of an extremely customer friendly organization, this mandate will echo in their actions when dealing with the customers through the day.

The effects of store managers ignoring corporate return policy and making exceptions for customers are minimal in respect to the overall performance of the organization. From the interview with participants, it became clear that managers often make exceptions to a return policy, but only in situations where the products can be easily placed back for sale with minimal hustle. An example of such situation is if the product is returned undamaged, unworn and in the original packaging, but the return

window has passed by several days. Managers will look favourably in making an exception and returning the product since it can be easily placed back for sale. However, for products that are seasonal, perishable, used or damaged, managers tend to fall back to the overall corporate policy in order to deny the return. Thus, it seems managers are more likely to change the return policy and accommodate the customer if the decision will not have any negative effects, i.e. a win-win situation for store managers. It is also important to note that in the data analysis, no situations were examined where the managers have returned a worn, damaged or bad product after the return window has passed. Thus, the managerial decision to ignore the corporate return policy and make exceptions has very minimal effects on the corporate returns process.

Based on this discussion and the evidence presented in Chapter 4, we can make a proposition regarding the importance of organizational concerns in return policy establishment process.

Proposition 4: *For many retailers, corporate image and policies are very important concerns during the return policy establishment process.*

5.4   Implications for Theory and Practice

The primary objective of the research was to explore the process of creating a return policy in retail settings and expand our understanding of the major considerations that affect the decision-making process. The study's implications to theory and practice are summarized in the following paragraphs.

Over the last decade there have been multiple studies examining the correlation between customer satisfaction, loyalty and repurchase intention (Hansemark & Albinsson, 2004; Hellier et al., 2003; Söderlund, 1998; Yi & La, 2004) and how these concepts are influenced by return policies. However, there has been little to research aimed at exploring if these concepts are actually taken into consideration during the establishment of return policies. This study attempts to bridge that gap by identifying the important constructs that researchers need to look at when designing models for establishing return policies.

The proposed research framework for evaluating return policy constraints and the analysis of the different types of retail organizations utilized in this dissertation can be used as building blocks for future frameworks to expand on by adding additional cases for evaluation.

This research is of practical use to the everyday needs of managers and practitioners involved in designing return policies. There is a surprising lack of information outlining what are the important considerations in return policy creation process. The evidence acquired in this research suggests that most people involved in designing returns policies find it challenging to identify all of the aspects and constraints that need to be accounted for. This research meets the needs of these practitioners by clearly outlining the important aspects of the return policy decision making process that managers need to be aware off and can use as a base for designing return policies.

Overall, the results of this research contribute to the growing understandings of returns policies and provide direction and clarification for future models aimed at creating optimal returns policies. It expands our current understanding that, in order to create a return policy, a company needs to consider logistics capabilities, product quality and price (Mukhopadhyay & Setaputra, 2007), as well as place a high level of importance on the consumer behaviour and organization specific aspects.

5.5   Limitations – Future Directions

Although the research conducted in this study provided a number of interesting results, including outlining some of the misconceptions about the important factors in return policy creation, it would be interesting to further the study in several aspects, which are discussed in the following paragraphs.

One of the limitations of this research is that it uses a limited number of interviews, that were selected to provide a level of analytical generalizability rather than a statistical generalizability (Remenyi, Williams, Money, & Swartz, 2005; Yin, 2003). Although the findings of this research are not generalizable to a larger population, they may be transferable to other situations with similar characteristics (Easterby-Smith, Thorpe, & Jackson, 2008; Eisenhardt, 1989; Stake, 1995). On area where these findings could be transferred is the corporate performance metrics area. Many respondents indicated that the performance of people working in the stores does not include considerations of returns policies, however the performance of the branches are measured against these criteria. This may call into question the continuity of the written policies and operations.

The outlined research framework for understanding return policies might be expanded and refined in the future to the point of being a valid and operationalizable model for return policy

evaluation. Due to the resource and scope limitations of this study, the model's real world applications were not tested in the business environment.

