

THE RIGHT FIT

How AI is changing ecommerce
apparel returns



For several years, the headlines have told the same story again and again: seismic changes are underway in the American retail marketplace. Over the last decade, there's been explosive growth in the world of online shopping. The US Department of Commerce reported that in 2016, eCommerce sales in the US reached \$395 billion, a 15.1 percent jump from the previous year.

According to a 2017 survey by Deloitte, a majority of US Christmas shoppers—51 percent—said they planned to spend their holiday shopping budget online, compared with 42 percent in-store. In fact, an even greater percentage of Deloitte's survey respondents with six figure incomes (of \$100,000 or more)—a full 57 percent—said they planned to do all their shopping online during last year's holiday season.

With that rapid expansion of online shopping, eCommerce businesses—particularly those in the apparel industry—have relied upon the continuing evolution of technology to improve the shopping experience

of their customers, facilitate the growing online demand for products and services, and reduce the high rate of online apparel returns.

As the world of retail has moved online, the difference in rate of returns—especially as it pertains to the apparel industry—has been stark.

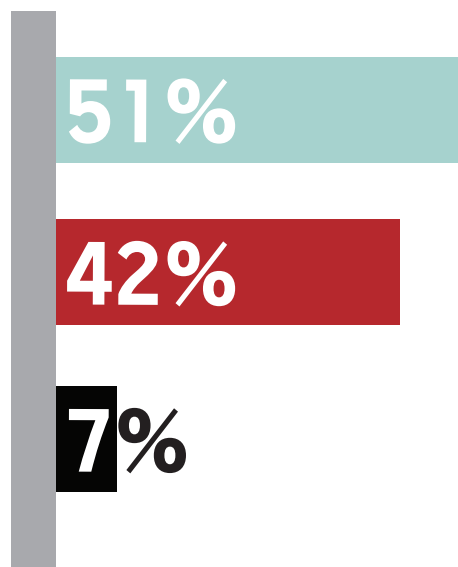
While the 'brick and mortar' return rate hovers at about 9 percent, online businesses experience a rate of return that is more than twice that rate—with approximately 20 percent of online purchases being returned. In fact, during the annual holiday season—depending on the industry—online return rates can spike to anywhere between 30 and 50 percent; for pricier items, the average rate of return for online purchases registers a full 50 percent. Considering the fact eCommerce revenue is estimated to top approximately \$2.1 trillion in 2018, even a one-in-five rate of return adds up to millions of dollars of lost revenue for online businesses.

CONSUMER HOLIDAY SPENDING IN-STORE VS. ONLINE

51% of US Christmas shoppers said they planned to spend their holiday shopping budget online

42% of US Christmas shoppers said they planned to spend their holiday shopping budget in-store

7% of US Christmas shoppers said they planned to spend their holiday shopping budget in Catalogs/Direct Mail/Other



SOURCE: DELOITTE

The Costly Ripple Effect of Online Apparel Returns

For online apparel businesses, an ever-expanding customer base has, unfortunately, also meant coping with the highest rate of return in the eCommerce space.

According to the eCommerce platform Shopify, online apparel companies often contend with customers who are 15 times more likely to return items than other eCommerce shoppers. The high rate of return of apparel purchased online also directly impacts

companies tasked with fulfilling online orders. “Over the last four years, we have seen our rate of returns for online apparel increase by at least 5 percent year-over-year,” explains Mary Marriott, Vice President of Operations for Rakuten Super Logistics (RSL), a national leader in eCommerce order fulfillment.

And, Marriott adds, there are significant costs associated with a high rate of apparel returns.

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It’s important to note that apparel returns take at least three times more labor time than non-apparel returns,” she says. “In addition, apparel has a damage rate of 12% percent, and when a product is damaged it can’t be sold, and is considered to be a loss,” says Marriott.

“Damaged product doesn’t just pertain to products that are ripped or torn. Damaged return apparel includes products that may have makeup or deodorant marks; and each damaged apparel return has to be manually inspected.

