

## An Empirical Analysis of Product Returns in Direct Marketing

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## Abstract

This paper uses a latent class approach to segment customers based on product purchase and return behavior over time, and investigates the relationship between customer-level factors and these behaviors across segments as customer lifetime with the firm progresses. Further, it explores the importance of considering product returns in customer value analysis.

The results show that there are multiple segments of customers. Customers differ significantly with respect to their product purchase and return behavior across segments and as their relationship with the firm progresses. We find that a segment that is one of the most attractive if purchases alone are considered, becomes the least attractive when returns are also considered. Therefore, it is important to consider both purchases and returns in analyzing value of customers. We find that the effect of promotions by the firm on product returns varies across segments. A judicious use of these promotions can both reduce returns and cut cost. Overall, the results suggest that a more targeted marketing can reduce product returns and enhance profitability.