This research was directed at exploring the important constructs that influence the decision-making process of return policy creation in a retail environment. As such, it did not focus on exploring the interaction and dependency of each construct on each other. Data analysis indicates that there is some interaction and dependency between product characteristics and reverse logistics, but since the nature of this relationship is outside the scope of this research, further research will be required to clarify the relationship. In particular, further research is required into the level of interaction between product price, quality and salvage value. The observable inter-dependency of these concepts for retail organizations suggests that future models on return policy creation may not need to consider product characteristics and reverse logistics as separate constructs but merge them into one consideration.

The propositions outlined in this study can be refined and tested in future research. It would be beneficial to narrow down the range and characteristics of the retailers that the propositions apply to. Due to the limited number of cases used for analysis, it is hard to make predictions on what type of retailer the propositions apply to, or under what conditions they are true. Performing quantitative analysis of a statistically viable number of Canadian retailers seems like a logical next step in testing these propositions.

5.6   Conclusion

Many models have been proposed for the creation of optimal return policies in retail organizations. However, many of these models are focusing on balancing product characteristics and reverse logistics concerns in order to reduce costs.

The goal of this thesis was to examine the decision-making process of today's practitioners when working in the return policy establishment process in order to identify, highlight and catalog the important considerations for returns policy creation process. This goal was accomplished through the integration of existing theoretical models with empirical evidence from the multiple case studies of the three retail organizations.

 Several important findings emerged from the case study investigation. First, analysis into the importance of product characteristics for retailers in regards to returns policy indicates that, product characteristics concerns are of a low importance in the decision-making process. Although the majority of current models for policy establishment include product related concerns, this study found little evidence to suggest that practitioners actually take them into consideration. Most retailers' preference to select an overall "blanket" return policy for all products makes the characteristics of the individual product irrelevant.

Second, although many of the current models on returns policy creation do not include customer satisfaction as an important consideration, this study found that customer satisfaction is actually a very important concern for many retailers. This finding indicates that the current models for returns policy have overlooked the importance of consumer behavior to the retailer organizations.

Third, this study found that the return policies of many retailers are highly influenced by the established organizational processes. Concern about the overall strategic goals of the organization creates a need to align the return policy with these goals and often limit what kind of a returns process can be established. Similarly, the internal processes of organizations and the relationships between actors in the returns process can be barriers or provide opportunities for the establishment of an effective returns policy.

Fourth, this study proposes a tentative theory on returns policy establishment that includes considerations from current models (product characteristics, reverse logistics) and the considerations

uncovered by the data analysis (consumer behaviour, organizational considerations). This preliminary theory is sufficiently developed to enable further quantitative research.

In summary, the results of this study are based on the organizational data as well as the direct experience of the study's participants who are directly involved in the returns process for their organization. The results indicate that some of the current models for return policy creation have overlooked some of the important considerations that affect the decision-making process of practitioners. This study outlines a tentative theory for the creation of an effective returns policy that is grounded in current literature and supported by the empirical analysis conducted in this study.

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Appendix A – Case Study Protocol

Plan for Conducting Case Studies of the Retail Return policy Design

Purpose:

The purpose of this study is to investigate product returns policies in e-Commerce environments for a thesis study by Konstantin Loutsenko, a graduate researcher in the Master of Management Science program at Ted Rogers School of Management of Ryerson University. Non-proprietary information will be gathered to develop a clearer understanding of the design and implementation of effective product returns policies.

Benefit to Participant:

The goal of this study is to provide a better understanding of the returns design process. The resulting conceptual model is expected to help e-businesses understand the influential concepts and processes in establishing an effective product return policy. An analysis of the findings will be shared with the participants to provide the participants with an understanding of the benefits and potential inefficiencies in their current product returns policies.

Procedures:

The participant will be asked a number of questions related to the establishment of product returns policies within their organization. The information gathered includes the interviewee's perceptions of the role each of the following for implementing a product return policy:

- A. Product Characteristics
- B. Reverse logistics considerations
- C. Consumer behaviour and preferences
- D. Other considerations (if any)

Confidentiality:
Any information that is obtained in connection with this study and that can be identified with you or your company will remain confidential.

