

Consumer Behavior Experiment

Does a product's return/exchange policy
influence a consumer's buying decision in regards
to the product?

Christopher Kishek - 100451307

Kneshca Rafat - 100455197

Shaun Rana - 100452928

Kirby Taylor - 100451993

Nick Thacker – 100369678

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For our consumer behavior experiment, we decided to explore the topic of return policies – why consumers return products, how often does this take place, and whether or not a return policy influences a consumer's perception of a product's quality. These among many other questions are what we hoped to answer through our research and experiment.

Introduction

Consumers and their shopping habits

The typical consumer performs research on products before they make their purchase decision. A consumer does not enjoy the prospect of hasty decision making and prefers to form expectations of a product's quality, durability and price before entering a store. When it comes to clothing, a higher number of consumers prefer to physically touch products before they buy them. This activation of our sensory receptors leads to a higher rate of purchase when placed alongside the possibility of not coming into physical contact with the product which remains the persistent issue when it comes to purchasing from online retailers.

Return Policies & Our Research

Delving deeper into the world of consumer purchasing habits, we wanted to know more about the significance of return and exchange policies when it came to consumer behavior in the marketplace. Return/exchange policies are a set of rules that businesses provide as a guarantee for their products, providing customers with the opportunity to return the originally purchased product should they find themselves unsatisfied with its performance. During our research we considered several hypothetical scenarios and used them to propel our questions and thought patterns. As an example, imagine you are at a clothing store, and you find the perfect shirt. You are really confident in the quality of the product and its utilitarian functions for you. The only problem is that you cannot try the shirt on within the store, and that there is no existing refund or exchange policy on the product. With that said, are you still moved to purchase it?

We aimed to understand the core of a return or an exchange policy, what makes it good in the eyes of a consumer and how much does it really influence a consumer's purchasing decisions.

Not only did we want to explore this relationship, but we also wanted to provide customers with a better understanding of how policies affect their buying habits and what they can do to improve their purchase experience.

Main Research Question: Does a product's return/exchange policy influence a consumer's buying decision in regards to the product?

Sub Question 1: Do consumers evaluate products with a return policy of 30-days more favourably than a product with no return policy?

Sub Question 2: Does a 60-day return policy influence a consumer's perception of the quality of the product?

Sub Question 3: Are consumers more likely to buy clothes before trying them on if there is a good exchange policy?

Sub Question 4: Do consumers impulse buy more often when the store's return policy is good?

Sub Question 5: Do consumers purchase expensive products more often when they have the option of returning them?

Sub Question 6: Will advertising a good return/exchange policy influence more consumers to pick the advertised store?

Sub Question 7: Are consumers more likely to shop at stores with a good return/exchange policy?

Through our research we not only hope to give consumers a new perspective on the relationship between return/exchange policies and their buying habits but we also aim to help marketers offer more to their customers and stress the importance of providing clear information on their store policies.

Hypotheses

H1: People are more likely to buy a product which has a return policy when compared to a product without one.

Rationale: When customers know that they have the option to return a product, they can feel comfortable when purchasing with the intention of trying it out. This happens as customers are given a logical buffer period where they are not judged for their impressions of the product and can try them out before making a decision (Che, 1996). The typical consumer will believe they aren't making their purchase decision right away (despite the act of buying the product) but are withholding their judgement to a later date when they may or may not return the product. A consumer is generally, "faced with uncertainty and incomplete information at the time of purchasing" (Wang, 2009).

H2: A consumer is less likely to return an item once they have purchased it.

Rationale: Once a product has been purchased, the tendency for the consumer to believe they own it is high, especially after the product has been with the consumer for a period of time. The likelihood of a consumer returning a product is affected by the endowment effect which explores the tendency for people who own an object to value it more highly than someone who doesn't own it would (Kahneman et al., 1991). A great example of this can be seen in Knetsch's (1989)

experiment with mugs and chocolate bars which supports the theory that humans are wired for loss aversion even when the alternative offers significant gain.

H3: A customer will place more value in a product with a trial period (try for 30 days or your money back) than in a product without one.

