History

Hennes & Mauritz AB (H&M) is a multinational company based in Sweden. It went public on the Stockholm Stock Exchange in 1974. Founded by Erling Persson in 1947, it was initially called Hennes, the Swedish word for “hers”, and sold only women's clothing. In 1968, the company was renamed to Hennes & Mauritz and, since then, has diversified over the years and expanded its product portfolio to include womenswear, menswear, childrenswear, footwear, accessories, cosmetics and home furnishings. With years of development and acquisitions, the company is now comprised of five independent brands: H&M, COS, Monki, Cheap Monday, and Weekday (Hennes & Mauritz AB, n.d.).

In the 1950s, H&M began global expansion by entering neighboring countries throughout Europe. During the 1980s, while continuing their European expansion, H&M bought Rowells, a mail order company to begin catalogue sales. Their first U.S. store was opened in 2000 on Fifth Avenue in New York marking the start of their expansion outside Europe. In 2006, a major expansion of online and catalogue sales began. However online sales were limited to European countries. In 2007, H&M entered the Asian market by opening its first stores in Hong Kong and Shanghai (Hennes & Mauritz AB, n.d.).

In 1998, H&M started to use famous models in their advertising campaigns. In 2004, H&M launched its first designer collaboration, partnering with Karl Lagerfeld, creative director for Chanel. The success of the Lagerfeld collection lead H&M to collaborate with other designers and celebrities including Stella McCartney, Madonna, Jimmy Choo, Versace and David Beckham among others to create collections that go on sale in a limited number of stores and with a limited number of products. Designer collaboration has become part of H&M’s yearly merchandise development cycle (Hennes & Mauritz AB, n.d.).

Current Situation

As of 2011, H&M has around 2,500 stores in over 40 countries and employed around 94,000 people. Its sales including VAT totalled 129 billion (SEK) for the fiscal year 2011. In 2012, H&M was ranked 58th in Deloitte’s Global Powers of Retailing and third in the apparel/footwear specialty category
as measured by retail sales. Production is outsourced to around 700 independent manufacturers through its local production offices in Asia and Europe. H&M plans to continue its expansion by opening stores in Bulgaria, Latvia, Malaysia, Mexico and franchising in Thailand. It also plans to introduce e-commerce in the U.S. Additionally, a new chain, “& Other Stories”, is planned to be launched to target the luxury high-end market (Hennes & Mauritz AB, 2011).

On November 15th, 2002, the highly-anticipated Maison Martin Margiela for H&M collection was launched. “Unlike H&M’s previous designer collaborations, the Maison Martin Margiela collection is unique in that it features solely re-editions of the house’s most iconic and best-selling pieces. These items cover more than 23 years of fashion, from the early beginnings of the label to the present” (Carreon, 2012, para. 1).

**General Environment**

**Political Segment**

The major political factors affecting H&M are restrictions on imports and exports and relocation of production facilities. Restrictions on shipment of goods is not a major concern. Relocation of manufacturing and outsourcing continues to be a contentious issue as companies seek to maintain profit margins and reduce costs as well as receive incentives to locate production in specific areas. There is also pressure for companies to show social responsibility.

**Economic Segment**

In 2011, retail spending on clothing or apparel reached approximately €1.18 trillion worldwide. Western Europe, Asia Pacific and North America accounted for 34%, 30%, and 22% of the global market respectively (Euromonitor, 2012). The differences in market size reflected significant variances in consumer spending behaviour and populations. However, the recent economic crisis has affected consumer spending patterns, creating downward pressure on prices. As such, the rise of “disposable fashion” has continued. This allows consumers to reduce spending without compromising trendiness.
**Sociocultural Segment**

H&M’s target customers are youths and young adults of both sexes. Customers are segregated based on location with different regional preferences. Preferences between regions and markets differ significantly as consumers are fragmented into more specific niche groups than ever before. There are also significant differences in the perception of people and products originating from different locations. For example, the French and Italians are considered more fashion-forward and stylish than the Germans or British. Even within countries, there are differences in perceptions. For example, in the U.S., the two main fashion sources are New York and California. Information diffusion has accelerated trend spread and adoption leading to styles changing more quickly than in the past with customers separated into tighter niches.

