PURCHASE BEHAVIOR OF CONSUMERS IN RELATION TO REFUND CONDITIONS IN E-COMMERCE

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Abstract

Product returns are becoming increasingly popular in the internet marketplace. In the e-commerce industry, there is a tendency toward more liberalized or forgiving return policies. This essay discusses the various justifications for and degrees of leniency in return policies. Returns can be prohibitively expensive for businesses due to the high processing costs and low salvage values associated with returned products. Indeed, anecdotal evidence from recent research indicates that stores with product return rates greater than 20% frequently generate negative operating profit. Regardless of the cost or prevalence of returns, the majority of retailers provide them in the hope that the positive effect on demand outweighs the negative effect on returns. While they are often viewed as cost centers, they have the potential to have a significant impact on future client purchasing behavior in a variety of ways. (“Janakiraman, Syrdal, & Freling, 2015”). Retailers employ returns policies in two ways: before and after the sale to communicate a specific degree of retailer or product quality (“Bonifield, Cole, & Schultz, 2010; Mukhopadhyay & Setaputra, 2007”), and after the sale to change product assessments (“Kim & Wansink, 2012”). Janakiraman et al. (2015) identify five aspects of return policy leniency: “time, money, effort, scope, and exchange”.

Keywords: Purchasing Behavior, Return Policy, Time, Money, Effort, Scope, Exchange

1. Introduction

Electronic commerce is one of today's fastest growing businesses. The evolution of the internet has resulted in a powerful electronic commercial center. The technological innovations used are simple to grasp and are tailored to the needs of the customer (Popescu, 2015). Retailers are attempting to establish long-term connections with their customers as end users. Things are delivered at the consumers' convenience, thanks to the enhanced convenience generated by the
E-commerce business, which allows consumers to purchase goods from the comfort of their homes and workplaces (Kumar and Pandurang, 2021). As a result, electronic commerce saves clients time. Customers can also compare costs from numerous websites throughout the world. Furthermore, by changing the way of business, E-commerce has had a global impact on the entire population as well as industries. The online productive outflow of items for the sake of online services has an impact on the organizations' business dealings. Globally, the number of electronic commerce enterprises is rapidly increasing (Linzbach, 2019). There has been an increase in studies concerning the environmental effects of online commercial enterprises in recent years. Positive unanticipated natural results of online commerce have become increasingly widespread in recent years. A critical question that must be addressed is, "How can we increase our understanding and the board of the natural effects of online business?" Fichter (2002). As a result of the returns, these materials and the energy used in the initial packaging and shipping are thrown away. This is a critical environmental issue (Matthews et al, 2001). Administration of internet commerce and commercial retail has improved the value of industries' businesses. Industries provide long-term services to aid development and expanded services to improve sales (Kim, 2020). However, the reduced attitude to product return has an impact on business administration when it comes to dealing with productive outflow. The longer administration of items returned by customers has an impact on transactions and lowers the morale of industries (Kim, 2020). The growth in products returns not only has a social impact on industry dealings, but it also has a negative impact on the organization's environment and economic position. As a result, the purpose of this article is to investigate customer purchasing responsibility and how well-informed customers are about the environmental consequences of wasteful returning goods behavior (Kumar and Sharma, 2017).

- Electronic Commerce

According to Rana Tassabehji, electronic commerce has received and continues to receive a lot of attention and discussion. Tassabehji (2003) defines E-commerce as the exchange of business information, the maintenance of business relationships, and the conduct of commercial transactions via telecommunications networks (Kumar and Pandurang, 2021). “Electronic commerce has been around for over 40 years, dating back to the electronic transfer of messages during the Berlin airlift in 1948.” Internet selling has created both enormous opportunities and
challenges for companies. According to Martinez-Navarro et al. (2019), this industry grew by 5.1 percent in 2007, and it grew by 16 percent in 2019. This industry, on the other hand, creates significant environmental concerns. One of these issues is packaging waste from ecommerce enterprises. Paper charges, envelopes, cardboard boxes, plastic bags, woven packs, tape, and cradle materials are examples of frequent e-commerce business packaging materials (bubble wrap, styrofoam). Despite the fact that e-commerce returns constitute a significant logistical and, more importantly, social sustainability challenge, most researches have chosen to focus solely on e-commerce companies' return policies. Hjort and Lantz (2016) claim that research on return policies is limited and inconclusive. An earlier It discovered that when a return policy is relaxed, repeat customers contribute significantly more to each request, whereas returners and customers who value free returns contribute significantly less.