Rationale: Generally, consumers tend to trust products when they are supported by the manufacturer. One of the best ways to affect consumer perception of a product is through money back guarantees or “no questions asked” return policies. Studies by Moorthy and Srinivasan (1995) have revealed that manufacturers may use return policies to suggest the quality of their products. Furthermore, since managing product returns involves several costs, “retailers have low incentive to provide money-back guarantees for low quality products” (Wang, 2009). This is typically the common belief held by consumers who place their trust in products with lenient return policies.

H4: A consumer will be more comfortable purchasing a product with a 60-day return policy than a 7-day return policy (lenient versus restrictive return policy).

Rationale: When given a choice about when to make a decision, a consumer will typically choose the longer period of time. Consumers are resistant to making immediate decisions and hence plan their purchases or behave impulsively. When presented with restrictive return policies (7 days), consumers generally engage in greater deliberation (Janis & Mann, 1970) or avoid the

decision altogether (Luce et al., 1997). But when they are given more time to think and to rationalize a response or decision, consumers' purchasing inclination is increased. Wang and Wang (2008) conducted a survey which supports the idea that restrictive return policies generally reduce consumer purchase likelihood.

H5: People are more likely to shop at stores with a better return policy than those without one.

Rationale: A consumer's view of the quality of a store's products is improved by the store's belief in their products. Consumers believe that when marketers are certain of their product's quality, they will present their return policy or guarantee as a challenge for the consumer to find fault in their product. Typically, a consumer will not undertake the effort required to return a product but certainly will take into account a store's return policy in their evaluation of the store and the products they sell. In a study on the return shipping policies of online retailers, Amanda Bower and her colleagues (2012), found that consumers were most likely to continually purchase from online retailers if they didn't have to pay for return shipping. This was based on the idea that consumers don't feel comfortable with regret or the anticipation of regret. If there is an alternative to regret (shipping your product back to the retailer), then the consumer will be more comfortable making purchases with this policy in place, regardless of whether or not they plan to return the item.

Experiment Design

The research method we chose to employ for our experiment was a thirty-six multiple choice question survey. The survey was passed out online and in-person to males and females eighteen years of age and older. The survey focused on the refund and exchange policies of retailers and the effect they have on the purchase decisions of consumers. The survey included questions such as “How often do you think about a store’s return/exchange policy pre-purchase?” and “When purchasing electronics for others (as gifts), how important is a store’s return/exchange policy to your purchase decision?”

When creating the survey, we narrowed our focus to very specific topics in order to attain measurable information. This was, of course, in an attempt to get all the data required to prove our hypotheses without going beyond the scope of relevant feedback. Unfortunately, this made the survey quite lengthy. At the same time, however, the data we received back surprised us as far as we were able to prove our hypotheses. Seventy-two individuals in total filled out our surveys which provided us with a widespread demographic in our data analysis. Our range of age and purchase behavior revealed interesting trends in the survey’s outcome. We found that most often, consumers hold a similar understanding of the impact of refund and exchange policies on their purchase decisions.

During the course of the survey, we encountered some issues and limitations. For one, we did not always have the opportunity to debrief our participants when they took the survey online. While we don’t believe this affected or swayed the results in any way, we do feel like it would’ve been nice for everyone to have understood exactly why the information they were providing us was

useful – not only for our research purposes but also for their knowledge and understanding. Often we found we would have to re-word a few questions or explain what they meant. This was prominent among our in-person participants as questions and scenarios weren't always clear or adaptable to specific consumer behavior patterns. Unfortunately, this limitation was also present in our online survey but our frequent inability to aid our participants in such circumstances possibly lead to several assumptions being made during the completion of the survey. While it was not completely plausible for the most part, we could have made more of an effort to be around when participants were completing their survey in order to assist them.

Data Analysis

The data shown in the graphs below was gathered from a total of seventy-two surveys distributed both through physical handouts and online questionnaires. The answers to the surveys provided data relevant to our research questions and applicable to our hypotheses. The graphs also show basic demographics about the participants of the survey.

