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EMPIRICAL STUDY OF EDMONTON RETAILERS' POLICIES
FOR DISSATISFIED CONSUMER PURCHASES

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Introduction

To a consumer who is dissatisfied with a purchase he has made in the marketplace, the most satisfactory remedy will often be to return the product and receive some form of restitution, such as a cash refund, a store credit, or another product in exchange.

Why is this the most satisfactory remedy? One reason is that it can be handled between the consumer and the retailer, without the need for a third-party complaint handler. Two recent studies have shown that consumers as a group prefer to take their problems directly to the retailers from whom they purchased the goods in question. A very definite reluctance to go to some third party, such as the Better Business Bureau, the Consumer Affairs Branch, or the courts, was demonstrated. In a study by Warland, Herrman and Willetts (Dissatisfied consumers: Who gets upset and who takes action, (1975) J. of Cons. Affairs, 9: 149), the forms of action taken by a group of dissatisfied consumers were categorized. 30 per cent of the group did nothing, 32 per cent complained to store personnel, 8 per cent wrote to the store or manufacturer and 3 per cent returned the product. Only 5 per cent contacted some third party complaint handler. Similar findings were made in another study by Best and Andreassen. In this study, only one-third of the group of dissatisfied consumers took any action at all, but by far the most common form of action taken was to complain to the seller. Only 1.2 per cent of the dissatisfied consumers made third-party complaints.

Although consumers as a group are unwilling to complain to third parties, this may be especially true of consumers in the

lower socio-economic status brackets. Both of the aforementioned studies showed that higher socio-economic status consumers were more likely to take some form of action than lower status consumers. For example, the Warland et al. study found that dissatisfied consumers who took action were younger, better educated and earned higher incomes than dissatisfied consumers who took no action. The Best et al. study found that, for every 1000 purchases, households in the highest socio-economic status category voiced complaints concerning 98.9 purchases, while those in the lowest status category voiced complaints concerning 60.7 purchases. This difference was due to differences by socio-economic status for both the perception of problems and the voicing of complaints.

If we compare the Warland et al. study with a study by Liefeld, Edgecombe and Wolfe (Demographic characteristics of Canadian consumer complainers, (1975) J. of Cons. Affairs, 9:73), which gives the demographic characteristics of a group of consumers who complained to third party complaint handlers, such as the Better Business Bureau and the Complaint Services of the Canadian Federal Government, we find a similar pattern except that the picture is, if anything, even more extreme. Comparing the Liefeld sample with the group of dissatisfied consumers who took action in the Warland study, the educational, income and age levels appear to be very similar. For instances, 49.7 per cent of the Liefeld group had some college education compared with 52 per cent of the Warland group, 54.5 per cent of the Liefeld group earned \$10,000 or more as did 64 per cent of the Warland group, and 36.2 per cent of the Liefeld group were under 35 as compared with 40 per cent of the Warland group. However, there does appear to be a difference in occupation and resulting socio-economic status in favour of the Liefeld group. The Liefeld study reports that 51.9 per cent of the consumer complainers had managerial or professional occupations. The Warland study does not report occupation per se, but does report figures for Hollingshead's "Two-Factor Index" of Social Class. This

index takes into account both education and occupation. Only 29 per cent of the Warland group fell into the top two levels of this social class index, which would be roughly equivalent to the managerial and professional level of occupation. Since the Liefeld and Warland groups showed the same educational levels, this difference must be due to a greater percentage of managerial and professional occupations in the Liefeld group as compared to the Warland group. This provides some evidence that lower socio-economic status consumers would be even less likely to complain to some third party than they would be to take some other form of action. Thus the remedy of returning goods and receiving restitution may be especially important for them.

Furthermore, the reluctance of consumers to take their complaints to third parties may well be justified. Studies of the operation of the small claims courts provide some support for this view. For instance, a study by Moldaver and Herlihy (Consumer Litigation in the Small Claims Courts of Toronto: An Empirical Analysis) showed the Small Claims Court to be functioning largely as a collection agency for business establishments and also showed that the average consumer's lack of financial and legal resources puts him at a serious disadvantage when he attempts to use the court's facilities.

Given, thus, the importance to the consumer, and especially to the lower socio-economic status consumer, of a liberal return policy on the part of retailers, it may be desirable to legislate such a policy. As a first step toward making suggestions for such legislative reforms, we have collected data from a group of Edmonton retailers regarding their return policies. Our purpose is to describe those policies and to examine the factors, such as size and type of business, which may affect a retailer's return policy.

Method

Two hundred forty-seven businesses were randomly selected from 1204 businesses listed under 24 categories in the Edmonton Business Directory. The categories employed are listed in Appendix A, together with the total number of businesses listed in and the number selected for the sample from each category. It will be noted that for each category except "department stores", approximately one-fifth the total number of listed businesses was included in the sample. Every department store listed was included in the sample. This procedure was followed in order to ensure an adequate sample size for department stores which, it was felt, play an especially important role vis a vis the consumer.

Each of the selected businesses was sent a copy of the questionnaire reproduced in Appendix B, together with a letter describing the study and requesting the cooperation of the store manager in filling out the questionnaire. A follow-up letter and a second copy of the questionnaire were sent out approximately three weeks later to each of the businesses which had not yet responded.

