



Return Policy Burden and Working Capital Stress in Small E- Commerce Ventures

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Abstract

A customer-friendly return policy has become an important part of online retailing. It reduces consumers' uncertainty, improves trust, and can encourage first-time purchases. However, the same policy can create serious financial pressure for small e-commerce ventures. Unlike large online retailers, small sellers usually operate with limited cash reserves, low bargaining power, small warehouses, and restricted access to affordable credit. When customers return products, the seller may have to issue a refund before the returned item is inspected, repaired, repackaged, or sold again. During this period, money remains blocked while the business must continue paying suppliers, employees, logistics partners, advertising platforms, and other operating expenses.

This paper examines how return policy burden produces working capital stress in small e-commerce ventures. The burden is studied through five practical areas: refund timing, reverse logistics expenditure, loss of product value, inventory blockage, and return-related administrative work. The study follows a conceptual and scenario-based research design supported by existing literature on product returns, reverse logistics, consumer behaviour, and working capital management. The analysis shows that return policy burden becomes severe when refund periods



are shorter than product recovery periods. It also becomes more difficult when businesses offer free returns on low-margin products, depend on third-party marketplaces, or lack systems for inspecting and reselling returned inventory quickly. High return volumes may force small sellers to delay supplier payments, reduce fresh inventory purchases, use personal funds, or depend on short-term credit.

Keywords: Return Policy; Working Capital; E-Commerce Ventures; Product Returns; Reverse Logistics; Cash Flow; Refund Management; Small Businesses; Inventory Recovery; Online Retailing

1. Introduction

E-commerce has provided small businesses with opportunities to reach customers beyond their local markets. A small seller can now display products, accept payments, advertise, and arrange delivery without maintaining a large physical retail network. Small firms selling online are also more likely than larger firms to depend on third-party marketplaces and external digital service providers. While this lowers the cost of market entry, it may also reduce their control over payment settlement, customer service standards, refunds, and return procedures.

Returns are an unavoidable part of online commerce because customers cannot physically examine, test, touch, or try products before placing an order. Differences in size, colour, quality, performance, appearance, and customer expectations can lead to dissatisfaction even when the seller has delivered the product correctly. Research reviews describe product returns as a costly but central part of online retail operations rather than an occasional after-sales issue.

A flexible return policy can strengthen consumer confidence. Customers may be more willing to purchase when they know that an unsuitable product can be



returned without excessive difficulty. A meta-analysis of earlier research found that return policy leniency generally increases purchases, although different policy dimensions affect buying and returning behaviour differently. For example, easy refunds may encourage purchasing, while broad eligibility may also increase the likelihood of returns.

The financial consequences of returns are substantially different for small and large sellers. Large retailers can distribute return-processing costs across many orders, use specialised warehouses, negotiate lower transport charges, and resell returned products through several channels. Small ventures generally have less inventory, smaller margins, and limited cash reserves. A single expensive return may therefore affect their ability to purchase replacement stock or pay an immediate supplier bill.

2. Objectives of the Study

2.1 Understanding Return Policy Burden

The study seeks to understand the different financial and operational responsibilities created by product returns. These responsibilities include customer refunds, reverse transportation, product inspection, repackaging, repair, replacement, customer communication, and the resale or disposal of returned goods.

It also aims to distinguish between a return policy that supports customer trust and a policy that creates an unsustainable financial commitment for a small venture.

2.2 Examining Working Capital Stress

The study examines how product returns affect the cash available for daily business operations.



Particular attention is given to:

1. Cash blocked in refunded orders;
2. Returned inventory awaiting inspection;
3. Delayed recovery of product value;
4. Additional logistics and handling expenditure; and
5. Pressure on supplier and operating payments.

2.3 Developing Practical Recommendations

The paper aims to suggest return-management practices that protect both customer satisfaction and business survival. It considers category-specific policies, exchanges, store credits, product information, return forecasting, fraud controls, and faster product recovery.