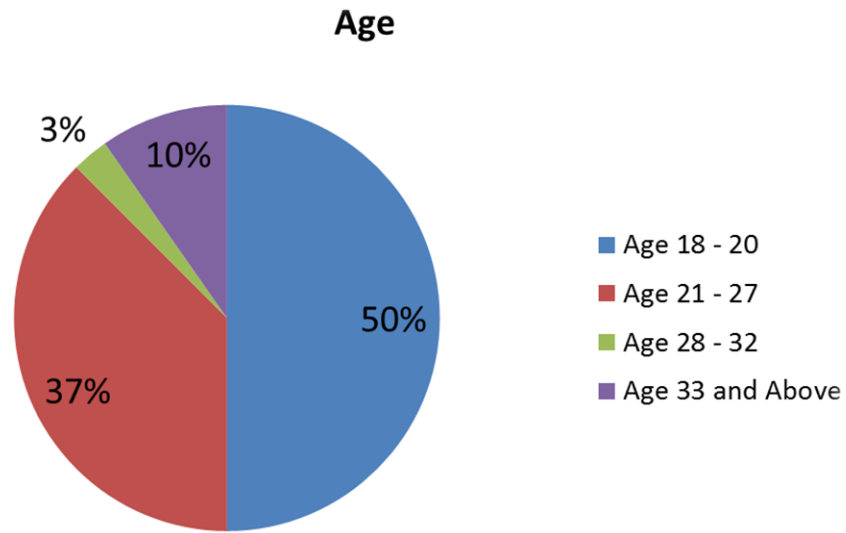


Figure 1.1

The graph in (Figure 1.1) shows the age distribution of our participants. This distribution is not surprising given that the surveys were handed out on a university campus and through social media sites. The range present gives us a good base of information about the habits of people between the ages of 18 to 27 when it comes to return/exchange policies.

