Understand Your Unique Return Rate Profile

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How to use your data
to reduce return rates
and improve
operating margin

Every fashion retailer has a unique return rate profile

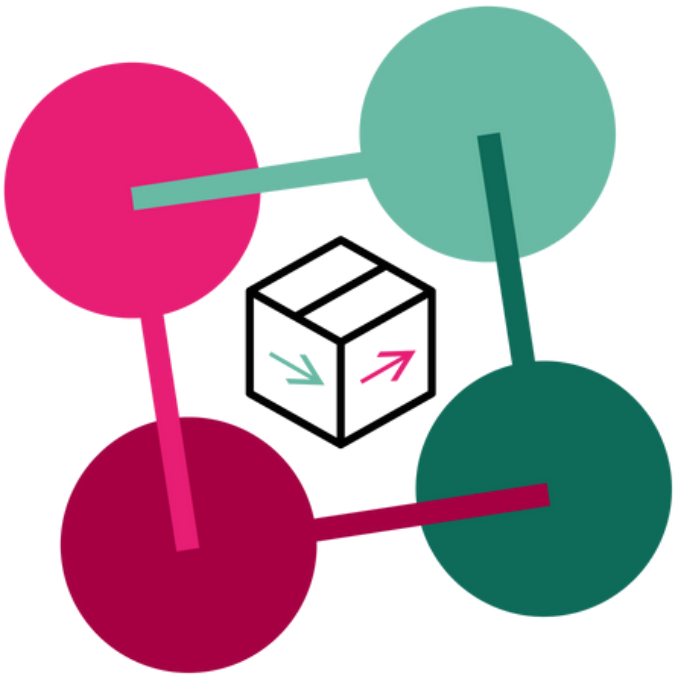
Returns are a thorn in the side of all fashion retailers. They're hugely costly, drain time and are terrible for the environment.

Controlling your return rate is a must for maintaining, and even **growing your operating profit**.

The first step is to understand your **unique return rate profile**. Doing so will help you identify the biggest opportunities to minimize returns.

In this guide we'll show you how, with a couple of simple pieces of analysis.

Sarah McVittie
Co-Founder of Dressipi



It pays to understand your returns drivers

Garment return rates are **inevitable for online fashion** businesses and they are, to some extent, a natural cost of doing business online.

The primary goal is to understand **which of your returns can be avoided** and your natural steady-state return rate for each retailer.

Returns at their current levels are expensive and unsustainable.

It's not simply the cost of sending out the items and getting them sent back...

Three areas of returns costs

1

Getting products back into circulation

This is getting items back to the warehouse, repackaging, cleaning and returning it to the shop floor or distribution centre. These costs can vary from £4 to £20 depending on the retailer.

2

Opportunity cost

Depending on when an item is purchased, and how long the return takes (typically 2-6 weeks), it may have to go straight into discounting/ markdowns rather than having been made available for resale. The seasonal nature of fashion makes this a big challenge.

3

Cost of restocking

If you order in more stock and that garment has a high return rate, you'll typically end up with more stock than you can sell – therefore decreasing sell-through rates and increased markdowns.

Quality data is a must-have

Is your data good enough to predict and reduce return rates?

Many retailers are faced with:

- Lack of data on their customers
- Incomplete and fragmented transactions data
- Sparsely and poorly attributed product data

To accurately understand your customers propensity to buy and keep certain garments, you'll need **detailed data** on every customer and every garment you sell.

Dressipi clients are able to tag every single product with **40-50 features**, getting unparalleled insight.

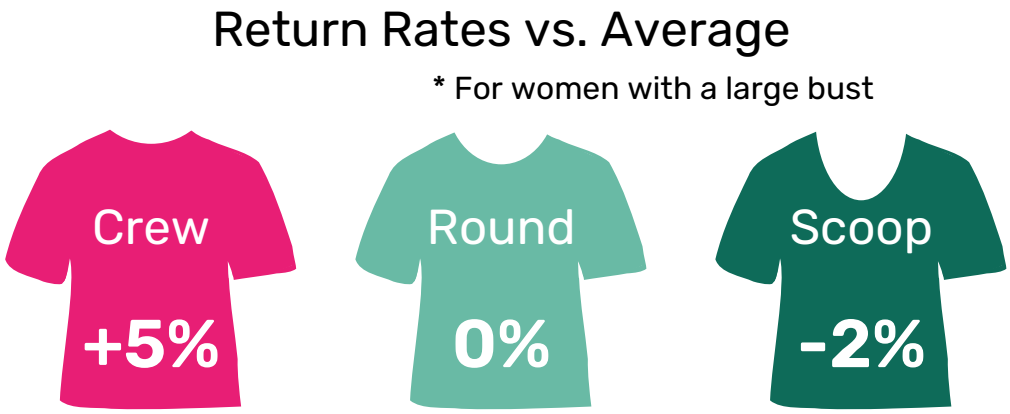
"Dressipi's attribute data leaves ours—and everyone else's—in the dust. Our combined prediction models are **10% more effective** with their data."

DIRECTOR OF INSIGHT & CRM

RIVER ISLAND

Data's impact on returns

For example, Dressipi analysis shows that when women with large bust sizes buy crew neck products, **5%** more of them return it compared to if they had bought products with round necks.



Focus on the right metrics

Retailers typically focus on **conversion** and gross sales but this can be misleading and **won't always lead to margin improvement**. If retailers push a high sales volume garment without understanding that the return rate is greater than 60/70% then it will end up significantly decreasing profitability.

You should always be optimising to ensure you are **increasing the revenue per visitor** as well as ensuring each customer is keeping more of what they buy.