3. Review of Literature

3.1 Return Policies and Consumer Confidence

Return policies reduce the risk consumers experience when buying products online. Since customers cannot examine goods before purchase, the right to return a product can act as a form of assurance. A simple and clearly communicated policy may increase trust and improve the possibility of repeat purchases.

However, a policy that is generous in every situation may also encourage customers to order several alternatives and return the unwanted items. Janakiraman, Syrdal, and Freling found that leniency may increase purchasing, but its impact differs according to whether the policy concerns time, refund amount, effort, product scope, or exchanges. More recent research similarly suggests that return policy design should not be treated as a single decision between “strict” and “lenient.” Different customers and product categories respond differently to return windows, refund conditions, return effort, and exchange opportunities.

3.2 Reverse Logistics and Return Processing Costs

A returned product moves through a reverse supply chain. It must be collected, transported, received, inspected, graded, cleaned, repaired, repackaged, restocked, discounted, recycled, or disposed of. Each additional stage creates cost and delays the recovery of value.

Gustafsson, Jonsson, and Holmström found in their retail supply-chain study that handling and transportation formed the largest parts of return costs. Their findings also showed that better product-fitting information could significantly reduce fit-related return expenditure.

Reverse logistics research further emphasises that an effective return system should not end with product collection. The seller must decide whether the returned item should be placed back in normal inventory, sold at a discount, repaired, recycled, or written off. Slow decisions increase storage requirements and keep money tied up in non-productive inventory.

3.3 Working Capital and Small Business Survival

Working capital represents the short-term resources used to maintain normal business operations. For an online seller, these resources are required for purchasing inventory, paying delivery partners, financing advertising, paying employees, maintaining software, and meeting refund commitments.

Research on small firms has found that efficient cash conversion is associated with stronger liquidity, lower financing requirements, and better performance. Small firms with slower cash recovery may require more debt or owner investment to support routine operations. Product returns can extend the cash recovery period because the seller may issue a refund immediately but recover the product's value

much later. If the item cannot be resold at its original price, a part of the invested working capital may be permanently lost.

Table 1: Summary of Selected Literature

Study	Main Focus	Relevance to Present Paper
Janakiraman et al. (2016)	Return policy leniency	Explains how flexible policies influence purchases and returns.
Ebben and Johnson (2011)	Working capital in small firms	Connects cash recovery with liquidity and performance.
Gustafsson et al. (2021)	Cost of retail product returns	Identifies handling and transportation as major return costs.
Duong et al. (2022)	Product-return research	Presents returns as an important operational and financial problem.
Karl (2025)	Forecasting online returns	Shows the importance of predicting return volumes and patterns.

The literature explains consumer behaviour, reverse logistics, and working capital separately. Limited attention has been given to the way these areas interact within small e-commerce ventures. The present study addresses this gap by examining the complete path from customer refund to product-value recovery.



4. Research Methodology

4.1 Research Design

The study uses a conceptual and scenario-based research design. It brings together published research on e-commerce returns, return policy design, reverse logistics, inventory recovery, and working capital management. No claim is made that the numerical examples represent an actual group of businesses. The scenarios are included to explain how different levels of return burden may affect a small e-commerce venture.

4.2 Areas Covered in the Study

The analysis concentrates on five areas:

- 1. Refund pressure:** the time between refunding the customer and recovering value from the returned product.
- 2. Reverse logistics cost:** collection, transportation, inspection, and handling expenditure.
- 3. Inventory blockage:** the period during which the product cannot be sold.
- 4. Value loss:** damage, opened packaging, seasonal decline, discounting, or complete write-off.
- 5. Administrative burden:** customer communication, platform cases, refund records, fraud checks, and inventory reconciliation.

These areas were selected because they directly affect the cash and stock available to a small online seller.