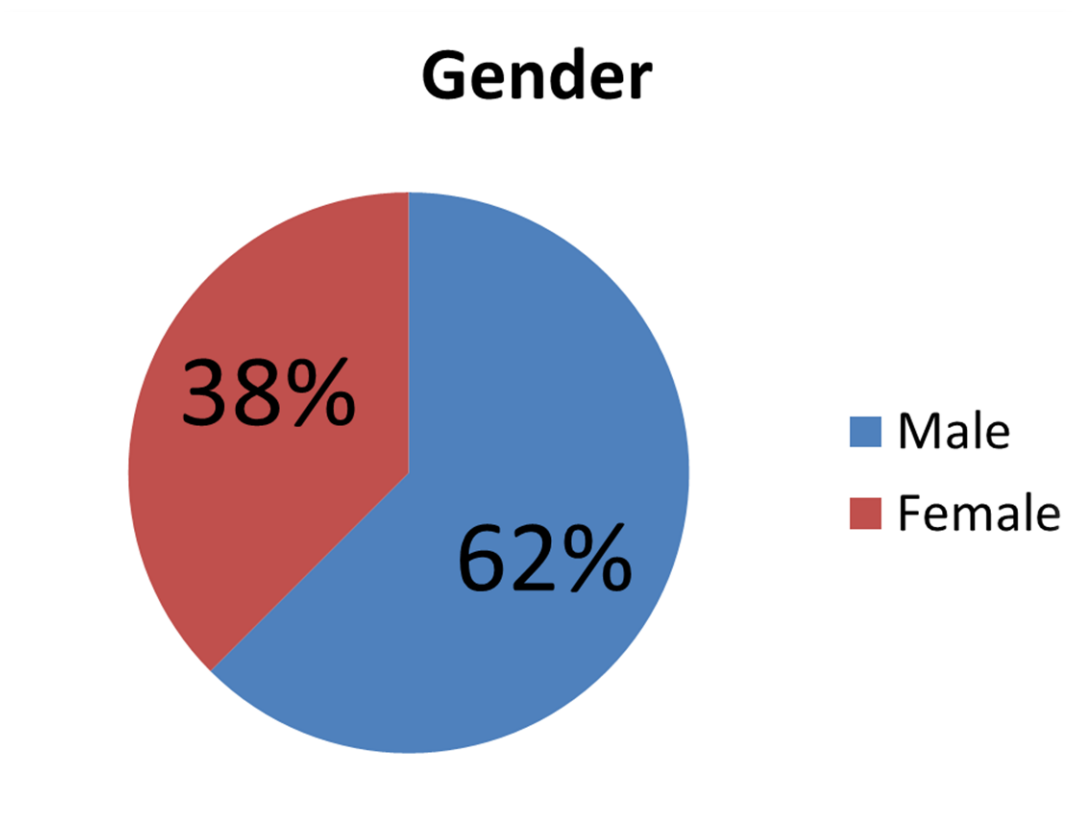


Figure 1.2

The graph in (Figure 1.2) portrays the gender split in our demographics. The majority of respondents were male, although it is not a large enough majority to skew the results one way or another.

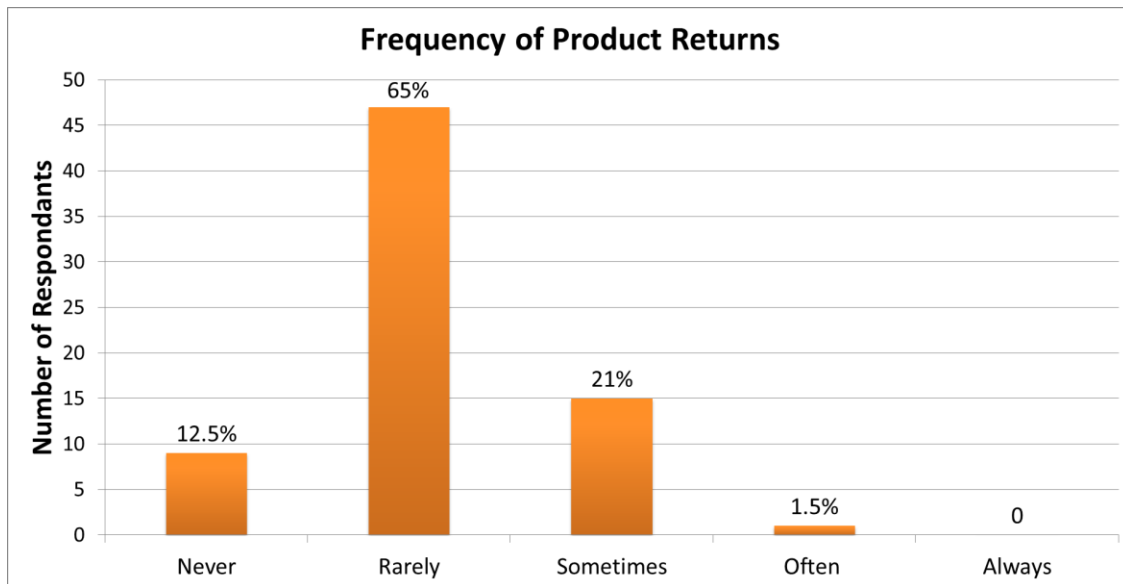


Figure 1.3

The graph in (Figure 1.3) shows the frequency that respondents return products they have purchased. This data was somewhat surprising, however, it does correspond to the theory that customers will form a bond with the products they purchase and are more likely to keep those products (H2). This data is also reflective of most of the respondents indicating that they do at least a moderate amount of research about a product (such as electronics or clothing) before they purchase it. The research likely leads to them only purchasing products they know they will be happy with.

