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# Revolutionizing Returns:

AI-driven strategies for fashion retailers



# Introduction

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Multichannel retailing has dramatically changed how people shop for clothing, shoes and accessories. Shoppers now expect the flexibility to choose when, where and how they shop—seamlessly moving between online and in-store experiences.

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 choice and convenience.

People's homes have become “dressing rooms.” With the rise of flexible return policies, shoppers are more comfortable buying multiple variations of an item to try at home. As a result, returns cost U.S. retailers over \$800 billion annually, with apparel returns being a major contributor.

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 shopping patterns and expectations have created a very costly challenge: **managing returns**.

Traditional methods are not sufficient to handle the complexities of multichannel returns. In this white paper, we'll cover innovative approaches to managing returns, optimizing inventory and maximizing revenue in the modern world of fashion retail.



# Fashion retail's billion-dollar returns problem

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From fast fashion to luxury brands, retailers are dealing with increasingly high return rates for online purchases. Processing these returns incurs significant costs, with estimates ranging as high as \$25 billion for shipping, handling and restocking expenses. Some retailers experience return rates reaching up to 50% in certain categories, particularly during peak shopping seasons.

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 revenue.

To mitigate the financial burden 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 in an effort 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 shoppers said they stopped buying from a retailer after a free returns policy went away.

Ultimately, trying to stop returns from happening isn't the answer. Retailers need to stop focusing solely on prevention and start rethinking the way returns are handled behind the scenes.



# Why traditional returns management is going out of style

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With multichannel retailing, customers can return items anywhere and this exposes the shortcomings of traditional approaches to returns management.

The first issue is inaccurate 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 is disjointed systems. 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 affect customer satisfaction.

Last, but not least, is the problem of returns positioning. In an ideal world, fashion retailers would route each returned item to where it will have the highest probability of resale 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 closest 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.



# Why traditional returns management is going out of style

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These simple one-size-fits-all rules are not adequate for multichannel retail. 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 has to go through multiple touchpoints 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.

## 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.

## 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.

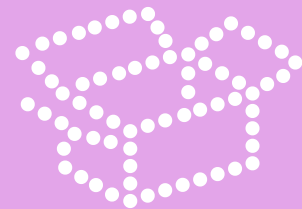
Delays getting these items back to stores can lead to stockouts during peak demand periods and missed opportunities to capitalize on current trends.

## Inefficient allocation and reactive replenishment

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## Lower revenue

From markdowns and liquidations, to lost opportunities and unhappy customers, to operational inefficiencies and planning roadblocks, 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

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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 bottom line. AI-driven solutions make the returns process more efficient, proactive and profitable through:

## 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.

## AI-driven intelligent rerouting

AI gives 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 revenue 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.

## Strategic inventory allocation for revenue growth

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 revenue.