2. Concept of E-commerce Returned Goods

Customers are flocking to the ecommerce market to take advantage of all the perks available in this day and age of contemporary technology and hectic schedules. However, if one thinks practically, when one buys a goods, that individual should double-check every part of that product. Online retailers provide extensive descriptions of a product; yet, the e-commerce business has a large number of returned goods, which can be attributed to a consumer issue or an issue with authority. According to Kim (2020), about 30 percent of goods in the e-commerce market are returned, compared to 8.89 percent of returned goods in brick and mortar stores. As a result, it is clear that there is a significant discrepancy due to a lack of quality, a delivery difficulty, or the delivery of the incorrect goods (Kim, 2020). Product returns can occur for a variety of reasons, including damaged items, failed or incorrect orders supplied, and buyers' change of heart after discovering the product elsewhere at a lower price, among others. Customers have been shown to change items more frequently as a result of this.

According to Son et al. (2019), a survey found that 95% of consumers check the return policy page before making a purchase. Customers can usually return anything purchased from internet businesses for free. In that circumstance, it is understandable that this industry generates a large number of returns. Customers have previously expressed a need for a streamlined purchasing experience in online retailers with no additional hassles or charges. However, according to human psychology, when a buyer buys a product, he or she expects to receive the desired one;
however, businesses are not always able to deliver the precise goods represented on the purchasing platform. It has the potential to degrade product quality as well as consumer experience (Son et al. 2019). Customer loss can be problematic for this industry, and it is becoming more prevalent by the day. Some consumers obtain incorrect delivery at the second time of return, which might have a significant impact at some point in time. It can have an impact on profit margins and other business-related aspects.

According to Linzbach et al. (2019), 60 percent of expensive goods are returned in the e-commerce market, but only 8 to 10 percent of goods are returned in brick and mortar stores. With the introduction of e-commerce (Kumar and Pandurang, 2021), a new trend in consumer behavior has emerged: customers tend to systematically over-order (Mittal and Jain, 2018). To select the exact size or color of an item, they request a far larger number of items than they want to purchase, returning all except a couple that they meant or are able to purchase. The online shopping industry allows customers to return products without incurring any delivery costs. Furthermore, there is a high likelihood of high return since buyers expect a personalized shopping experience with an easy-return policy. Customers, on the other hand, never want to or do not have the choice to replace or return things at brick and mortar establishments. In that instance, certain buyers likely to return things since they buy a variety of products at the same time. In those circumstances, it is unavoidable for customers to return goods.

### 3. Relevant Research on the Return Problem Among Supply Chain Nodes

Depending on the return object, there are two sorts of supply chain return problems (Sundaram, Sharma and Shakya, 2020): those that occur between suppliers and retailers (B2B) and those that occur between retailers and customers (B2C). After that, this essay will look at the return concerns that emerge between suppliers and merchants.

- Relevant Research on Supplier-Retailer Relationships

Historically, the research on supplier-to-retailer (B2B) returns concentrated solely on two return strategies: complete return and non-return (HUSSAIN and SINGH, 2018). “Padmanabhan et al. established the theoretical framework for producers' and merchants' return strategies. The framework investigated when and how to execute the return strategy, as well as the benefits and costs connected with it. In the setting of uncertain product demand and retailers' use of return
strategy to persuade retailers to maintain greater inventory, Marvel et al. investigated the influence of uncertainty in customer arrival rate and consumer valuation on product price strategy and return strategy, respectively. Following that, Padmanabhan et al. investigated the impact of demand uncertainty and store competition on manufacturers’ choice of return method. Sarvary et al. investigated demand for new items by building a multi-period duopoly model to investigate how manufacturers understood customer demand information through return strategy. Other academics then devised more types of return strategies, broadening the research on the subject of supplier-retailer return. Using a single-cycle inventory model, Pasternack analyzes pricing and return methods for perishable products.” Several academics looked at the topic of manufacturer-retailer returns via the prism of supply chain contracts. They viewed the return policy as a supply chain buy-back agreement that enabled manufacturers to successfully motivate retailers to boost sales (Sundaram, Sharma and Shakya, 2020). Webster et al. interpret the return strategy as a sales discount contract after the sales period has ended (Rebate). Under uncertain demand, the scholar investigated optimal return strategy and risk preference (HUSSAIN and SINGH, 2018). Several articles have been written in recent years about the return of electronic commerce. According to Bayles, return management is critical in e-commerce, but developing a return policy and dealing with returned goods is difficult (Kumar and Pandurang, 2021). Choi et al. investigated manufacturer returns in addition to reprocessing retailer returns. Yan Nina et al. cited Choi instead of the retailer's first return to the supplier (2004). Yao Zhong concentrated on the supply chain return contract between upstream and downstream firms. He believed that avoiding risk was ineffective compared to taking it. To summarize, early research on manufacturer-retailer return strategies concentrated on two types of returns: complete returns and no returns. As a result, additional researchers devised novel return mechanisms. Return procedures, according to certain research, can provide producers with information about retailer demand. According to some analysts, the manufacturer-retailer return approach serves as the supply chain's buy-back contract (Sundaram, Sharma and Shakya, 2020).