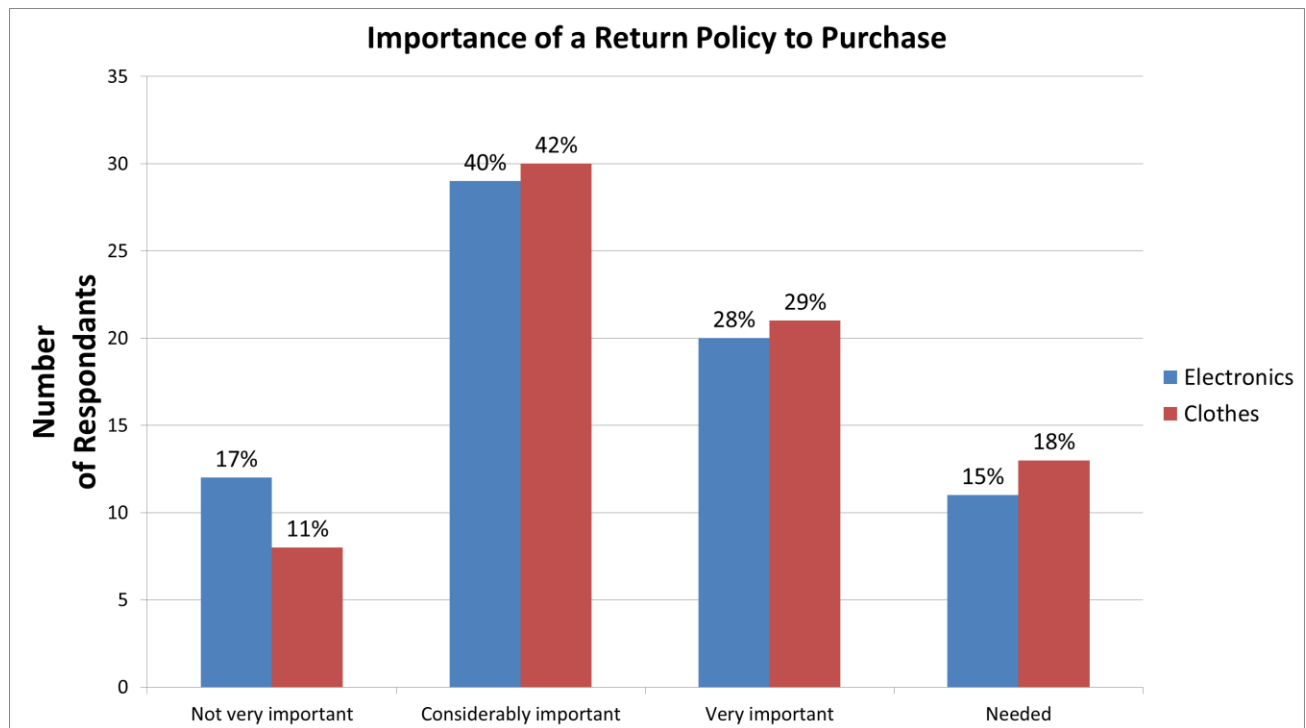


Figure 1.4

The graph in (Figure 1.4) shows how important a return policy is on a customer's decision to purchase electronics and/or clothing. In both cases, the data shows that more than 80% of respondents rated that a return policy is at least "Considerably Important" to their purchase decision. That is a significant majority, and it clearly outlines the importance of a return policy on both electronic products and clothes.

