

Title: The Role of Return Environment on Contingent Free Shipping Policies

Speaker: Prof. Nitish Jain, London Business School

Area: POM/DS

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Abstract:

Problem Definition: Contingent free shipping (CFS) policies, whereby consumers get free shipping if their orders are greater than a certain amount, are commonplace. One objective of a CFS policy is to nudge customers to place larger orders, either by adding additional items and/or buying more expensive items (order-swelling). However, a less desirable possible outcome is that customers pad their orders to avoid paying the shipping fee, but then return the opportunistic/impulse-purchase items later (return-swelling). A retailer designing the CFS policy's terms— threshold and shipping fee—should balance these competing trade-offs. We study how order-swelling or return-swelling behavior induced by a CFS policy is moderated by the retailer's return environment, specifically the ease-of-return-experience (EOR) for customers.

Methodology/Results: We collaborate with a retailer who switched across multiple CFS policies over time. Our difference-in-differences empirical strategy builds on these switches, and location-based variation in the EOR. We find that the retailer's return environment can considerably impact the relative profit performance of the CFS policies. Furthermore, we find a statistically significant moderation effect of EOR on both the order- and return-swelling responses. A model-free counterfactual analysis reveals that return swelling is the key driver of our observed contrast in relative profit performance of CFS policies across the two EOR market types.

Managerial Implications: Our study documents a novel determinant of financial performance of a CFS policy: the ease-of-return experience. Our analysis indicates that our collaborating retailer would be better off selecting a (relatively) lenient CFS policy in more convenient EOR markets and a (relatively) stringent CFS policy in less convenient EOR markets.

Speaker Profile:



Nitish holds a PhD in Management Science from INSEAD. His research interests focus on global supply chains, and on the use of big data and empirical methods to improve supply chain management. His work has appeared in Management Science, and Operations Research and won prestigious student paper competitions. Before joining the PhD programme at INSEAD, Nitish worked at a real estate firm and in the technology industries. Nitish has an MBA degree from the Indian School of Business and Bachelors and Masters Degrees in Mathematics and Computing from Indian Institute of Technology, Delhi, India.

Webpage Link: <https://www.london.edu/faculty-and-research/faculty-profiles/j/jain-n>