Results and Discussion

A. Statistical Analyses.

Altogether, 130 businesses responded by returning completed questionnaires. Of these, 24 questionnaires were not usable because the businesses were not retail outlets but rather wholesale outlets or providers of services only. Thus the following data analyses are based on a group of 106 respondents.

The 106 respondents were grouped into 15 categories describing types of businesses or types of goods sold. These categories and the number of respondents in each are listed in Table A.

Frequency tables were calculated for the entire group of respondents regarding their answers to questionnaire items 4 through 10. These are shown in Tables B, C, D and E.

Table B shows that the overwhelming majority of respondents do accept returned merchandise. Cash refunds are given by 88 per cent of the group, store credit by 62 per cent, and exchanges by 81 per cent. Only one of the 106 respondents would accept no returns at all.

Although almost all of the stores accept returned goods, the limitations which they place on these policies vary greatly. This is indicated by Table C. The varied responses to questionnaire item 5 show that businesses exercise a large amount of discretion in carrying out their return policies.

Especially convincing evidence of this discretion is found in the answers to item 5(d): "who determines the acceptability of goods?" The responses to this question were approximately equally divided between retailer, customer and both. Comments made by the store managers who answered "both" indicate the reasons for this discretion. The reason is sometimes found in the situation. As one jeweller commented:

"If a matter of personal taste, customer's statement is enough. If faulty manufacturing is claimed, my opinion is required. Customer must establish reasonable care..."

The manager of a ladies wear store made a similar observation:

"Most of our returns are, to quote customers, 'My husband did not like it.' If the article is being returned because of faulty material, workmanship, etc., we do check it out..."

On the other hand, the reason for the exercise of discretion is sometimes found in the attitude or behavior of the customer,

as interpreted by store personnel. For instance, one clothing store manager said, "We accept customer's opinion if honest. If not, we form our own opinion." The owner of a sports store commented, "It may sound funny, but the attitude of the customer has a lot to do with how we handle a return of an item." Similar statements were made by the manager of a department store and by a pharmacist. These are, respectively, "We feel the customer is always right except when he is unreasonable," and "We accept the customer's opinion if we know the customer, otherwise we check the goods and come to our own conclusion."

Table D sets out the answers to questionnaire items 6 and 7. Item 6 shows that the acceptance of returned goods is the most common way of handling dissatisfied customers, since 58 per cent of the respondents indicated that they provide no other services for dissatisfied customers. A fairly large proportion (27 per cent) do provide repair and/or adjustment services, but this is generally in addition to allowing customers to reject goods which they do not wish to have repaired or adjusted. Item 7 indicates that returned goods do not cause a complete financial loss to retailers. The goods are often resold or returned to the manufacturer or wholesaler. Only 7 per cent of the respondents simply discarded returned goods.

The answers to items 8 through 10 are shown in Table E. For 63 per cent of the respondents, only 1 per cent or less of their sales are returned. The respondents were reluctant to estimate the cost of providing services to dissatisfied customers (note the high proportion of missing data on this item). However, of those who answered, the great majority stated that the cost was 1 per cent or less of their gross sales and a large number described the cost as negligible. Finally, on item 10, it may be noted that although the majority

of retailers (58 per cent) claimed not to be influenced by their suppliers in arriving at their return policies, a significant proportion (36 per cent) stated that their policies were at least to some extent determined by the policies of their suppliers.

In order to establish whether the size of a business affects its return policy, the sample was divided into businesses which were independent outlets and those which were members of a regional, national or international organization. There were 57 members of the former group and 44 of the latter. The remaining 5 respondents had not indicated whether they did or did not belong to a larger organization. The answers to questionnaire items 4 and 5 were then calculated separately for each of these groups, as shown in Tables F, G, and H. Chi-square analyses were performed to determine whether the return policies varied significantly between independent outlets and members of organizations. The only item on which a significant difference was found was item 4(a). Independent outlets are significantly more likely to refuse cash refunds than are members of organizations. No differences were found regarding the types of limitations placed on returned goods.

To establish whether return policies are different for different types of businesses, the answers to items 4 and 5 were calculated separately for the four largest categories: clothing stores, department stores, pharmacies and miscellaneous shops. These calculations are shown in Tables I, J and K. Chi-square analyses were again performed. While a significant result was found only on item 4(c), the results for items 4(a), 4(b) and 5(a) did approach significance. Thus clothing and department stores are more likely to allow the return of goods for an exchange than are pharmacies or other shops. There also appears to be a greater tendency for clothing and department stores to allow cash refunds or store credit.

On the other hand, clothing stores seem to be more likely to have time limits regarding the return of goods than department stores or pharmacies.

B. General Comments.

The general comments made by the respondents fall into three main categories: those acknowledging the goodwill value of the stores' return policies, those discussing consumer behavior, and those expressing dissatisfaction and a feeling that consumers already have too many rights. Only 3 comments fell into the last category, the first two categories were much more heavily represented. Samples of comments in the first two categories and the 3 comments in the last category are reproduced in Appendix C.