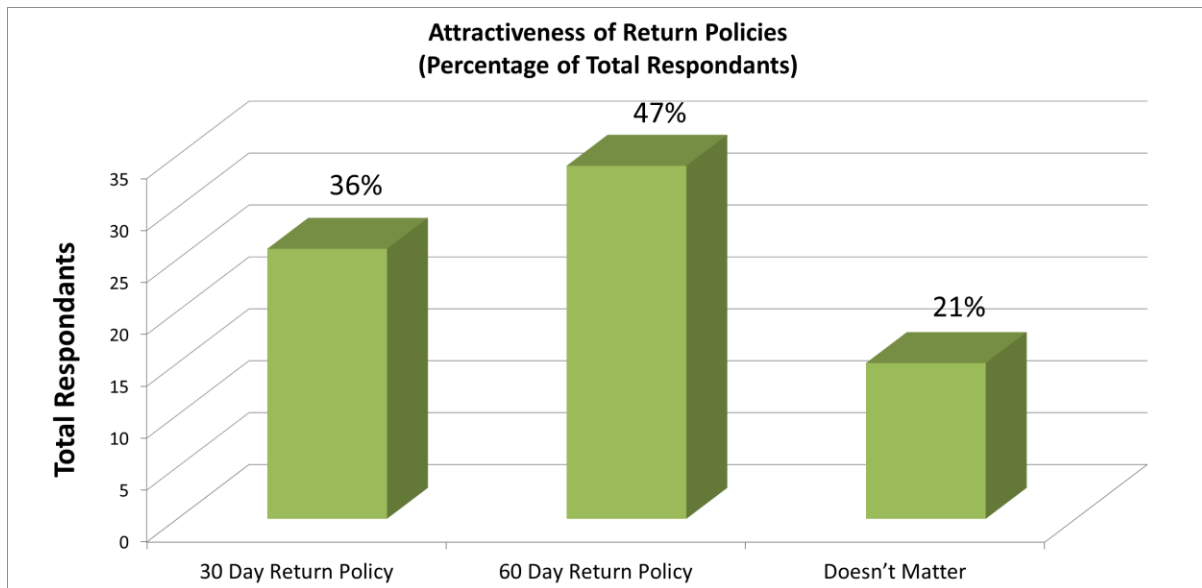


Figure 1.5

The graph in (Figure 1.5) shows the percentage of respondents who would prefer a given length of a return policy. Respondents were allowed to select more than one response, allowing them to pick any of the choices they found attractive. The data shows that more people find a longer return policy more attractive than a shorter one (H4). This could be due to the extra length giving an extra buffer of time for the consumer to have post-purchase regrets and be able to return it, reducing their commitment to the purchase (H1).

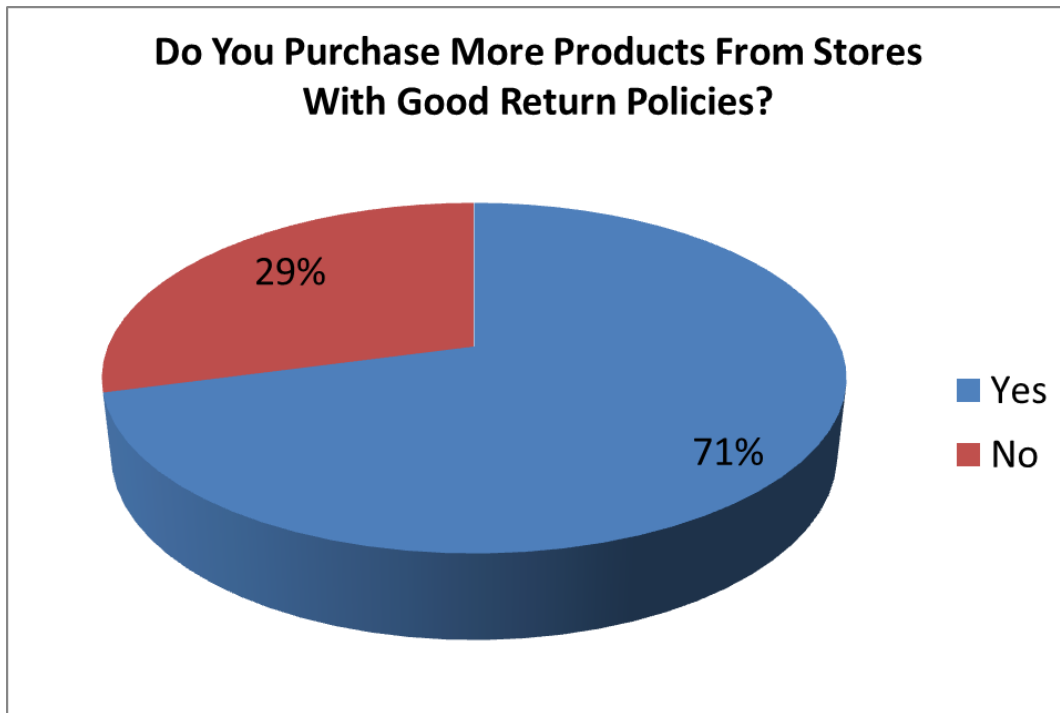


Figure 1.6

The graph in (Figure 1.6) shows that a majority of respondents will give stores with good return policies repeat business (H5). This is useful information for stores considering the potential increase in their customer return rate.