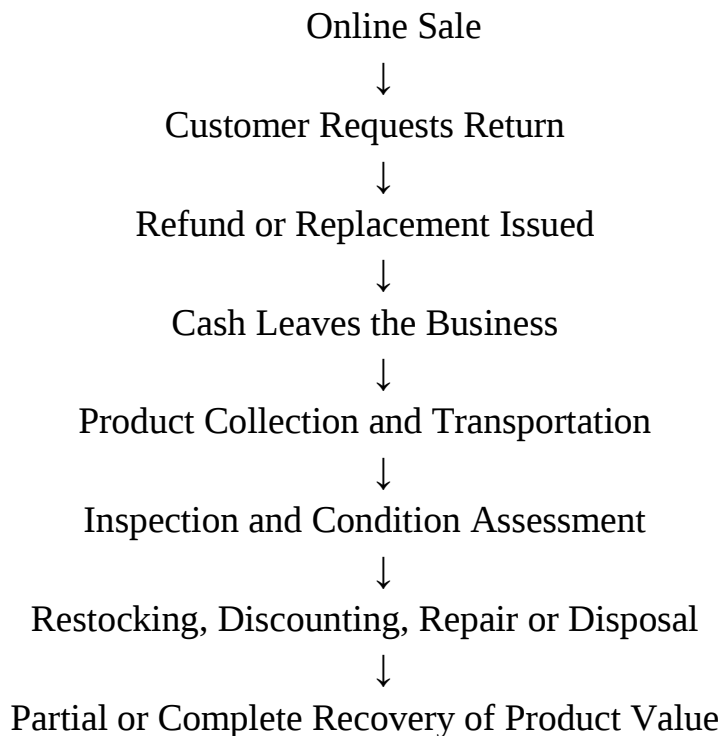
4.3 Scenario Development

Three business situations were developed:

- **Low return burden:** limited returns, fast inspection, short recovery time, and high resale value.

- **Moderate return burden:** regular returns, some free-return commitments, and occasional resale delays.
- **High return burden:** frequent returns, immediate refunds, long recovery periods, high transport costs, and significant product-value loss.

Graph 1: Return Policy Burden Pathway



The most financially sensitive stage is the period after the refund but before the returned product generates new revenue. A longer period creates greater pressure on working capital.

5.1 How Returns Block Business Cash

In a normal completed sale, the business receives payment and uses part of it to finance future orders. In a returned sale, this flow is interrupted. The seller may refund the customer while the product is still with the courier or customer.

The business must therefore finance the customer refund and continue operating without immediate access to either the original cash or saleable

inventory. This gap becomes particularly difficult when several returns arrive together.

Returns also affect advertising efficiency. The seller may have already paid a marketplace commission, payment-processing charge, advertisement cost, packaging expense, and outward delivery charge. Some of these costs may not be fully recovered even when the customer returns the product.

5.2 Scenario-Based Findings

Table 2: Illustrative Return Burden Scenarios

Indicator	Low Burden	Moderate Burden	High Burden
Product return rate	5%	13%	25%
Average value-recovery period	3 days	9 days	19 days
Working capital blocked in returns	6%	17%	34%
Average product value recovered	94%	78%	55%
Working capital stress	Low	Moderate	Severe

Note: The values are illustrative and are provided only to demonstrate the proposed framework.

In the low-burden situation, returned items are received and inspected quickly. Most products remain in good condition and can be returned to normal inventory. The temporary pressure on cash is manageable.

In the moderate-burden situation, a larger amount of cash remains blocked. Some products require discounts, new packaging, or minor repairs. The seller may reduce inventory purchases until the returned stock is processed.



In the high-burden situation, the refund and recovery periods become seriously misaligned. The business may face a shortage of money even when sales figures appear healthy. This is because a significant portion of recorded sales is later reversed while return-related costs continue.

5.3 Main Sources of Working Capital Stress

The analysis identifies four important sources of financial stress.

First, **refunds are faster than product recovery**. Customers may receive their money shortly after the return request, while the seller waits several days or weeks to receive and inspect the product.

Second, **returned goods may not recover their original value**. Opened packaging, missing accessories, product damage, seasonal changes, and customer use can reduce resale value.

Third, **logistics costs are paid twice**. The seller may bear both the original delivery cost and the cost of bringing the item back.

