

A background image of a modern retail store. In the foreground, a woman in a black blazer is interacting with a cashier at a counter. The cashier is holding a laptop and a scanner. In the background, other staff members are visible, one holding up a red and white striped shirt. The store has large windows and modern lighting.

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**REVOLUTIONIZING
RETURNS:
AI-DRIVEN
STRATEGIES FOR
FASHION
RETAILERS**

Introduction

The rise of omni-channel retailing has dramatically changed how people shop for clothing, shoes, and accessories. They expect the flexibility to choose when, where, and how they shop using any combination of online and offline channels.

Consumers have become accustomed to having endless options at their fingertips and purchases delivered right to their doorstep—and they're taking full advantage of this new world of choice and convenience. People's homes have become the new "dressing room." Shoppers tend to order multiple sizes, colors, and variations of an item, they try everything on in the comfort of their homes. They keep one or two items that work and then return the rest. This behavior is becoming increasingly common, with a [2024 ICSC Consumer Returns Survey](#) finding that "87% of consumers who overbuy online do so with apparel to try things on at home and return what they don't want."

Of course, shoppers expect the returns process to be simple and flexible, no matter if they choose to mail unwanted items back to the retailer or return them in person to a local store.

For fashion retailers, these new shopping patterns and expectations have created a very costly challenge: **managing returns.**

Traditional methods are no longer enough to manage the complexities of omni-channel returns. Let's explore innovative approaches to handling returns, optimizing inventory, and maximizing profits in today's fast-paced fashion retail landscape.



Fasion Retail's Billion-dollar Returns Problem

From fast fashion to luxury brands, retailers are dealing with increasingly high return rates for online purchases. According to Coresight Research, the average return rate for online apparel orders in the US is 24.4%, which translates to a whopping \$38 billion in returns. Some retailers even see online order return rates as high as 50%, depending on the category and time of year.

With every return, fashion retailers also incur the associated processing costs, including shipping, inspections, and restocking. Given the massive volume of returns, coupled with rising transportation and labor costs, retailers are taking major hits to their profit margins.

To mitigate the financial impact of returns, many retailers have taken steps to discourage shoppers from sending items back in the first place. One approach is to offer more detailed product information to help shoppers make informed purchasing decisions. This could mean providing better online pictures and videos, more detailed product descriptions, more accurate sizing charts, and even virtual try-ons. Another approach is to focus on improving order fulfillment accuracy, which prevents returns caused by shipping errors.



Finally, some retailers are rethinking their free online returns policies. They're beginning to charge customers shipping or restocking fees to offset their costs. While retailers may recoup some of their losses in the short term, they might wind up losing loyal customers in the long run. In one survey of U.S. shoppers, 88% of respondents said they stopped shopping with a retailer when it introduced a paid returns policy.

Ultimately, trying to stop returns from happening isn't the answer. With preventative measures alone, inventory is still going to keep coming back. Instead of putting all their focus on prevention, fashion retailers need to look at the way they manage returns behind the scenes.

Why Traditional Returns Management Is Going Out of Style

With omni-channel retailing, customers can return items anywhere and this exposes the shortcomings of traditional approaches to returns management. The first issue is forecasting. Predicting future return patterns is crucial for effective inventory management and resource allocation. Traditional forecasting methods often lack accuracy, which hinders proactive planning and inevitably leads to costly inventory imbalances down the line.

Next, most retailers still struggle to merge online and offline returns into one seamless process. They rely on disparate systems and processes for online and in-store returns. This creates confusion and data silos, leading to a lack of visibility as well as delays in processing returns that impact customer satisfaction.

Last, but not least, is the problem of returns positioning. In an ideal world, fashion retailers would route each returned item where it will have the highest probability of reselling it at the highest price before the season ends. However, typical inventory systems do not give retailers the visibility to determine the optimal return path for each individual item. Instead, retailers end up using simple rules, such as:

- Send all online orders back to the closet fulfillment center.
- Ship all returned items to one central warehouse.
- Keep items in the store where they're returned, even if that location does not carry the item.

These simple one-size-fits-all rules are not adequate for omni-channel. They result in major issues that hinder operational efficiency and financial performance, including:



Misallocation of goods:

Simplistic returns rules lack the sophistication to consider factors like seasonality, regional variations in demand, and individual store performance, meaning products are rarely reallocated to an optimal location for resale. Items end up sitting around unsold, leading to excess inventory, heavy markdowns, and liquidations at the end of the season.

High handling times and costs:

Each returned product must go through multiple touch points along the return journey. Transportation and handling costs add up fast, and each step takes time. Since fashion inventory tends to have short life cycles, products are rarely reallocated to a store in time for resale before the season ends.

Missed opportunities:

Delayed reintroduction of goods to the sales floor can cause unnecessary stockouts, leading to lost sales and unhappy customers who can't find the items they want. Imagine a scenario where summer dresses are returned en masse in early July. Delays getting these items back to stores can lead to stockouts during peak demand periods and missed opportunities to capitalize on current trends.