Of course, all of this (returned apparel) results in significantly higher costs for the client.

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In an age where order fulfillment houses are transitioning to automation, returning apparel purchased online remains a very labor intensive business; as a result, the costs associated with the high rate of online apparel returns often offset the savings provided by automation. The resulting higher labor costs are often passed on to the client, in the form of hourly labor.

Oftentimes, order fulfillment houses that have several apparel customers—such as those operated by RSL—also require larger facilities to accommodate a returns area. The increase in order fulfillment square footage further adds to the burgeoning costs of online apparel returns.



“AI”: The Key to Customer Satisfaction and Fewer Returns

Statistics indicate that online shoppers continue to be more inclined to take advantage of liberal return policies than their counterparts shopping in-person. A recent survey of online apparel shoppers found that almost 70 percent of customers involved in apparel returns cited either incorrect size—or color—as the top reasons for the item return; in fact, 72 percent of those returning apparel purchased online said that the availability of a ‘liberal, no questions

asked’ return policy was what they valued most in an online retailer.

Given that reality—and in line with the adage that ‘necessity is the mother of invention’—it’s not surprising that businesses within the online apparel sector are leading the way in offering products and services designed to minimize the rate of eCommerce returns.

Rakuten Fits Me:

The AI Solution to High Return Rates for Online Apparel

One of the leaders in addressing the high return rate confronting the online apparel industry is London-based Rakuten Fits Me.

“We offer customers a fit and size recommendation platform that helps shoppers find the best fitting apparel for them on retailer sites,” explains Kimberley Carr, Rakuten Fits Me’s Chief Product Officer. “By using consumer information—such as age, height, weight and body shape—we match that information to garment measurements to guide the shopper to the best size, and allow them to receive feedback on how clothes will fit against key body points.”

Carr adds that, in addition to users’ biometric data, Rakuten Fits Me also utilizes data on customers’ garment fit, style preferences and outfits purchased. Founded in 2010, Rakuten Fits Me helps shoppers understand and visualize apparel’s fit against a body; once that is done, the company’s AI technology provides a personal recommendation to the shopper.

“Through AI, we are able to use this customer data to continually improve recommendations for shoppers, as well as help brands improve their fit, and launch new ranges to both better service shoppers, as well as help to curate outfits and personalized wardrobes,” explains Carr. “The ultimate goal is to improve the online shopping experience—and put the fun into shopping for clothes online.”

While “size guidance” for apparel shoppers has existed since mass manufacturing replaced tailoring around the time of the Second World War, over the last several years eCommerce retailers have been trying to supplant or replace the fitting room experience with size guides.

“Our AI technology helps to instill confidence (into shoppers), while also helping retailers lower rate of returns and increase (customer) loyalty,” says Carr. Over the course of the last several years, Rakuten Fits Me has seen its customer base rapidly expand; according to Carr, the company has assisted 35 million “unique shoppers globally”; as the company continues to expand into new markets, that number is expected to continue to exponentially grow.

Of course, as new AI technology develops, it is incumbent on companies such as Rakuten Fits Me to further invest in ever-evolving state-of-the-art technology. “We’re continuing to invest in shopper-facing innovation, and features such as body imaging via photo upload, as well as AI capabilities, to further understand what drives purchases, as well as improve fitting recommendations that can be offered to online shoppers,” Carr explains. There is empirical evidence to support the idea that AI technology can have measurable—and significant—positive impact on businesses’ bottom line, and help ensure that they meet their financial goals. A recent Digital Trends survey of more than 13,000 technology, marketing, and creative professionals conducted by Adobe found that organizations utilizing AI are 50 percent more likely to exceed their own business goals.