The comments in the first category indicate that many retailers feel (whether justifiably or not) that a liberal return policy is important to their business for public relations purposes. They see word-of-mouth advertising by satisfied customers as a valuable means of creating goodwill. It could thus be argued that the operation of free enterprise and competition provides sufficient motivation to retailers to accept returned goods and that it is not necessary for the law to intervene in this area.

Both the second and third categories include general comments about or specific examples of consumer behavior. The wide variety of experiences described here could be used to support the exercise of a large degree of discretion by retailers in handling returned goods. The present existence of such a discretionary element was earlier discussed. Attempts to legislate in this area will likely be met with demands for a similarly powerful degree of discretion. This may result in considerable conflict, for the degree of discretion allowed to the retailer in exercising return policies is likely to be inversely related to the strength and effectiveness of returning goods as a remedy for dissatisfied consumers.

APPENDIX C

Sample comments re goodwill value of return policies:

Tire store - "We will often exchange "defective" goods for dissatisfied customers even though the claim is not justified merely for public relations purposes."

Auto parts store - "The success of my business (or one of the reasons) is that I allow the return, for full credit, [of] any or all parts purchased here."

Paint store - "It is our policy to sell only the best quality materials we can obtain. We stock no low price "Bargain Sale" products. Any and all complaints are looked after with instructions to all our staff that a satisfied customer is our #1 means of advertising."

Lumber store - "The actual cost [of return practices] would probably be 5%. However, I consider the overall cost to be minimal as a customer will usually tell his friends whether satisfied or dissatisfied. I feel a large percentage of our sales comes from having satisfied ones."

Jewellery store - "Store philosophy states one unhappy customer equals 100 happy customer. If in doubt swing to customer's viewpoint. Money cost can be considered as best form of advertising. However I will not be cheated by customers claiming faulty manufacturing as an excuse for unreasonable care."

Sample comments re consumer behavior:

Men's wear store - "In 4 out of 5 cases we see, the return is justified, either because of wrong size or colour. In 2-% of the returns we get, we are taking back the merchandise as a customer service, or just plain good will.

Quite often, individuals will make a purchase and then proceed to go shopping, to see if they can do better elsewhere. If they can - then they return the original purchase for a refund. Again we will make a full cash refund."

Ladies'wear store - "In ladies' wear, we often have to use our common sense in dealing with the feminine public on their returns. While we try to set up some "ground rules" to deal with returns in a fair and orderly manner, no rules can be rigidly enforced - there must always be exceptions. No two women handle "washable goods" alike - or give their clothes the same care and treatment.

Your task in coming up with a workable "return bill" to suit all types of retailing is going to be very difficult - if not impossible. I wish you well."

Clothing store - "It is the main concern of our company to try and satisfy the customer almost at any cost; providing the complaint is a legitimate and fair one. The manufacturer is not always that easy to get along with. The storekeeper is therefore obliged to bear the brunt. However, if one takes the long range view he feels that the customer will make it up in some other purchase, and things even out. However, if we feel the customer has widely abused the item by improper washing or bleach, and in fact is trying to get away with something, then we will not take it back, as we don't want that person as a customer in any event. The situation has to be mutually ethical."

Furniture store - "There are a very small number of consumers who have fraudulently deceived retail merchants on complaints. I am sure that Consumer Affairs has most of these cases documented and are award of their non-validity. I feel that such consumers should be prosecuted."

Jewellery store - "It all depends on how you serve your customer - if it's intelligently informative and point out the hazards and conditions of certain products it will eliminate most of the future troubles. Usually customers will just return for a change in size.

Occasionally we come upon an impossible customer who will find wrong in whatever you do for them, this in that case we just as well not have anything to do with such a person. But those might be one or two a year.

Basically, our customers are a pleasure to serve, and we do our very best to keep them happy."

Comments showing dissatisfaction - feeling that consumers already have too many rights:

Clothing store - "We think the customer is more than treated fairly. If in doubt the customer gets the break. We think customers when dissatisfied return goods with wrong attitude - always a chip on their shoulder. The customer has more rights than retailer. The customer is not satisfied can always shop elsewhere where they feel they are treated fairly. Unfair business practices soon reflect on retailer and they are weeded out quickly."

Musical instrument store - "Most returns are misunderstanding between the customer and the retailer. Under proper explanation of the product or replacement if it is faulty the customer is happy.

Where the problem lies is cash refunds. The consumer can then use new products for a given period of time at no cost to him.

Example - our experience is the consumer who wants a guitar for a weekend party. He buys it Friday, returns it Monday and wants his money back. In return you have to sell this guitar as used.

Being in business is not easy at best. There is enough loss of profit in had cheques and theft. All these increase the price. Too much consumer protection also sets up the one who will take advantage of the law. This in turn will also increase the price to the consumer."

Sports equipments store - "It seems that in the past years there has been a policy of lessening the responsibility of the consumer. Now people take for granted that they can purchase an item on impulse and return it for whatever reason at whatever time for a full refund. They are getting less responsible for their actions. This needs to be changed. Despite signs around the store customers take much for granted and then blame the store for their own mistakes."