The firm, business unit, and participants will be identified in all written records and audio tapes (if applicable) by a sequential numbering system (eg. firm A, business unit A1, participant A1-1, etc.). The actual identities will be known only to the investigator who will dispose of this information once the study is concluded. Before the conclusion of the study, the identification of the participants and firms may be provided to faculty advisors at Ryerson University for audit purposes if required. A signed non-disclosure agreement will be furnished by the investigator and the faculty advisors (if applicable).

Interview Protocol:

A. Place Setting Questions

A1) Could you provide a brief overview of your products, specifically in relation to the competitors in your market?

    PROBES:
- In comparison with your competitors, do your products have a higher or a lower price? What about quality?
- How do you compare against your competitors in profit margin? Inventory Levels? Response to demand? Range of different products?

A2) Tell me about your returns policies

    PROBES:
- Could you describe how a return policy is created for a particular product?
- Are there any plans within the organization to use a return policy in a strategic manner?

B. Product's Characteristics

B1) Do you have different returns policies for different types of products?

    PROBES:
- Could you explain why?
- What are the pros and cons of this choice?

B2) How important are product characteristics to the initial creation of the policy?

    PROBES:
- What was the most important characteristic?

B3) Does the product's quality reflects in a return policy for that product?

    PROBES:
- Are there any strategies for using a return policy as a signal about the product's quality?

B4) Do any of the reasons for selecting a policy have to do with profit margins, price or quality?

    PROBES:
- What about high-priced products that can still be re-sold at lower profit margins?
- What about low-priced products whose re-sale margins are low?

C. Reverse Logistics Considerations

What are the major constraints imposed by reverse logistics that affect the return policy design?

C1) Does a supplier or a manufacturer impose any demands or restrictions on the returns policies?

    PROBES:
- Are there contacts or agreements with the manufacturer that encourage a particular return policy?

- Do these restrictions vary depending on the product, or do they vary depending on manufacturer?

C2) How involved are the suppliers in the return policy creation?

    PROBES:

- Is there a difference between the returns on products from a long-term supplier and a short-term supplier?
- How committed are you to maintaining existing relationship? Under what circumstances would you consider switching suppliers?

C3) Are there any restriction on the returns policies that depend on the capabilities of the reverse logistic channel?

C4) Does the product's salvage value play a role on the selection of a return policy?

    PROBES:

- Is the return channel system in place capable of recycling the undamaged products and making them available for resale?
- What is the returns procedure for products that are returned for repair? What about damaged products?

D. Consumer Preferences

How important are consumer behaviour and preferences to the establishment of a product return policy? What are the current customer considerations in your returns policies and how important are they?

D1) How important to the company is the customer's satisfaction with the returns procedures?

    PROBES:

- Is customer satisfaction a strategic priority for your company?
- Are there any steps or procedures in a returns process designed to increase customer satisfaction?
- In terms of product returns policies, what are some of the major steps you take in order to satisfy customer expectations and needs?

D2) Do you feel that the company's return policies meet your customers' expectations?

    PROBES:

- How do you predict/identify what the consumer expectation for a particular product's return policy?
- Is there any kind of overall strategy to adjust consumer expectation?

D3) How do the returns policies impact customer's intention to repurchase?

    PROBES:

- Is there a strategy to use returns policies as a way to influence repurchase behaviour?
- Do you consider a return policy as a tool for building customer loyalty?
- If yes,
    o How is customer loyalty considered during the returns establishment?
    o What are some of the procedures or tools used to measure customer loyalty?
- If no, does the company care about developing customer loyalty?

E. Additional Considerations

E1) Are there any internal procedures or policies that favour the selection of a particular return policy?

    PROBES:
- Is there a strategy for developing or maintaining a particular corporate image that would affect a return policy?
- Does the company have a mandate for upholding a certain corporate image? How does return policy play into it?

E2) How does your competitor's returns policies affect your return policy selection?

    PROBES:
- Do you consider the competitor's policies on the product-by-product bases?
- Are there any tools or procedures in place for evaluating competitor's returns policies?
- Do you feel that a return policy presents a competitive advantage over the competition?
- Do you consider your return policy a competitive advantage?

