

Apparel companies thredUP, Stitch Fix lean into AI and optimized marketing mix to jumpstart growth

Article

Though apparel and accessories is the third fastest-growing product category we measure—growing 3.9% to reach \$616.37 billion in US sales this year—retailers need to find creative ways to court consumers as they remain price-sensitive.

For resaler thredUP, it's using AI to build on the success it found in fiscal year 2023 with increased orders (6% growth YoY) and revenues (12% YoY). While Stitch Fix is shifting its media mix to quell an 18% YoY revenue loss in Q2 2024 and a 17% YoY decline in active clients.

Putting the AI in retail: thredUP has recently rolled out new AI-backed search capabilities on its site, enabling consumers to search not only by item, but by trend, occasion, or phrase. For example, a user can type in “Sunday brunch dress” or “Academy Awards chic” and find entire outfits that fit the query.

- “This new search functionality significantly enhances the shopping experience by combining visual language with personal style, enabling buyers to curate style inspirations effortlessly,” said James Reinhart, CEO and co-founder of thredUP, on the company’s earnings call this week.
- Early results show an increase in searches per session, a higher add-to-cart conversion of items from search, and higher click-through rates for individual product pages, according to the company.

The company plans to launch an AI tool letting users create outfits using only a text description, per Reinhart.

- “For example, [a shopper] is looking for an outfit to wear to a fancy luau on an upcoming trip to Hawaii. By using natural language prompts, our generative AI tool [can create] an outfit composed of a floral crop top, a flowy white maxi skirt with a side slit, [and pair it] with embellished sandals.”
- The applications of this tool are endless, said Reinhart. Users can recreate outfits from popular magazines, influencers, or runway trends.

This is especially helpful for thredUP, which lacks product images with models as its products are sold secondhand.

“We believe generative AI technology disproportionately benefits marketplaces like thredUP compared to other apparel or peer-to-peer marketplaces,” said Reinhart.

Internally, AI helps thredUP generate product descriptions and characteristics from item images.

- “This capability not only enriches our inventory database, but also streamlines the categorization and processing of items,” said Reinhart. “It’s improved the accuracy of our product listings, resulting in better search and personalization in our marketplace.”
- In the short term, thredUP sees potential in generative AI’s ability to improve visual merchandising and create more engaging content for shoppers.
- Reinhart sees the potential for generative AI not only to supplement manual photography, but replace it.

Mix it up: Meanwhile, Stitch Fix is adjusting its marketing mix to boost its declining bottom line.

The company had focused on upper- and mid-funnel tactics to boost brand affinity and increase traffic. Now, Stitch Fix will incorporate the entire marketing funnel, “adjust[ing] our media mix and spend levels in an effort to improve conversion and retention of clients,” said CEO Matt Baer on the company’s earnings call.

While Baer didn’t provide specifics on the adjustment, he said video is and would continue to be a vital part of the mix. “We’re doing a good job within video right now in terms of storytelling that calls out the unique differentiators of our business model and the manners in which we can uniquely serve clients relative to other retail options that might be at their disposal,” he said.

Stitch Fix is focused on targeting consumers that are likely to become high-lifetime value customers, said CFO David Aufderhaar. Not only did active users decline in Q2, net revenue per active client decreased 3 YoY%. **Stitch Fix has struggled** with subscription fatigue, increased competition, and challenges with its stylists, including laying off 1,400 in California in 2020.

The work doesn’t stop at customer acquisition. Stitch Fix is also enhancing its shopping experience to boost satisfaction and retention.

- The company will introduce a new onboarding experience in the coming months, featuring a more “dynamic and interactive” way for customers to begin their relationship with the brand, per Baer.

- Stitch Fix is providing more ways for its stylists and shoppers to connect directly, which should help the company develop more personalized relationships with customers.

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