ASSESSMENT ONE: CASE STUDY ANALYSIS

RETAIL COMPANY: H&M

MKTG1170: FASHION AND TEXTILES MARKETING

Yasamin Bordbar s3476731

EXECUTIVE SUMMARY

This case study analysis considers the strategic capabilities of Swedish retailer H&M and how the brand's strong position in the market has been challenged by key competitors. Globalisation, the development of technology and the emergence of the modern consumer have forced retailers to adapt and innovate in order to stay relevant and competitive in a saturated market.

A SWOT analysis (appendix a) was performed to establish the strengths, weaknesses, opportunities and threats of H&M in relation to the internal and external environment. From considering the weakness and opportunities, four key issues were established which challenge H&M's competitive advantage. These issues include fashion apparel as a saturated market, the retail industry shift toward a service-based model, Zara's rapid expansion and market capitalisation and the rising cost of production in Asia. The SWOT analysis was then utilised to conduct a TOWS analysis (appendix b), where H&M's strengths, weaknesses, opportunities and threats were combined to form the basis of strategies to combat the identified issues. These strategies were identified as a designer collaboration for H&M home, growth of the 'Conscience Collection' range, introduce an omni-channel business model approach, establish a concession store in Myer department stores and replace China as a production location.

These strategies were evaluated addressing the positives and negatives and also whether the strategy was within H&M current resource capacity and capability. The proposed strategies were also measured based on H&M's current capability and capacity of resources and the perceived level of success of implementation of the strategy. It is for these reasons that the final recommended strategy for H&M is to grow the 'Conscience Collection' of sustainable products to a minimum benchmark 10% of the total product offering across women, men, kid and home.

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INTRODUCTION

H&M has established a leading position in the global retail industry because of its concept of high fashion at low prices, centralised business model and unique offering. However the case study states there exists growing competition from rival retailers and in particular Zara, who has overtaken H&M as the world's largest fashion retailer by market capitalisation. In order to stay relevant and remain competitive, H&M must examine the role of its strategic capabilities in building sustainable corporate competitive advantage (Marketing Week 2). This case study analysis considers H&M's current issues of concern and evaluates the potential alternatives and strategies in order to establish a final recommended strategy that H&M can move forward with.

The dimensions of performance to be improved in order to build competitive advantage include growing the brand and achieving sales growth, both of which will have long-term benefits and impact the brand company wide on a corporate level. The final recommended strategy has been evaluated against the justification set of falling within H&M's team domains of market attractiveness (Marketing Week 4). It was ensured that strategies must fit in with H&M's mission, aspirations and objectives, they must have adequate and appropriate resources, competence and skills and it must have the right connections and business networks.

H&M Brand Profile

H&M began as a women's clothing store in Sweden in 1942 and today the H&M Group comprises of six independent brands: H&M, COS, Monki, Weekday, Cheap Monday, and & Other Stories. The compny has since undergone substantial expansion and reached annual net sales of 25.8 billion dollars in 2015, which has set its current market value to 48.3 billion dollars. H&M currently has a strong global presence with over 3,900 stores across 61 markets worldwide and they aim to increase this number by 10-15% every year and increase sales in comparative units (H&M 2016).

H&M's corporate mission statement (Marketing Week 2) is "fashion and quality at the best price in a sustainable way" (H&M 2016). This statement displays strategic intent and conveys that H&M's intent is emotional, function and critically driven towards sustainability.

Current Business Strategy

H&M currently follows a cost leadership business level strategy, where they produce and sell their product offering at low costs to a broad market (appendix c). These cost benefits are translated to their consumers with affordable products, it appeals to consumers who are price sensitive and it creates the perception that customers are getting more for their money (Marketing Week 3). This type of business level strategy is appropriate for the current economic situation and sets a high entry barrier for H&M's competitors.

In addition H&M employs a market oriented management process where the brand is aligned with the wants of the market (Marketing Week 1). This process is based on the marketing concept and it is achieved by focusing on the market, environmental scanning, enhanced responsiveness and customer feedback. It is important for H&M's strategic marketing plan to align with the business strategy. Aligned with this strategy is H&M's focus on expansion and increasing their market share.

ISSUE 1: FASHION APPAREL AS A SATURATED MARKET

Analysis

The current fashion retail industry is a highly intensive market where there is an oversupply of products and services. Adageest (2015) claims, "There is too much style over substance, too many brands shouting for rail space and simply too many clothes". In this situation, retailers need to employ red ocean strategies (appendix d) in order to remain competitive. In order for H&M to be successful in a saturated market they need to tap into change, deliver a value added service and/or differentiate the business (Stringfellow 2014).

