Reducing returns in online shopping

Receiving goods in one batch – even at the expense of fast shipping – leads to greater satisfaction and fewer returns.

May 16, 2023

Consumers want their online orders, and they want them now. That’s the received wisdom anyway, with previous studies showing that companies who deliver quickly can expect to be rewarded with greater spending and word-of-mouth recommendations. Recently there has been pushback on the idea that fast is best.

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A sobering statistic: of the approximately $1.29 trillion generated in online retail in the U.S. in 2022, an estimated $212 billion of goods, 16.5%, were returned. Clearly it's in all interests to reduce this number.

One factor, according to a study by IESE's Eduard Calvo, with coauthors Pedro Amorim and Laura Wagner, is how the goods arrive in the first place. We've all had the experience of ordering multiple items from a company, only to have them all arrive separately on different days. But there's a case to be made for companies to wait and consolidate the goods into one package – even if that slows down shipping to the tardiest item.

It turns out this can boost customer satisfaction – and reduce the dreaded returns.

Analyzing data from over 350,000 customer orders in 180 countries, the authors found that consolidating delivery of all split orders would lower the marketplace return rate by 0.95 percentage points and increase the net value by 1.23 percentage points.

It turns out that staggering package delivery may not be the right approach, particularly when the deliveries are spread out with more than a day between deliveries, or when there is a long lead time.

What causes this? It seems to boil down to four concepts in consumer psychology:

- *The evaluation effect.* Research has shown that consumers evaluate multiple objects less charitably when they are considered sequentially than when they are side by side. Objects that seem unattractive when seen alone have increased appeal when evaluated with others.
- *The inattention effect.* When consumers are paying attention, such as when they are constantly reminded of purchases by their sequential arrivals, they are more likely to return them.
- *The duration effect.* The delivery period feels longer when it is staggered, as do most tasks when they are interrupted, and this leads to dissatisfaction.
- *The Zeigarnik effect.* Named after psychologist Bluma Zeigarnik, this is when unfinished tasks play on our mind, as a niggle or a need for closure. A split package in this context is perceived by the consumer as an unfinished, potentially stressful, item on their to-do list. This may lead to dissatisfaction with the products themselves.

Given a choice between the stress of a staggered delivery period, consumers may well prefer the wait. It can also benefit suppliers. Research shows that all products benefit from lower

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return rates when packages are bundled, but that consumers do reward speed. Given this, bundled deliveries can still incentivize suppliers to aim for fast delivery – but won't penalize them if there are delays.

There are some caveats: This research focused on deliveries of only two products in the luxury apparel industry. Deliveries of more products, where one has a particularly long lead time, might well be different. Clients of low-cost outlets, such as Shein, may likewise feel differently.

For managers of online marketplaces, a good next step based on this research would be to assign all products from the same order for delivery by the same courier, which is a necessary step to make bundling possible.

And though it may be too soon to apply delivery consolidation across the industry, customers may appreciate being given a choice. When offered, will they trade logistics stress for greater, but slower, convenience? Consumer satisfaction hangs in the balance.

About the research

Analysis of data from 354,194 customer orders spanning 180 countries from a luxury fashion online marketplace: what the customer ordered; whether the delivery was consolidated or split; and whether the goods were returned.

https://www.iese.edu/insight/wp-content/uploads/sites/3/2023/05/Worth-the-wait.mp4

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