E3) Are there any switching costs embedded in your returns policies designed to make it harder for the customer to switch to a competitor?

    PROBES:
- What are some of these switching costs and why were they selected?
- If not switching costs, what are some of the restrictions that are imposed by a return policy?
- How were the restrictions in the returns policies selected?

E4) Are there any considerations that are unique to your organization?

E5) Are there any additional influences that affect the return policy design process?

Appendix B – Participant Consent Form

CONSENT TO PARTICIPATE IN RESEARCH

Design Principles for Commerce Returns Policies

An Exploratory Multiple Case Study Investigation

You are asked to participate in a research study conducted by Konstantin Loutsenko and Dr. Tim McLaren, MBA, PhD of the Ted Rogers School of Management at Ryerson University, Toronto, Ontario. The results will be used for a master's thesis and contribute to a study on Commerce returns policies.

If you have any questions or concerns about the research, please feel free to contact:
    Konstantin Loutsenko at 416-357-9577 or by e-mail at konstantin.loutenko@ryerson.ca
    Dr. Tim McLaren at 416-979-5000 x 7942 or by e-mail at tmclaren@ryerson.ca

PURPOSE OF THE STUDY

The purpose of this study is to investigate product returns policies in commerce environments for a thesis study by Konstantin Loutsenko, a graduate researcher in the Master of Management Science program at Ted Rogers School of Management of Ryerson University. Non-proprietary information will be gathered to develop a clearer understanding of the design and implementation of effective product returns policies.

PROCEDURES

The participant will be asked a number of questions related to the establishment of product returns policies within their organization. The information gathered includes the interviewee's perceptions of the role each of the following has in implementing a product return policy:

    A. Product Characteristics
    B. Reverse logistics considerations
    C. Consumer behaviour and preferences
    D. Other considerations (if any)

POTENTIAL RISKS AND DISCOMFORTS

The only potential risk or discomfort is that a participant might incorrectly assume that they will be asked to divulge confidential information that could lead to loss of a competitive advantage or embarrassment to the firm or participant. However, NO proprietary information on specific tactics or competitive secrets will be gathered or retained. The identities of all people or organizations will be disguised and will not be released except where granted by written permission of the interviewee. It is

understood that the information provided by the participant is their opinion and may not represent the views or realities of the firms under discussion

POTENTIAL BENEFITS TO PARTICIPANTS AND TO SOCIETY

The goal of this study is to provide a better understanding of the returns design process. The resulting conceptual model is expected to help e-businesses understand the influential concepts and processes in establishing an effective product return policy. An analysis of the findings will be shared with the participants to provide the participants with an understanding of the benefits and potential inefficiencies in their current product returns policies.

NO PAYMENT FOR PARTICIPATION

Participation is voluntary and participants will not be reimbursed. However, results and detailed recommendations from the study will be made available to the participants.

CONFIDENTIALITY

Any information that is obtained in connection with this study and that can be identified with you or your company will remain confidential.

The firm, business unit, and participants will be identified in all written records and audio tapes (if applicable) by a sequential numbering system (eg. firm A, business unit A1, participant A1-1, etc.). The actual identities will be known only to the investigator who will dispose of this information once the study is concluded. Before the conclusion of the study, the identification of the participants and firms may be provided to faculty advisors at Ryerson University for audit purposes if required. A signed non-disclosure agreement will be furnished by the investigator and the faculty advisors (if applicable).

PARTICIPATION AND WITHDRAWAL

Participation in this study is voluntary. Your choice of whether or not to participate will not influence your future relations with Ryerson University or any other organizations. If you decide to participate, you are free to withdraw your consent and to stop your participation at any time without penalty. At any particular point in the study, you may refuse to answer any particular question or stop participation altogether.