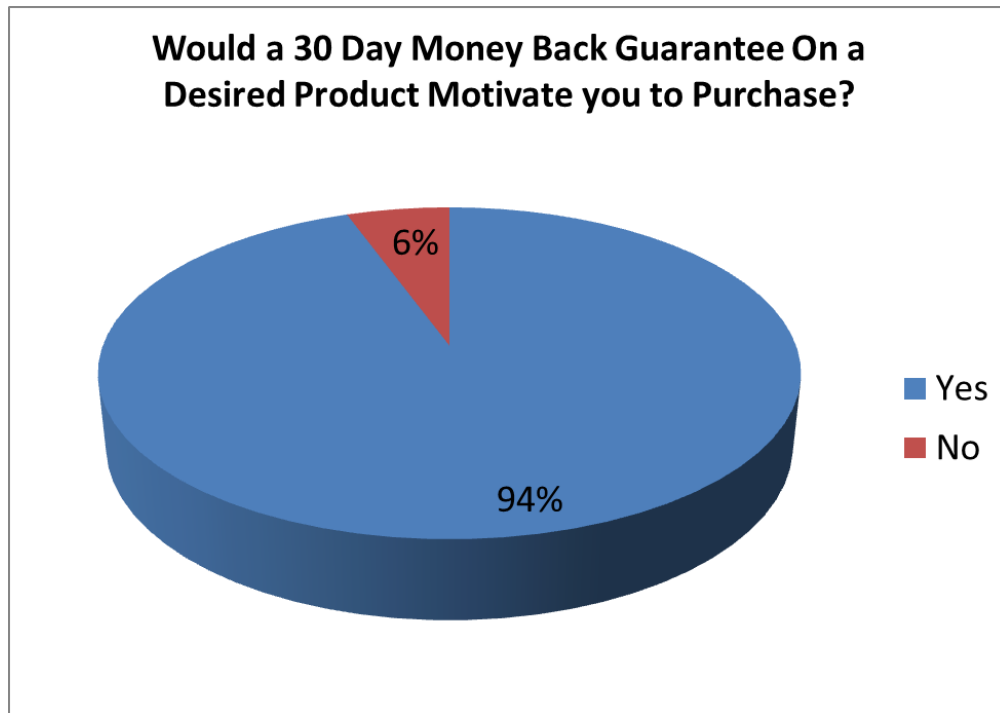


Figure 1.7

The graph in (Figure 1.7) shows the greatest majority to emerge from the collected data. It shows that if a desired product is advertised with a 30 day money back guarantee, 94% of respondents would take that as motivation needed to finally go out and purchase the product (H3). This information is certainly of use to marketers. In that, if they advertise a good return policy on products they know customers are on the fence about, it will motivate them to choose their store over that of their competitors (H5). Based on the data in figure 1.3, the number of returns on that product is likely to be minimal.