The High Cost of Returning Items

A Significant Financial Burden for Apparel Companies

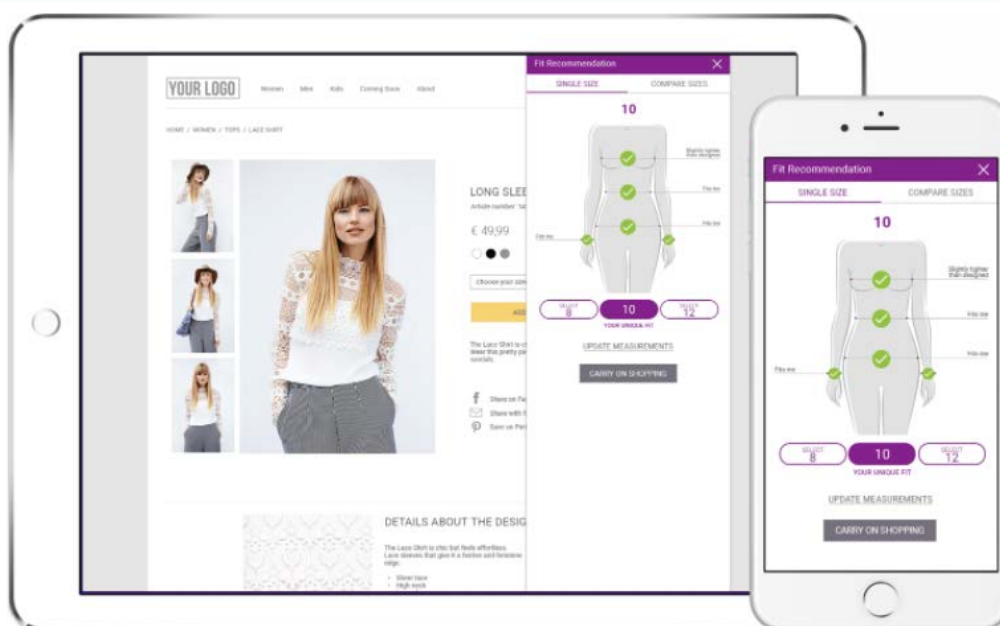
Ask any retailer about the price they pay for returned products, and you are almost certain to hear tales of financial woe. For example, a study by Rakuten Fits Me found that within just the first six months in 2016, 56 percent of retail customers in the United Kingdom returned clothing purchased online; the total cost of those returns was estimated to be about \$28 billion (US) per year.

In fact, the cost associated with having a liberal return policy is so significant that some companies have started to re-evaluate their pre-existing returns policy.

Recently, L.L. Bean's Executive Chairman Shawn Gordon posted a note on the company's Facebook

page explaining why his company was ending its 'lifetime satisfaction guarantee'. Gordon noted that "some (customers) have viewed the policy as a lifetime product replacement program, expecting refunds for heavily worn products used over many years; others seek refunds for products that have been purchased through third parties, such as at yard sales".

He added that the changes to the company's returns policy should only "affect a small percentage of returns", and customers will still have one year after purchasing an item to return it, along with proof of purchase.



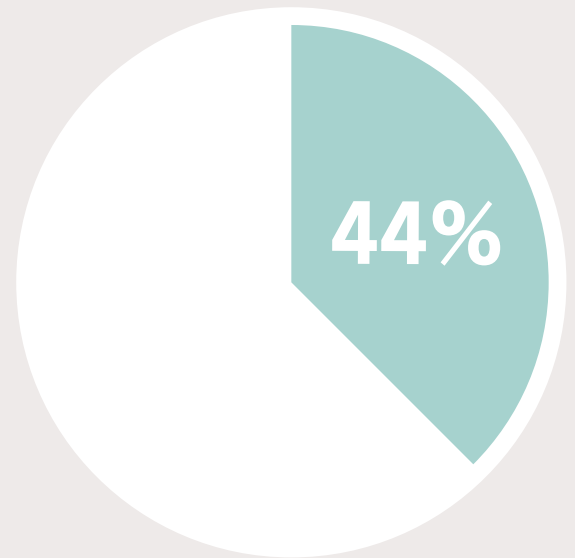
Meanwhile, other companies are taking a different approach to minimize the high cost of apparel returns. For its part, online apparel company Revolve has implemented a modified returns policy that features a 'restocking fee'. The company's restocking fee takes effect when a shopper returns more than \$7,500 worth of merchandise or over 80 percent of the value of their purchases during a 12-month period. In addition, shoppers who are 'flagged' forfeit their right to free merchandise return labels.

