View From Academia

Should Multichannel Retailers Consider Adjusting Their Return Time Windows?

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Return time windows are intended to provide consumers with sufficient time to determine whether a product they have purchased actually fits their preferences. How much time is enough to make such a determination? Return windows are often set to standard lengths (e.g. 30 or 60 days) and are not often revisited. However, faced with the growing prevalence and expense of returns, some retailers are reconsidering the time that they provide for consumers to decide whether or not to keep a product, with firms ranging from Best Buy to Costco reducing the length of their return windows in recent years.

In a new research study, Professors Necati Ertekin and Anupam Agrawal (from the University of Minnesota and Texas A&M, respectively) investigated the impact of a change in the return time window at a national multi-channel jewelry retailer on sales, return rates, and profitability. Using both analytical models and empirical analysis of the jewelry retailer's data, they find several useful insights for retailers considering such a change. First, they show that it is critical to understand the proportion of consumers that are currently making their keep/return decision during the timeframe that might be eliminated (e.g. if a retailer is considering reducing the window from 100 to 60 days, how many consumers have made their return decision between those two thresholds in the past?). In a multichannel environment, the split of such consumers between brick-and-mortar vs. online sales is also an important consideration. Secondly, the authors estimate the extent to which consumers will accelerate their return decision after the time window is tightened.

One of their main findings is that a more restrictive time window has a smaller impact on online sales and return rates since these consumers will tend to accelerate their return decision accordingly. Brick-and-mortar sales, on the other hand, are significantly impacted, with a measurable and non-trivial reduction in profitability. The authors go on to examine how these sales, returns, and profit implications depend on the operational structure of the retailer, adding nuance and additional insight to their results. For a multi-channel retailer considering a change in return time windows, this is timely and must-read research.

The above is a summary and commentary based on: Ertekin, N., and Agrawal, A. (2021) How Does a Return Policy Change Affect Multichannel Retailer Profitability? Manufacturing & Service Operations Management, 23(1), 210-229.

[1]This recurring series provides plain-English summaries of leading academic research in the area of consumer returns. It is co-produced by Mark Ferguson (Univ. of South Carolina), Michael Galbreth (Univ. of Tennessee), and Guangzhi Shang (Florida State Univ.).