Analyze your data to understand what drives your returns

Size vs Style

Is finding the right size or the right style a bigger issue for your customer base?

Product Specific Analysis

What are the high volume, high returning product lines (over time)?

Inventory Management

What is your customers propensity to buy and keep specific features at a garment and size level?

Customer Analysis

Which customers are responsible for most returns? Who is most / least profitable?

Deep dive into size vs style

There are some simple things you can do now as a retailer. If you wanted to understand whether giving sizing advice or style advice was going to **drive a bigger reduction in return rates**, do the simple analysis below.

First take historic transaction data and look at 2 sets of behavior:

Size

Look at customers who bought the same item in multiple sizes (across any number of orders in 3 months) and sent at least 1 back.

This suggests that **sizing** is the issue.

Style

Look at customers who bought multiple options of the same garment category (removing the multiple size purchases) within the same order and sent at least 1 back.

This suggests that the customer is looking for their best **style** of that particular garment category.

Download and input your data

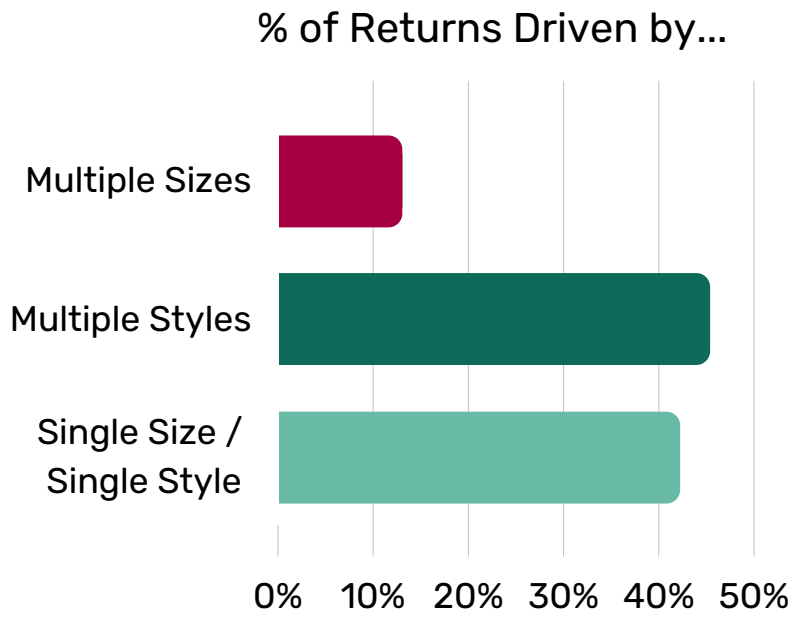
Click on the excel document in your email and input your data. Use the calculator to analyze you returns and discover whether they are driven by size or style. Here's one we did earlier:

1. Work out your overall return rate		
Total products purchased	1,320,000	< Your data
Total products returned	330,000	< Your data
Overall Return Rate	25%	

2. Analyze style vs size	**In Multiple Sizes**	**In Multiple Styles**	
Total no. of products bought	160,000	570,000	< Your data
as % of purchases	12%	43%	
# that **kept** all itmes	50,000	370,000	< Your data
# that **returned** all garments...	50,000	50,000	< Your data
...as a % of all returns		15.15%	
Where **sizing** or **style** is an issue	60,000	150,000	
# of returns where **sizing** or **style** is an issue...	30000	85,000	< Your data
...as a % of all returns	9.09%	25.76%	

Total % returns	**As a Result of Size**	**As a Result of Style**
	9.09%	40.91%

Style is typically always a bigger issue than size in terms of reducing returns across our range of partners.



Create highly personalized shopping experiences

Dressipi's personalized recommendations have seen retailers **lower return rates by up to 15%**. By understanding a customers style and preferences we can help them choose items that are more likely to appeal to them, not only increasing revenue but also reducing returns (a win for margins!).

There are many other quick ways to reduce returns but these all require a deeper understanding of both the customer base and the product features/attributes and are surfaced as part of the Dressipi service offering.

Conclusion

Returns are expensive and carry a hidden cost as they can impact so many areas of a retailer's operation. The poor quality and sparsity of the data held by many retailers on both the customers and the products serve to exacerbate the issue.

There is no silver bullet for solving this problem, as there are several reasons why items are returned (and each of these reasons will impact each retailer differently).

It is firstly important to **get the right data in place**, and to then use that data to understand the quickest and easiest way to reduce returns without impacting or reducing revenue or sales: is it customer behavior, product/feature mix or different marketing behavior?

Having real clarity as to the **key metrics that can drive revenue growth** alongside profit/margin growth also represents an important element of this process.

At Dressipi, not only do we now understand the detailed data that is required to apply at both the customer and the product level but we also run 4 or 5 pieces of analysis to understand where to focus our efforts if reducing returns is a KPI that is important for our clients. The results are impressive with our partners enjoying up to **15% reductions in returns**.

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The Experts in Fashion AI

Dressipi's AI is used in 2 ways; firstly to improve product discovery across the customer journey through recommendations and personalized outfit API's. Secondly, data collected through the fashion-specific algorithms allows Dressipi to optimize product assortments & size ratios on a garment specific level.

Today Dressipi outperforms all competitors and delivers incremental improvements to revenue (+12%), profit (+21%), returns (-15%) and sell-through rate (+10%).

To learn more about Dressipi's solutions and technology, visit:

www.dressipi.com

Retail Systems awards 2022 WINNER Experiential or Personalised Retail Solution of the Year

Retail Systems awards 2022 WINNER Artificial Intelligence Project of the Year

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