# View from Academia[1]

# The Secrets of Managing In-store Product Exchanges

*By Mark Ferguson, Michael Galbreth, Guangzhi Shang*

Not long ago, returns are often treated as merely a cost of doing business by retailers and hence their goal is to minimize returns. This cost center mentality has started to see change in the past few years. Among others, fueling this change are studies that investigate future profit implications of return-prone customers, which often reach the conclusion that returns are not "a necessary evil". For bricks-and-mortar stores, the opportunity for generating potential future profit starts right at the moment when the customer is making a return. That is, the salesperson could persuade her into exchanging for another product instead of simply walking away. How and to what extent the retailer should exercise this sales effort is not a straightforward question. Specifically, is there a tradeoff between the immediate benefit of having an exchange now versus the long-term benefit of having more "down the road" purchases? Prof. Necati Ertekin from Santa Clara University tackles this question in a recent paper published in the Production and Operations Management journal.

The study assembles together data from purchase-return transaction history and customer satisfaction survey of a national jewelry retailer, which offers a rare opportunity for the researcher to look into what happens in customer's perception of salesperson competence and selling pressure at the return encounter. The main insight is that convincing the customer to exchange a returned product will induce more future purchases only if she is satisfied with the replacement as well as the return experience. This exchange-related satisfaction is crucial for ensuring service recovery. When persuading an exchange, two levers are often effective: better salesperson competence and higher selling pressure. However, only the former is shown to increase customer satisfaction in the exchange context. As a result, for retailers aiming to excel at both immediate and long-term service recovery, it is important to put more emphasis on salesperson competence. Through a hypothetical experiment, it is shown that even a modest improvement in salesperson competence can lead to a great lift in net revenue of the retailer. Further empirical details can be found here.

[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 South Carolina), and Guangzhi Shang (Florida State Univ.).