**Technological Segment**

There has been little technological change within the industry except regarding improved logistics capabilities and communication technologies. Advancement in logistics capabilities allows firms to better utilize inventories and reduce waste throughout their global supply chains. The change is driven by improved communication capabilities allowing greater and speedier diffusion of information within organizations. Improvements and changes in communication technologies also open different avenues through which to communicate with customers. The continued popularity of blogging, hauling and other forms of social interaction between customers or potential customers can act to attract customers or build customer loyalty. It also offers more marketing channels through which companies can communicate with consumers. While usage of traditional marketing media, such as magazines remains strong, product placement and direct customer interaction are becoming more prevalent.

**Industry Environment (Porter’s 5 Forces)**

**Threat of New Entrants**

The threat of new entrants is high. Entering the apparel industry does not require huge capital investments and many individuals have the means to start a clothing line. In addition, there are many
manufacturing contractors available and this contributes to making the market more open to new entrants. However, advertising and building distribution channels can be costly.

**Bargaining Power of Suppliers**

The bargaining power of suppliers is low because there are many suppliers with little differentiation available. Increased globalization and thus international trade provides more options for retailers to source from foreign manufacturers. Moreover, manufacturers from low wage countries, such as China and India, face more competition. Textiles are almost a commodity based market, although prices are rising rapidly on cotton.

**Bargaining Power of Buyers**

The bargaining power of buyers is high because there is an overabundance of retailers in the market. Buyers have low switching costs as it is free to switch one’s purchasing preference from one brand to another. Buyers are also the end consumers for the retailers’ products and account for almost all the retailers’ earnings. Thus, retailers seek to offer what buyers’ demand, keeping their products updated with the latest fashion trend. However, retailers can differentiate themselves by the price range, quality, and style they offer. On the other hand, there is a large amount of apparel with brand and style/design imitations available in the market which can limit some differentiation among retailers.

**Threat of Substitutes**

There is no direct substitutes for apparel, but there are substitutes to retail. Online stores provide another channel in which apparel can be marketed and sold. An online presence increases customer base, brand recognition and provides retailers a way to decrease traffic in their physical stores.

**Intensity of Competitive Rivalry**

Rivalry is high because there are a large number of similar retailers including both large and small firms. Furthermore, slow growth resulting from the 2008 recession has decreased the level of demand in the apparel industry intensifying competition. The rapid change in the industry also leads to firms constantly renewing their product to appeal to fickle customer bases.
H&M’s main competitors are: Zara, owned by Inditex Corp.; PVH Corp. including Calvin Klein, Tommy Hilfiger, Van Heusen, IZOD, ARROW and Bass; and The Gap Corp. consisting of the Gap, Banana Republic and Old Navy.

Internal Environment

Strengths

H&M is known as a fast fashion retailer. Their styles are designed in collaboration with recognized designers, such as Stella McCartney and Jimmy Choo. This allows them to stay at the forefront of fashion. They also advertise heavily with high profile partnerships, such as David Beckham. This keeps the brand modern and at the forefront of people's thoughts. In addition to keeping designs contemporary, H&M replenishes store inventories daily and brings designs to market much more quickly than is typical in industry. This is done by producing large volume basics in low cost locations and small volume fashion pieces locally. H&M's commitment to sustainability enhances their brand image and ensures that resources are used efficiently both in the short and long term. Their sustainability commitment is evidenced by their support of the Better Cotton Initiative, ensuring best practices in cotton supply. This is essential as cotton is the primary input for the apparel industry. H&M is also part of initiatives governing fair pay and hazardous materials discharge. All these commitments help H&M protect their brand image and limit future contingent liabilities (MarketLine, 2012).