## A look at AI in action

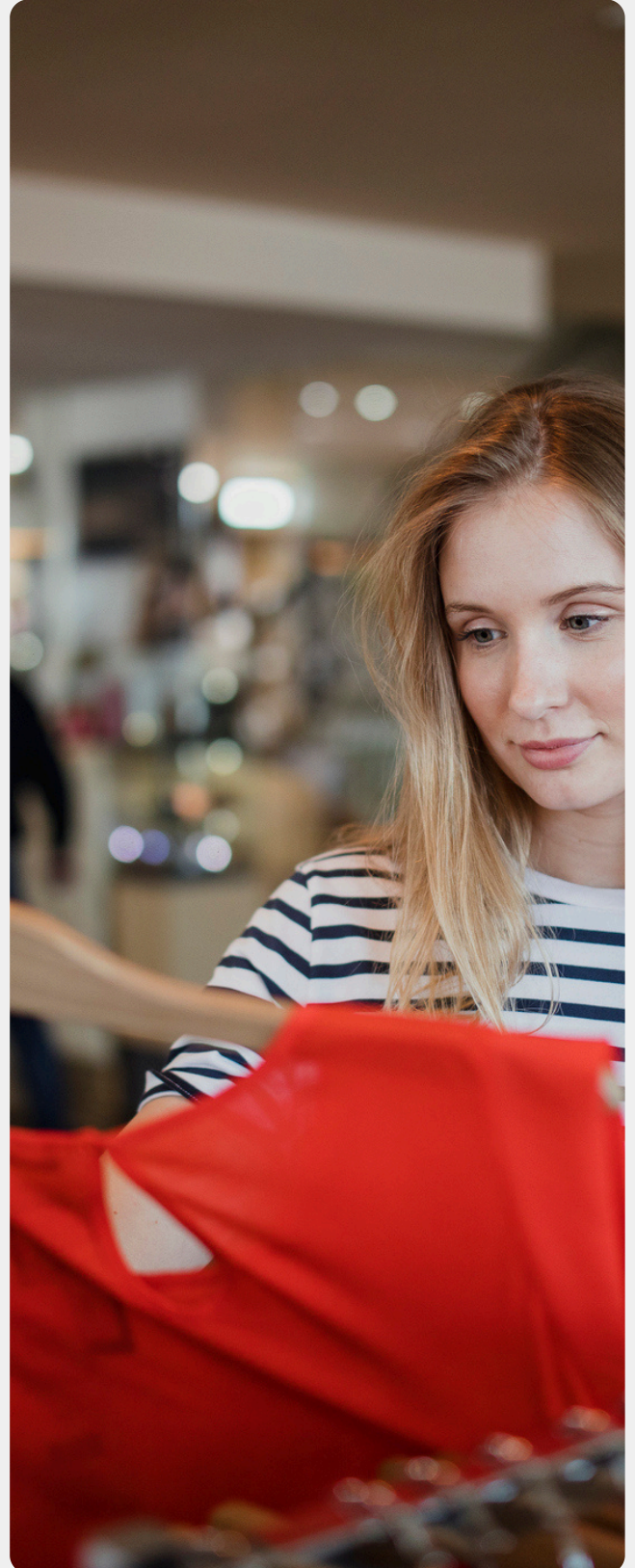
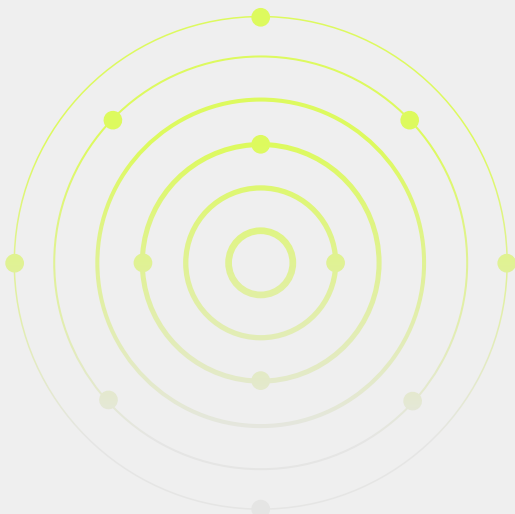
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What would this AI-driven approach look like in practice? Here's an example: A shopper buys two different colors of a dress from a fashion retailer's ecommerce site. After trying both dresses on at home, they decide to keep the one they like best and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



# Transforming returns management into a competitive advantage

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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:

## 1. 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.

## 2. Minimized markdowns

Strategic placement of returned goods for higher resale probability directly boosts revenue. 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 revenue.

## 3. 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 multichannel 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.

## 4. Reduced liquidations

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



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 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 key component, but an essential one. Today, easy-to-implement AI solutions optimize everything from demand forecasting and inventory planning to pricing, markdowns and everything in between. With AI-driven systems efficiently positioning inventory across the entire fashion supply chain, retailers can drive growth while delivering frictionless experiences to customers.