- Relevant Research on Return between Retailers and Consumers

With growing significance of e-commerce businesses, more scholarly interest has been generated towards the aspect of consumer return behavior (Kumar and Sharma, 2017). The articles that follow will conduct a literature review in four areas: “the design of an optimal return strategy,
measures to minimize the rate of return, consumer behavior and return problems, and other return-related topics.”(Mittal and Jain, 2018)

4. **Environmental and economic Impact of returned Goods in E-commerce Industry**

- Environmental impact

Online shipping packing is not environmentally friendly; therefore, excessive product returns can affect the environment. Customers have been observed to take no action to deal with this condition. They have no idea about this policy because they are simply concerned with their comfort in this process (Purvis et al, 2019). There are several types of environmental effects associated with e-commerce. Fichter (2002) defines formal E-commerce necessitates the presence of an Information, Communication, and Technology (ICT) infrastructure (PCs, mobile phones, servers, routers, etc.). When processes, systems, and activities lessen the environmental impact of an organization's facilities, products, and operations, this is referred to as environmental sustainability. (Frontstream.com). Environmental sustainability aims to increase human welfare by safeguarding the sources of raw materials utilized for human requirements and ensuring that human waste sinks are not surpassed in order to prevent harm to humans (Moldan et al. 2012). It goes on to define environmental sustainability as a set of constraints on four fundamental activities that govern the scales of the human financial subsystem: resource use, pollution, waste absorption, and resource use. Virtual business systems and the digitization of goods and services all have natural consequences for resource efficiency. It may be harmful to the ecosystem. E-commerce has a significant impact on the economy and influences people's lifestyles and utilization patterns, which has an indirect impact on the environment(Kumar and Pandurang, 2021). The so-called rebound effect occurs when the rate of efficiency gains (e.g., device shrinking) is less than the rate of consumption growth.

- Economic Impact

Online shopping and online transactions go hand in hand, and ecommerce companies provide their customers with a free return policy. It can be explained as follows: when a consumer purchases a product from an online store, the customer must pay the service charge, the product
price, and the delivery charge. If the purchase price reaches a specific threshold, certain online businesses will deliver the order free of charge. However, the free return policy has the advantage of allowing customers to return the merchandise without incurring any further costs. In this context, if a consumer purchases one thing from an online retailer while four other customers return the product, the industry will undoubtedly face an economic crisis (Kakalejk et al, 2019), Coelho et al (2020). According to Kakalejk et al. (2019), e-commerce under business to business can generate another economic catastrophe in this industry in returned items. If the return increases significantly, it will almost certainly produce an economic downturn in the business, as it is not just about the product but also about specific operational costs (Kakalejk et al. 2019). On the other side, some people purchase things only to return them. This is a habit shared by 41% of e-commerce customers. Aside from that, it has been discovered that there is a social divide, which is having a detrimental impact on the e-commerce industry's economics. it was previously discovered that around 83 percent of pricey goods purchased from an online retailer are returned.

5. The Influence of Flexible Return Policies on Consumer Purchase and Return Decisions

While the majority of retailers have return policies, some are more lenient. “The underlying assumption is that generous return policies encourage purchases more than they do returns. Previous research has identified five dimensions of return policy leniency: time, money, effort, scope, and exchange demonstrate the effect of leniency on purchase and return decisions, demonstrating that leniency encourages purchase more than it discourages return (HUSSAIN and SINGH, 2018). Additionally, we demonstrate that return policy elements that affect purchase (money and effort leniency improve purchase) are distinct from those that affect returns (scope).” Loyalty increases returns, while leniency with time and exchange reduces returns).