Inefficient allocation and reactive replenishment

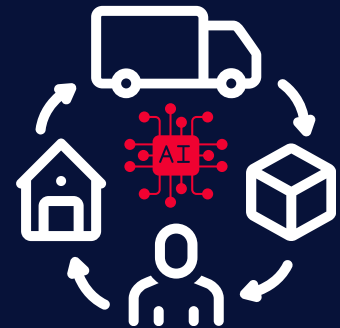
Lack of visibility into future returns patterns disrupts inventory planning processes. Allocation and replenishment decisions fail to account for the influx of returned items, which can lead to inventory imbalances across the supply chain. Some stores may experience stockouts of popular items while others struggle with overstock situations.

Warehousing bottlenecks:

Sending all returns to a central warehouse creates bottlenecks in the reverse logistics process. This can lead to significant delays in processing returns, restocking inventory, and ultimately, reintroduction of products to the sales floor.

Lower Profits:

From markdowns and liquidations to lost opportunities and unhappy customers, to operational inefficiencies and planning roadblocks, all these returns challenges ultimately hurt a retailer's bottom line.



Fortunately, retailers no longer need to rely on simplistic, outdated approaches to returns management. AI and data analytics are powering modern returns strategies and enabling retailers to optimize their entire reverse logistics process.

Optimizing Returns Positioning with AI

AI has emerged as a powerful tool to tackle the complexities of returns management. By leveraging AI, fashion retailers can revolutionize their supply chains and inventory processes, leading to optimized returns positioning and improved profit margins. AI-driven solutions make the returns process more efficient, proactive, and profitable through:

1 Accurate forecasting for proactive planning

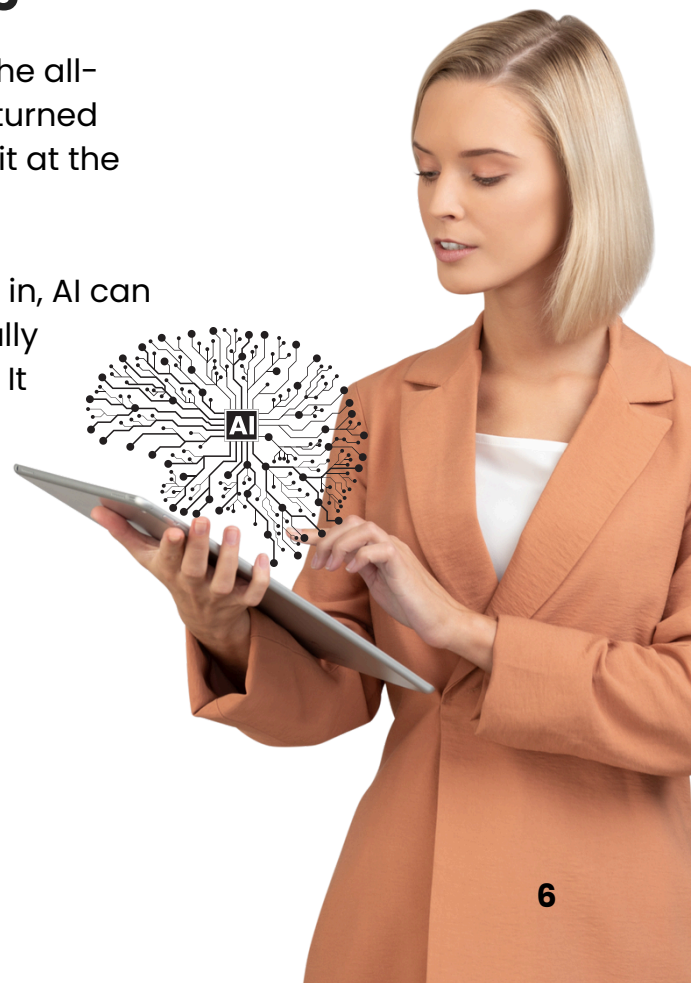
By delving into vast datasets and uncovering complex patterns, AI enables exceptionally accurate return volume predictions. This empowers proactive planning and resource allocation across the supply chain. Retailers can anticipate return volumes, optimize staffing levels for processing returned goods, and strategically plan for the reintroduction of these items onto the sales floor. This minimizes disruptions to inventory flow and maximizes sales opportunities.

2 AI-driven intelligent rerouting

AI helps provide retailers the visibility to answer the all-important question: “Where should I route this returned item to give it the highest probability of reselling it at the highest price before the season ends?”

When an in-store or online return request comes in, AI can analyze massive amounts of data to automatically determine the optimal return path for each item. It accounts for factors such as:

- Current inventory levels, sizes and assortments
- Expected profit margin for the item
- The probability of selling the extra unit
- Time left in the sales season
- Transportation time and costs
- Any potential store constraints



In real-time, AI pinpoints the optimal distribution center or store location for each returned item. This ensures it reaches the point of sale with the highest chance of a quick and full-price resale. By minimizing unnecessary transportation legs and optimizing transport network efficiency, AI maximizes the return on investment for each returned item.