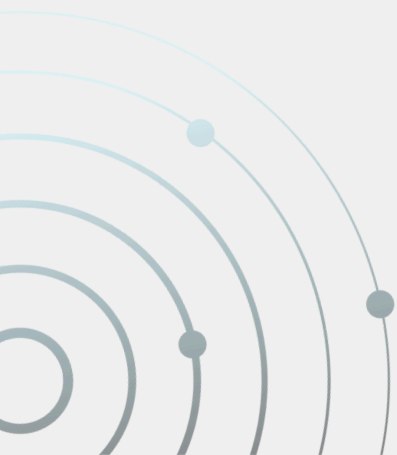
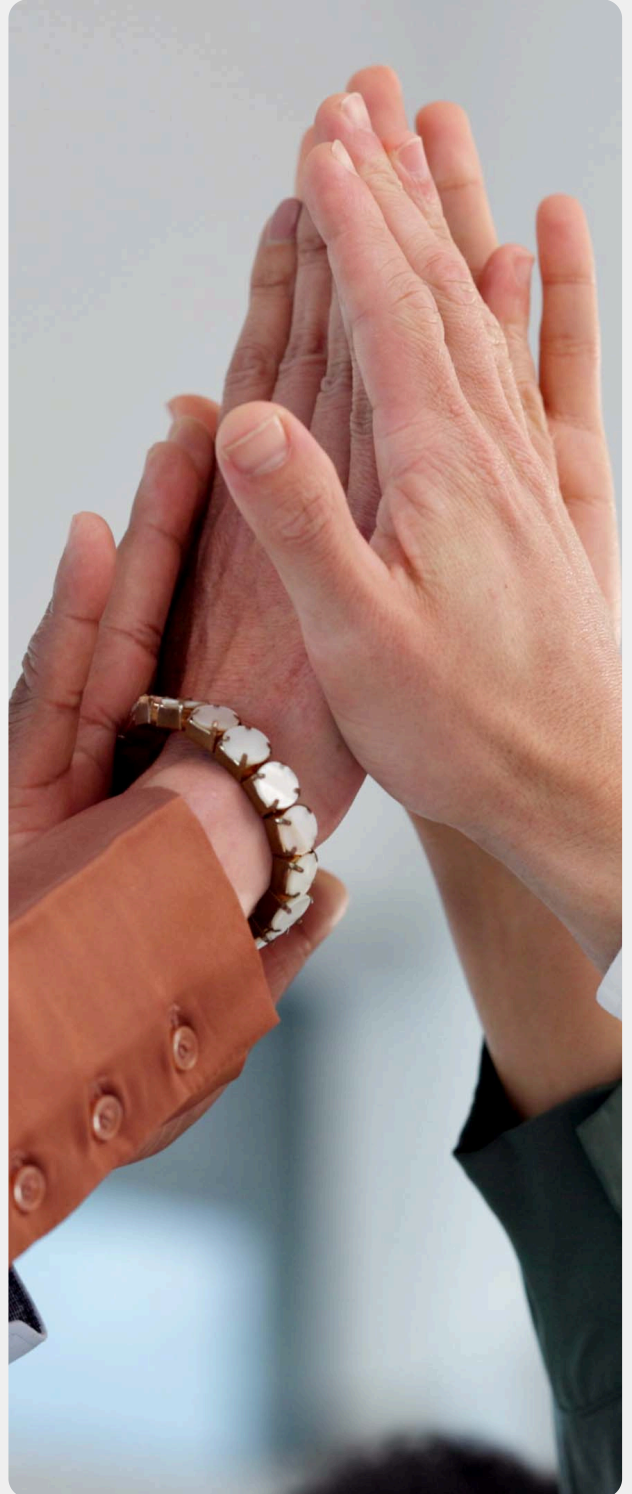
# Future-proof returns strategies: Ready to rethink your approach?

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In today's world of fashion retail, 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 success in the years to come.

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

Don't let returns become a burden on your bottom line. Contact us today to discover how our AI-powered returns positioning solution can help you transform returns management from a cost center into a competitive advantage.



## About invent.ai

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Invent.ai is a multi-agentic AI-decisioning platform that enables retailers to turn data into real-time decisions and automated actions across inventory, pricing and merchandising. Powered by a multi-agentic AI architecture, the platform predicts outcomes, refines strategies and executes merchandising decisions at scale—driving measurable sales, revenue and margin performance. By combining advanced AI with deep retail expertise, invent.ai helps retailers across the globe navigate dynamic markets, improve operational efficiency and achieve sustainable financial outcomes.

Invent.ai is recognized in the Gartner® Market Guide for Retail Forecasting, Allocation and Replenishment Solutions and for Retail Unified Price, Promotion and Markdown Optimization Applications – Short Life Cycle. The company has also received the RetailTech Breakthrough Awards' Customer Experience Award, SupplyChainBrain's Great Supply Chain Partner recognition and Supply & Demand Chain Executive's Top Supply Chain Projects award.



### Our Offices

#### **Philadelphia**

100 S. Juniper St. Floor 3  
Philadelphia, PA 19107  
USA  
+1 484 423 4433

#### **London**

293 Green Lanes  
London, N13 4XS  
United Kingdom  
+44 20 7096 5488

#### **Amsterdam**

De Weesper  
Weesperstraat 107-121 Unit 3.16  
1018 VN Amsterdam  
+31 97010260098

#### **Istanbul**

ITU Teknokent, ARI-2 A Blok  
No:302 Maslak, Istanbul  
Turkey  
+90 212 286 10 25

[www.invent.ai](http://www.invent.ai)

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