Fourth, **platform rules may reduce seller flexibility**. Marketplace sellers may have to follow standardised refund timelines and customer service requirements even when their products, margins, and operational capacity are different.

6. Discussion

6.1 The Customer Trust and Cash Flow Conflict

A return policy performs two opposing functions. It reduces customer risk, but it transfers a portion of that risk to the seller. This transfer may be manageable for businesses with high margins and strong financial reserves. It can be dangerous for small ventures selling low-margin or high-shipping-cost products. A strict policy may protect cash but discourage customers. An excessively generous policy may



increase orders but leave the seller with repeated refund and logistics losses. The appropriate policy therefore lies between these two extremes.

The return policy should reflect the product's nature. Clothing, electronics, cosmetics, customised goods, fragile products, and low-value accessories do not carry the same return risk. A single policy for every category may be simple to communicate but financially inefficient.

6.2 Effect on Business Decisions

Working capital stress changes the decisions made by small venture owners. When a large amount of cash is blocked in returns, the owner may postpone fresh stock purchases or avoid adding new products. Supplier payments may be delayed, reducing trust and bargaining power.

The business may also reduce advertising because funds are required for refunds. This can create a negative cycle: returns reduce cash, lower cash reduces promotion, and lower promotion reduces new sales.

6.3 Practical Measures for Small Ventures

Small e-commerce ventures should begin by measuring returns at product level rather than only at business level. A few products may be responsible for a large share of return expenses. Such products may need better photographs, clearer descriptions, improved packaging, revised sizing information, or removal from the catalogue.

An **exchange-first approach** can reduce immediate cash outflow. Customers may be offered a replacement size, different colour, store credit, or substitute product before a refund is issued. This approach should remain transparent and should not unfairly restrict a customer's legal rights. Businesses should also establish a small return reserve. A fixed share of weekly or monthly sales can be



kept separately for refunds. This prevents every return from interfering with supplier payments and inventory purchases.

Returned goods should be inspected quickly. A product waiting in a warehouse does not support sales or cash flow. Clear categories such as “resell as new,” “open-box sale,” “repair,” “supplier return,” and “write-off” can speed up decisions. Returnless refunds may be considered for low-value products when the cost of transportation and inspection is higher than the recoverable product value. Larger retailers increasingly use this practice selectively, but small sellers must apply it carefully to prevent misuse.

Finally, the venture should keep its policy simple and visible. Customers should know the return window, acceptable product condition, required evidence, refund method, and expected processing time before completing a purchase.

7. Conclusion

A return policy is not only a customer service document. It is also a financial commitment that influences inventory, cash flow, logistics expenditure, and business continuity. For small e-commerce ventures, the burden becomes serious when refunds are issued quickly but product value is recovered slowly. The study identified five major elements of return policy burden: refund timing, reverse logistics expenditure, inventory blockage, product-value loss, and administrative work. These elements interact with one another. A returned product may simultaneously remove cash, create transportation expense, occupy storage space, and lose resale value. The scenario analysis showed that small increases in return volume may create much larger increases in working capital stress when processing is slow. A business can appear profitable in its sales report while

experiencing a shortage of usable cash because a substantial amount remains tied up in returned inventory and pending reimbursements.

Small ventures should therefore avoid copying the return policies of large e-commerce companies without considering their own financial capacity. Their policies should be customer-friendly but connected to product margins, logistics costs, recovery time, product condition, and resale possibilities.

Practical measures include better product information, category-specific policies, exchange-first options, faster inspection, separate refund reserves, product-level return monitoring, fraud controls, and return forecasting. Research on e-commerce returns increasingly recognises forecasting as an important tool for planning logistics and inventory requirements.

Future empirical research should collect data from small online sellers across different product categories. It should examine actual return rates, refund periods, resale values, logistics costs, credit usage, and supplier-payment delays. Such research can help develop return policies that protect consumers without placing an unreasonable financial burden on small e-commerce ventures.

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