

Marketing Colloquia

Thursday, January 17, 2013

Where: 741 JMHH

When: 3:00 PM to 4:20 PM

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Wardrobing: Is It Really All That Bad?

ABSTRACT: In a 2008 survey, about 64% of U.S. merchants experienced “Wardrobing” behavior by consumers buying their items. An item is said to have been Wardrobed when it is bought by a consumer; used for a short time; and then returned to the store as if it were unused, for a full or partial refund. Products such as a Halloween costume, a set of tools for a one-time home improvement job, a wedding dress, a video projector for use in a business meeting, or a TV to watch the Super Bowl can be Wardrobed, for example. Since these returned products cannot later be sold as new, many retailers resort to identifying them as “open-box” items when they are put back on the retail shelf, with a concomitant requirement to lower the price of these products.

The existing academic literature suggests that this type of opportunistic buyer behavior is a threat to retailer profitability. Wardrobing is also interpreted as evidence of moral hazard that results in increased retailer costs.

In the face of this castigation, this paper considers the benefits and costs of Wardrobing by analyzing an analytical model of a retailer selling a product over two periods in a heterogeneous market including “Regular” consumers with positive valuation of the product over both periods, and “Wardrober” consumers who only value the product in the first period. With this segmentation structure, our research shows that Wardrobing is a profitable activity that facilitates price discrimination, in direct contrast to the business press attitude that Wardrobing is universally unethical, fraudulent, or otherwise criminal, as well as harming retail profit. Examining scenarios where the retailer can (versus cannot) pre-commit to future prices, we also show that Wardrobing can compensate for the profit decrement that results from lack of pre-commitment ability. Our results also show that the retailer prefers to outsource the production of open-box units to Wardrobers, rather than to insource production of these units by slashing boxes itself.