RIGHTS OF RESEARCH PARTICIPANTS

You are not waiving any legal claims, rights or remedies because of your participation in this research study. This study has been approved by the Ryerson University Research Ethics Board. If you have questions regarding your rights as a research participant, contact:

Ryerson University Research Ethics Board
c/o Office of the Vice President, Research and Innovation, Ryerson University
350 Victoria Street, Toronto, ON M5B 2K3 Tel: 416-979-5042

SIGNATURE OF RESEARCH PARTICIPANT/LEGAL REPRESENTATIVE

I understand the information provided for the study "DESIGN PRINCIPLES FOR E-COMMERCE RETURNS POLICIES". My questions have been answered to my satisfaction, and I agree to participate in this study. I have been given a copy of this form.

_____   _____

_____

Name of Participant   Signature of Participant   Date

I understand that the interview will be audio recorded to ensure accuracy and that the data will only be used for the study "DESIGN PRINCIPLES FOR E-COMMERCE RETURNS POLICIES". My questions have been answered to my satisfaction and I agree to be audio recorded during the interview.


_____   _____

_____

Name of Participant   Signature of Participant   Date

SIGNATURE OF INVESTIGATOR

In my judgement, the participant is voluntarily and knowingly giving informed consent and possesses the legal capacity to give informed consent to participate in this research study.

