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Liberal Returns Policy: Communication and Performance of the Marketing Channel

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Abstract: The performance of a marketing channel depends on its information structure. It is high when both manufacturer and retailers have accurate information about demand conditions. Accordingly, in the case where only the manufacturer has such information, it has an incentive to transmit its information to the retailers. In the outright sales contracts (spot-market transactions), the manufacturer overstates demand conditions to encourage large orders by the retailers and thus earn a large profit. Hence, the retailers do not believe the transmitted information. However, in the case in which the manufacturer has to accept any unsold goods, it does not have any incentives to pass on misleading information. Therefore, the retailers believe the transmitted information. In this sense, the liberal returns policy is the basis for efficient communication in the channel.

Keywords: [liberal returns policy](#); [communication](#); [channel](#)

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