Another source of advantage is H&M's global presence. They operate in North America, Western Europe, Nordic Europe and Asia. With retail locations in 43 countries, they are able to decrease their dependence on mature western markets while capitalizing on opportunities in high growth Asian markets. This reduces risks and has allowed H&M to consistently beat market growth averages. H&M also has a strong market position. In 2012, H&M was able to improve their overall customer satisfaction ratings based on price, convenience, service, ambiance, facilities and layout. This has led to an improved customer conversion rate of 27.1% in 2012 compared to 20.7% in 2010. This allows H&M to maintain a large, loyal customer base and remain a popular label (MarketLine, 2012).
**Weaknesses**

H&M depends completely on outside suppliers to manufacture their products. Outsourcing can be a risk to H&M’s reputation. H&M outsources to about 700 independent suppliers around the world. The company has limited control over the factories and this could lead to low quality products which reflects poorly on the brand. There is also uncertainty in the future supply or product, inefficiency in order fulfillment and slower response times to market trends. The operation is highly centralized in European areas with a great portion of revenue come from there. This is not a good strategy for leveraging risk. Also, as the distribution centers are mainly located in the European regions, it becomes difficult to develop online stores in the global market (MarketLine, 2012).

**Opportunities**

Customers are increasingly moving towards online shopping. European online retail sales increased 18% in 2011, are expected to increase another 16% in 2012. Online sales currently account for 8.8% of European retail spending. In 2011, H&M launched www.hm.com, which currently offers online retailing only in Europe. Outside of Europe, their online presence is limited to a catalogue with no purchase capabilities. The goal of, and result of, launching online distribution is to expand H&M’s addressable market (MarketLine, 2012).

Growth in Asian markets, particularly in China, is another opportunity for H&M. A burgeoning middle class with increasing disposable incomes and a taste for western goods is a key source of growth for retailers. Globally, the apparel, accessories and luxury goods market is growing. In 2011, the market grew by 4.3% to $1,778 billion, of which clothing accounted for 66%. The market is expected to grow a further 21% by 2016, reaching a value of $2,155 billion (MarketLine, 2012).

**Threats**

Despite the global market growth, consumer spending remains weak in Europe. Europe remains the largest market for H&M providing 51.5% of revenues. In 2012, retail sales continued to fall, decreasing 2.1%. Retail spending decreases are tied to unusually high unemployment in Europe.
H&M is also exposed to the threat of currency fluctuations. H&M’s reporting currency is the Swedish Krona (SEK) and reported incomes are highly susceptible to fluctuations in the Euro and US dollar (MarketLine, 2012).

**Main Strategic Challenges**

1) **Operating in a Multidomestic Manner despite Centralized Control & Distribution**

   As a global brand with centralized design processes, H&M’s products are not currently tailored to individual markets. This means that competitors who better differentiate their products will be more able to target specific customer groups. If H&M is unable to meet the varying needs of customers in different regions, they will lose market share to competitors better able to meet consumer demand.

2) **Balance Low price Strategy with Fast Fashion Strategy**

   Since H&M focuses on cost leadership/differentiation strategy, H&M has to keep the production costs low in order to achieve profitability. To lower production costs, companies usually have to place orders with large quantity of items in order to get the best prices. This creates a tendency to have too much inventory at each stores that have to be marked down later on. Large quantities of items will also incur inventory carrying costs. In addition, this type of purchasing conflicts with H&M’s fast-fashion strategy which requires fast cycle times and low inventory levels.

3) **Balance Long Lead Time of Outsourcing with Agility Fashion Business**

   Outsourcing manufacturing increases the lead time, however, fast fashion requires short life cycle so H&M can respond to the volatile market trends and consumer preferences promptly. Moreover, to maintain solid relationship with suppliers, companies usually place orders of one product with only one supplier (or place very large orders with one supplier), which makes it even harder for H&M to control the lead time and responds quickly to new market trends. “If one supplier has too many orders then, it is better to place the other orders with the different suppliers. If H&M continues to place the order with one supplier, then the
production will be overloaded and the results are obviously negative” (Postponement in Fashion Retailing: A Case Study of H&M, 2010, p.51).

4) Quality Issues

Outsourcing manufacture means H&M is lack of direct control over the manufacturing processes. It has made H&M vulnerable to the quality issues of products. Recall of products has happened several times before (MarketLine, 2012).

5) Dealing with Changing Demographics

Firms operating in the fashion retail industry are always reacting to trends in their respective markets. The changing demographics of H&M’s markets, specifically the aging population and changing racial profiles, mean that H&M may be unable to sustain their current growth without adjusting their current target market. This is especially apparent in mature European markets, where H&M derives the majority of their revenues. Customers are also increasingly moving online and H&M is relatively new to online distribution and still lacks an online outlet outside of Europe.
References