Appendix C - Final Codes Used in Qualitative Analysis

This appendix provides a visual representation of the final codes used in the qualitative analysis.
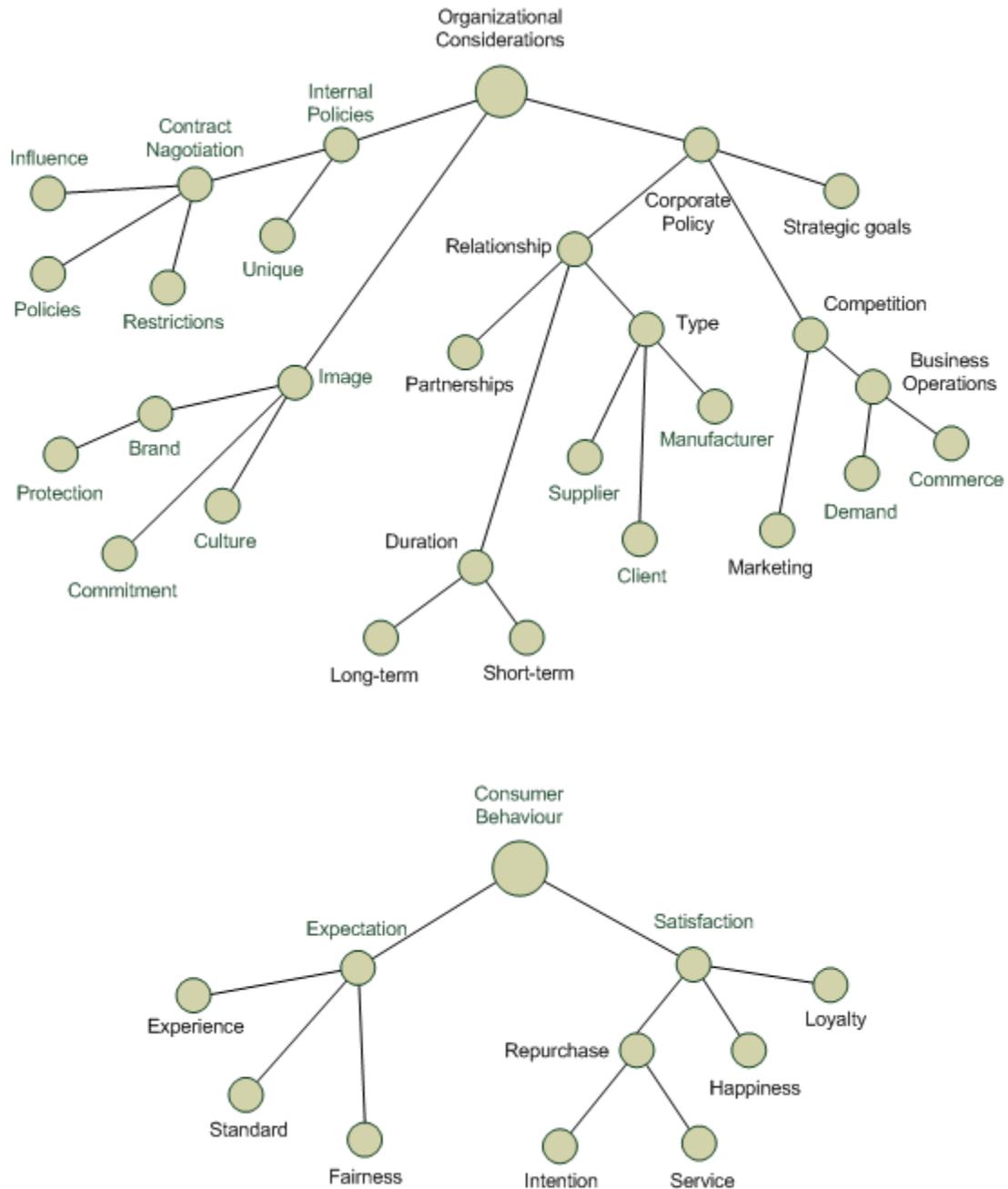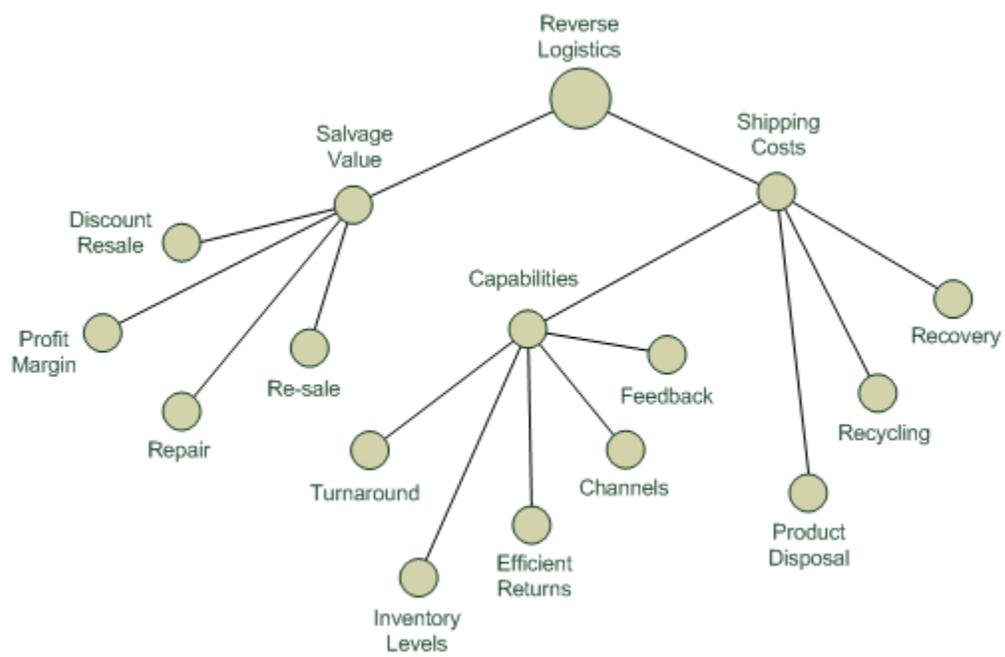
Appendix D – Summary Tables

These tables provide a brief overview of the relative value each sub construct received during the analysis process.

	Case A	Case B	Case C
Product Category	Low	Low	Low
Product Price	Low	Low	Medium
Product Quality	High	Low	Low

Table D1: Summary Table for Product Characteristics

	Case A	Case B	Case C
Product Salvage Value	Medium	High	High
Shipping Costs	High	High	Medium

Table D2: Summary of the Reverse Logistics Considerations

	Case A	Case B	Case C
Customer Expectation	Low	Medium	High
Customer Satisfaction	High	High	High

Table D3: Summary of Consumer Behaviour in Returns Policies

	Case A	Case B	Case C
Corporate Policies	High	High	High
Corporate Image	High	Medium	High
Internal Processes and Policies	Medium	Low	Medium

Table D4: Summary of Organizational Considerations in Returns Creation