Amazon, the dominating force among online purchases, allows customers to return most new and unopened items within 30 days of delivery in order to receive a full refund; a recent study revealed that Amazon's ease of returns is one of the primary reasons the company was responsible for about 44 percent of all US eCommerce in 2017.

To directly address the costly issue of returns within the apparel sector, Carr says that Rakuten Fits Me actively uses both quantitative data from onsite behavior, as well as purchase and returns data when providing recommendations. The goal, she explains, is to develop recommendations (for both online apparel shoppers and retailers) that are localized to country/region, as well as to specific brands, thereby helping ensure the personalization of the customers' online shopping experience. The end result: fewer product returns.

However, in order to attain the optimal online purchasing experience, customers have to also be willing to provide feedback—and insight—into their own preferences.

Amazon Share of US Online Sales



Ease of returns is one of the primary reasons the company was responsible for about 44 percent of all US eCommerce in 2017



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In our experience, up to 90 percent of online shoppers are willing to share their data, in exchange for the size and fit recommendations we offer; and in the future, we expect that will extend to introducing shoppers to the best fitting brands, and items specifically selected for them,” Carr explains. “That will mean making recommendations not just on fit, but also on (personal) preference and style—true ‘omni-channel experiences’ that can be delivered not just online, but through in-store tools or recommendation guidance to shop assistants.

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THE ROAD AHEAD:

Personalized Apparel Recommendations & Fewer In-Store Fittings

Ultimately, as AI technology continues to advance, the results will be seen in improved design, planning, and production of apparel. In addition, lowering the rate of apparel returns resulting from advanced AI technology can—and almost certainly will—help to eliminate waste in what is considered to be the second-largest polluting industry in the world: the fashion industry.

Looking ahead, the pace of growth in eCommerce and the related technology that services it, will likely increase over the next few years.

“In the next two to three years, the AI technology will advance to the point where shoppers will no longer need to try things on in-store,” explains Rakuten Fits Me’s Kimberley Carr. “As recommendations for garments and size are further personalized to each individual, this won’t necessarily mean that the full in-store fitting room experience will be digitally replicated via interactive 3D avatars.

“Instead,” Carr adds, “these advancements will mean that all the information required by the shopper in order to select and purchase the right items will negate the need for him or her to try on the garment before purchasing it.” While AI technology will continue to improve and enhance the apparel buying

experience, Carr says that the act of shopping for clothes will still remain a visceral, personal experience for most customers.

“Fashion and clothing in general, is a very emotional experience for shoppers, and many will continue to find the fitting room experience to be enjoyable,” she says. “Even with advances in technology, many shoppers will still trust the tactile experience of touching the clothes, and actually seeing what the garments look like on their body.”

In the coming years, advancements in AI technology will undoubtedly continue to transform the way retailers sell—and consumers purchase—apparel.

Understanding how to maximize those technological advances—while still providing customers with an optimal and personalized shopping experience—will likely determine which retailers ultimately succeed in the era of advanced AI.

“We want to be able to offer our clients the lowest possible costs,” explains RSL’s Mary Marriot, “and improving AI technology—and the resulting lower rate of apparel returns— would allow us to do just that.”

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About Rakuten Super Logistics

Founded in 2001, Rakuten Super Logistics (RSL) is a leader in ecommerce order fulfillment, assisting leading ecommerce retailers to increase speed of delivery, improve order accuracy, decrease shipping costs, and increase customer satisfaction. RSL's cloud-based fulfillment platform for order and inventory management features integration with popular ecommerce platforms, and automatic order importing from online marketplaces, including: Amazon, Magento, WalMart Marketplace, and Shopify. RSL's 2-Day Delivery Network of wholly owned and operated fulfillment centers allows for 1-2 day delivery via ground shipping to 98 percent of the U.S.

Learn more at rakutensl.com