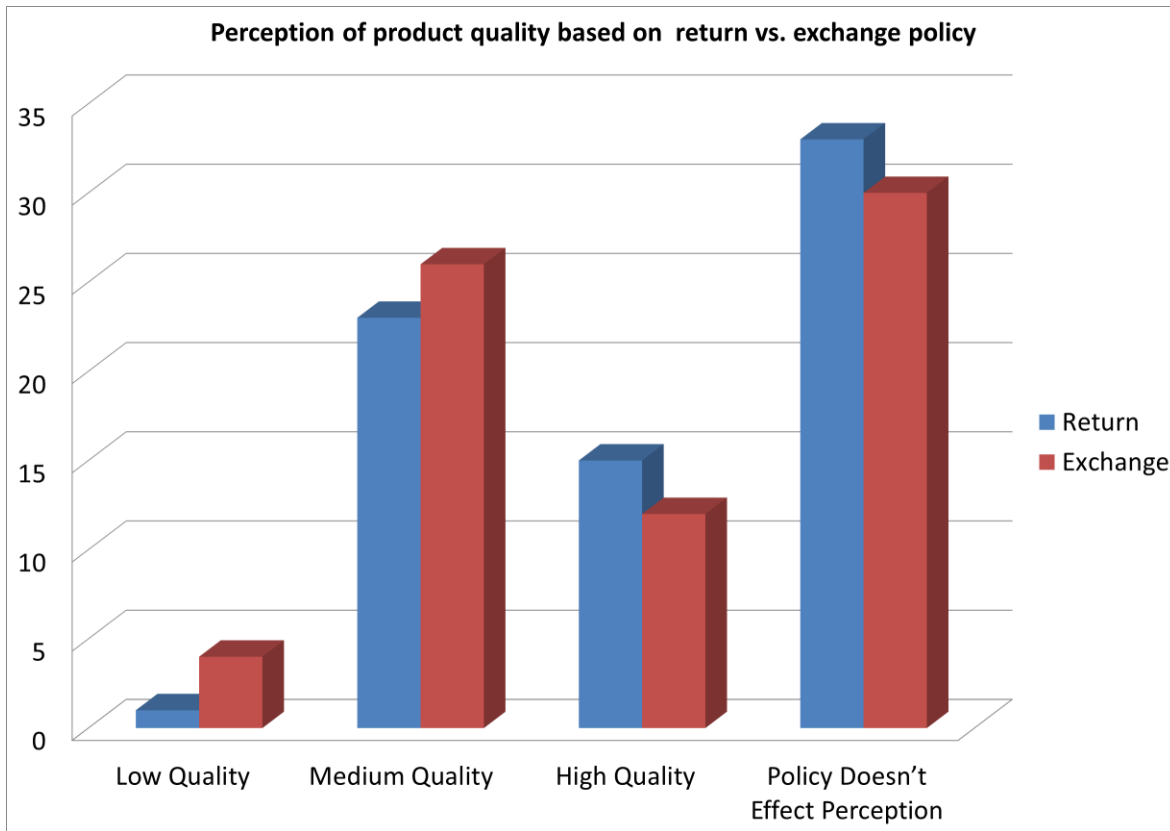


Figure 1.8

While the graph in (Figure 1.8) does not prove or disprove any of our hypotheses, it does show something very interesting. It seems that respondents perceived products with an exchange policy as slightly lower quality than products with a return policy. The perception is only affected by the type of policy. An important trend to notice, this information can be used to improve customer perception of a company's product without changing the product itself.

Conclusions & Recommendations

After our research, we have concluded a number of things. First, we noticed that the overall perception of an item's quality was not directly related to its return policy. While some people did find a lenient policy influenced an item's quality, the majority of participants felt it didn't really affect their perception of the product itself. This is linked to the results of our experiment which showed that the majority of consumers rarely returned products, with only 21% saying they occasionally returned them (H2). However, what we found interesting was that people still chose to purchase from stores which have a strong return policy, proving the validity of a return/exchange policy in the minds of consumers and the idea that people still prefer to have a safety blanket when it comes to purchase decisions (H1). When dealing with the attractiveness of return policies, there were no strong feelings one way or the other, but people did prefer the 60-day return policy over the 30-day policy (H4). When it comes down to it however, just having a 30 day money back guarantee is more than enough to motivate 94% of consumers to feel validated enough in their purchase decisions (H3 & H5). At the end of the day, while consumers may not take notice of a return/exchange policy's effect on their purchase decisions, the influence is most certainly present.

In terms of recommendations, we would suggest that stores maintain or implement a store-wide return policy on products which they deem feasible. Although certain products, like software cannot be returned, hardware and various other tangible products should have at least some form of return policy. Based on our findings, this implementation will assist in the growth of a store's customer portfolio, in addition to helping retain current customer relationships. We would also recommend looking into return policies for certain products which currently cannot be returned

or exchanged even though implementing some form of exchange or credit towards a new purchase is a completely viable option. For consumers, we would highly advise them to research and understand the return policy of stores they frequent, in order to educate themselves about what they can return, under what conditions, and how long they have to do so. More often than not, consumers will find that they are dissatisfied with a product far past its return date.

Our main research question was “*Does a product’s return/exchange policy influence a consumer’s buying decision in regards to the product?*” After retrieving the results from our survey, analyzing the data we collected, and forming patterns and relationships among the variables, we can conclusively say that return/exchange policies absolutely affect a consumer’s buying decision in regards to a product.

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