Return policies are a customer risk reliever that retailers frequently utilize to increase consumer demand (“e.g., Greatorex and Mitchell 1994”). On the other hand, increased demand is likely to result in higher product returns. “Product returns totaled approximately $280 million in 2014 across all US stores, a figure that exceeds the annual sales revenue of all retailers except the top-ranked retailer. Due to the high processing costs and low salvage values associated with returned products, returns can be prohibitively expensive for businesses.” Indeed, a recent research
anecdote indicates that stores with product return rates greater than 20% frequently generate negative operating profit.

Regardless of the cost and prevalence of returns, most retailers offer a return policy in the hope that the positive effect on demand will outweigh the negative effect on returns. “Davis, Hagerty, and Gerstner (1998) conducted a survey of 133 retailers in California and found that almost all of them had a return policy, regardless of whether they were department stores, specialized stores, or single outlet outlets. However, the policies varied in that some stores had more lenient return policies than others. In this regard, the first question we hope to answer in this study is: do lenient return policies encourage product purchases more than product returns? There are no clear-cut solutions in existing scholarly studies. In reality, research on the impact of lenient return policies on product acquisition and subsequent returns has been equivocal.” To instance, whereas “Petersen and Kumar (2010) find that lenient return policies boost both purchase and returns, Wood (2001) and Wang (2009) find that lenient return policies increase purchase but not returns.” We conduct a meta-analysis in this study to provide a more conclusive answer, integrating data from original studies that investigate how return policy leniency influences two critical downstream outcomes: “(1) buy proclivity (i.e., purchase attitudes or actions) and (2) return proclivity (i.e., consumer intentions or decisionsto keep or return products)”.

6. Factors Affecting Return Policies

The researchers categorize return policy leniency into five categories.

Time: “Retailers frequently include deadlines in their return policies (e.g., a 30-day policy, a 90-day policy). Policies that allow for a longer return period are more flexible.”

Monetary: “Convenient return policies allow for a full refund of the product's purchase price, whereas tight policies allow for a refund of only a portion of the purchase price.”

Effort: “Certain businesses impose hassles on customers returning items (e.g., requiring the original receipt, tags or product packaging be retained). Consumer return policies that require less effort on the part of the consumer are more lenient.”
Scope: “Stores restrict the number of things they consider "return-worthy." For instance, things purchased on sale may not be returnable. Policies that include a broader range of "returnable" items are more lenient.”

• Exchange: “While some merchants will issue a cash refund, others will issue store credit or a product exchange in exchange for the returned item. Cash refund policies are more permissive.”

7. Conclusion

The purpose of this study was to conduct a critical analysis of how well E-commerce consumers comprehend the environmental consequences of returning things via E-commerce. It sought to answer the study question, 'How educated are e-commerce customers about the negative environmental consequences of returned e-commerce goods?’ From the start, it is obvious that the participants in this study had a limited understanding of the aforementioned consequences. This is because very little information about the procedures for returning products has been supplied. While e-commerce has been demonstrated to be beneficial, we can also remark that it is a double-edged sword. The more it improves and simplifies the customer purchasing experience, the more it has been demonstrated to contribute to increased negative environmental impacts via returned goods. The most visible of these repercussions are pollution and material and energy waste.

Online shoppers are more concerned with the return policies that a business or e-retailer offers on its products. This indicates that the more affordable a return policy is, the more appealing it becomes to the majority, if not all, consumers. There are various additional elements that contribute to consumers’ attraction to online shops, including the price and discounts offered on their products, as well as strong comments from other customers about the quality of their products. 40 While e-commerce businesses are concentrating on decreasing their carbon footprints, packaging waste, and overall impact on the environment, they should recognize that it would actually be more cost effective to provide information that encourages good returning behavior(Kumar and Sharma, 2017). This would have a beneficial effect on the environmental
pillar of sustainability. Finally, this study should educate e-retailers about the importance of providing information about environmental impacts in order to contribute to consumers' sustainable purchasing behavior (Mittal and Jain, 2018).

References


