

Returns-based Partnerships: Can Competing Retailers Become Allies?

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Abstract

Online retailers lack an offline retailer's ability to resolve consumer uncertainty for products that require touch and feel to determine fit at the purchase stage. To mitigate this shortcoming, online retailers usually allow for product returns. However, returning products can have high hassle costs for certain consumers, dissuading them from buying products in the first place. Hence, retailers such as Amazon have been seeking ways to reduce this hassle cost, including partnerships with offline competitors such as Kohls', where the latter would serve as a drop-off point for Amazon returns. In this paper, we investigate this interesting phenomenon by specifically examining the theoretical rationale for this non-trivial partnership to take place. To this end, we model consumers' purchase and return decisions for "touch and feel" products between the two retailers, where consumers are heterogeneous in terms of their retailer preference and their hassle cost for product returns. We characterize the conditions under which the two retailers would enter into a partnership together. We find that the partnership favors the online retailer in most of the parameter space. However, both the online and offline retailers can also be better off under the partnership, depending upon the level of differentiation between the two retailers.

Subject Areas: *Electronic Commerce and Internet Marketing, Pricing, Retailing*

Track: Retailing & Omni-Channel Management