3 Strategic inventory allocation for profit maximization

Gone are the days of static inventory allocation rules. AI empowers retailers to strategically place inventory within the supply chain to maximize its sales potential. Local demand variations, markdown strategies at different locations, and historical sales patterns are all factored in. This ensures returned items are directed to the stores with the highest likelihood of achieving full-price sales, boosting overall profit margins.

A Look at AI in Action

What would this AI-driven approach look like in practice? Here's an example: A shopper buys two different colors of a dress from a fashion retailer's e-commerce site. After trying both dresses on at home, they decide to keep the one they like best and return the other in person at a nearby store location.



Rather than follow the simple “keep all items at the store where they get returned” rule, the retailer uses its AI-powered returns system to determine the best of a few possible options:

- Keep the dress to resell at that location
- Ship the dress back to the distribution center
- Send the dress to another location for resale
- Give the customer a credit, but let them keep the dress
- Hold the dress for liquidation

The AI solution compares key factors for each possible return route. In just milliseconds, AI discovers that the most profitable choice for this specific item is option number three. The customer walks away happy, and the dress gets routed directly to another nearby store where it sells quickly for the highest possible profit margin.



Transforming Returns Management into a Competitive Advantage

Fashion retailers that leverage AI to transform returns management gain a significant competitive advantage. Beyond simply streamlining the returns process, AI optimizes the entire reverse logistics journey for each returned item and delivers measurable benefits:

Increased sales

Quicker reintroduction of returned items to the sales floor, in the right stores and at the right time, can generate a significant sales uplift, ranging from 25-50%. By minimizing delays and ensuring returned items are readily available to meet customer demand, retailers can capitalize on sales opportunities and maximize revenue.

Minimized markdowns

Strategic placement of returned goods for higher resale probability directly boosts profits. By directing returned items to stores with the highest potential for full-price sales, retailers can minimize the need for markdowns and significantly improve their profit margins.

Greater customer satisfaction

With an AI-driven returns strategy, fashion retailers can continue to offer flexible return options that consumers have come to expect in the omnichannel world—while protecting their bottom line. Moreover, retailers can quickly position returned items where they are wanted most, ensuring in-demand items are readily available to keep customers satisfied.

Reduced liquidations

AI-powered returns forecasting and returns positioning minimizes end-of-season surplus inventory, leading to a 2-5% decrease in liquidations.

Adopting AI: Advice for Fashion Retailers

Innovative fashion retailers are already leveraging AI to revolutionize returns, keep customers happy, and boost their financial performance. Those who are slow to embrace AI risk falling behind the competition.

The good news is that AI is now more accessible and user-friendly than ever before. Fashion retailers exploring AI should keep the following tips in mind for an easy implementation and immediate ROI:

1 Avoid complicated infrastructure overhauls

While some AI-based solutions require complicated upgrades or replacements to existing systems, that's not always the case. With the right solution, implementation doesn't have to be long and complicated. Some solutions can integrate with a retailer's existing IT systems in just 90 days and go fully live in just weeks. These solutions are ready to start making returns positioning decisions immediately, so retailers see a very quick ROI.

2 Choose an experienced partner

Retailers don't need an in-house team of data scientists to start working with AI. Instead, many are forming successful partnerships with experienced vendors to deploy AI-built solutions perfectly aligned to their unique needs and goals.

A great AI solutions provider will not only provide the technology; they'll also serve as a long-term partner. Their experts will work closely with a retailer's inventory teams on an ongoing basis, continuously improving system performance and uncovering new opportunities for omni-channel success.



3 Don't stop at returns

The possibilities of AI for inventory optimization in fashion retail are endless. AI-powered returns management is just one element, albeit a great and profitable step. Today, easy-to-implement AI solutions can optimize everything from demand forecasting and inventory planning to allocation and replenishment, to pricing and markdowns, and much more. With AI-powered systems optimally positioning inventory across the entire fashion supply chain, retailers can drive profitable growth while satisfying customers with frictionless omni-channel experiences.

Future-Proof Returns Strategies: Ready to Rethink Your Approach?

In today's omni-channel fashion retail world, a future-proof returns strategy is no longer a luxury; it's a necessity. The ever-increasing volume of returns will continue to be a major headache for fashion retailers who rely on traditional tools and processes. However, retailers who adopt advanced technologies that enhance the efficiency and accuracy of returns management will be well-positioned for omni-channel success in the years to come.

By implementing AI, retailers can forecast return patterns with greater accuracy, intelligently reroute returns, and strategically allocate every piece of inventory. This not only streamlines the returns process but also ensures that inventory is managed proactively rather than reactively, safeguarding profit margins, operational efficiency, and customer satisfaction.

Don't let returns become a burden on your bottom line. [Contact invent.ai](#) today to discover how our AI-driven Returns Positioning solution can help you transform returns management from a cost center into a competitive advantage.



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