Option A Solution

Influenced by the impact of social media, bloggers and visual websites like Pinterest, it is becoming more important than ever for fashion forward consumers to also live in and show off beautiful interiors and home wares to match their personal style. One value added concept H&M could implement is a designer collaboration for H&M Home. This is a red ocean strategy where H&M can beat the market (appendix d), and especially its key competitor Zara by establishing this unique prospect as a competitive advantage. A collaboration of this nature would make use of Porter's differentiation strategy (appendix c), where there is a broad market scope and a differentiation strategy is used for uniqueness competency (Marketing Week 3).

Option A Evaluation

The differentiation of offering a designer H&M Home collaboration would be successful in the saturated fashion apparel market as creates a competitive advantage for H&M and they can beat the market to the idea. According to Magner (2015), "if the market penetration of fast fashion companies' home ware and furniture ranges matches that of their fashion ranges, double digit growth in home wares is anticipated over the next five years." This solution would also fall in H&M's current capacity and capability as they already do designer collaborations for fashion, and this process could simply be extended for their H&M Home range. This type of strategy also has a high rate of expected success when implanted by a company that offers quality products at low prices which has been proven by Target, who did a home wear collaboration with Missoni in 2011 that was very successful. Missoni for Target products were sold out within hours of the in store and online launch, and Dishmamn (2011) describes the experience as “Frenetic shopping ensued… before noon, shelves and racks were sadly empty and Target.com was down…”

Option B Solution

Another alternative of a value added concept for H&M would be to grow their ‘Conscious Collection’ of sustainable clothing to a minimum benchmark of 10% of the total product offering. This is a red ocean strategy where H&M is competing in an existing marketplace (appendix d) and a process of line extension (appendix e) that utilises the existing brand name and product category and is a branding strategy that would promote the range. Currently on H&M’s Australian website there is a total of 4 914 products for sale across women, men, children and home, and only 169 of those product are part of the ‘Conscious Collection’, which is a minimal 3.4% (H&M 2016).

Option B Evaluation

With the current evolution of the modern consumer there is increased pressure on the retail environment to consider sustainability and the long-term effects of clothing manufacturing. Developing the sustainable range would be thoroughly beneficial for H&M because it aligns with the desired brand attributes that H&M possess to do with offering clothing in a sustainable way. This strategy would also increase the brand strength as the sustainable range would provide a dynamic difference in the marketplace and has emotional relevance for the consumer concerned with sustainability. This strategy would be within H&M’s current resource capabilities as they already source the materials and manufacture the organic range, it would just have to be expanded on a larger scale.

ISSUE 2: RETAIL INDUSTRY SHIFTING TO SERVICE BASED

Analysis

Due to the economic downturn, retailers have sought alternative methods to increasing sales. This led to the evolution of the emotional economy, where retail brands put emphasis on targeting a consumer's sensory shopping experience, thereby establishing a relationship based on brand loyalty (Hart 2011). This shift in retail marketing has influenced the retail industry to transform from product based to a concierge model, where there is a focus on services (Brynjolfsson & Hu & Rahman 2013). This change presents challenges for H&M the modern consumer is spoilt for choice and will most likely purchase for convenience. H&M's customer service has suffered in order to maintain low prices as there is less sales staff which means long cues for fitting room and cashiers.

Solution

In order to remain competitive in an environment that is shifting to service based, H&M can improve the services offered to its consumers by introducing an omni channel business model. Newman (2014) describes omni channel, as "Marketers now need to provide a seamless experience, regardless of channel or device… and each piece of the consumer's experience should be consistent and complementary."

Evaluation

With the current emergence of the modern consumer, Omni-channelling has a wide range of benefits for both H&M and the consumer. H&M would be able to offer customised packaging, increased order accuracy, optimal lead times and direct to consumer fulfilment. An omni channel approach would give H&M more control over their supply chain and the opportunity to integrate these processes would result in excellent long-term sustainable competitive advantage.

However despite the benefits, to change H&M’s current business model to an omni channel would require an enormous amount of time, effort and resources. The implementation would require H&M to completely alter their current business model and change efforts at corporate, business and operational levels. In order for H&M to establish themselves as an omni-channel retailer they would need to highly optimise their in store and online purchases, distribution and global logistics and heavily invest in infrastructure and modern technology. H&M would also need to develop a hybrid capability and not just be focused on one type of marketing but rather how consumers are expecting ubiquity.

ISSUE 3: ZARA’S RAPID EXPANSION AND MARKET CAPITALISATION

Analysis

Zara has always been a major competitor for H&M, however according to the case study, in 2011 was the “the first time H&M had been seriously challenged by Zara’s rapid expansion”. In the same year, H&M opened 35 stores in China, while in comparison Zara overshadowed this by opening 120 new stores in China. Zara has displayed astonishingly fast growth in emerging markets and for this reason later in 2011 Zara overtook H&M as the world’s largest fashion retailer by market capitalisation (Hansen 2012). This accomplishment can be largely be accounted to Zara’s unique business model, where the company has a ‘zero advertising’ policy and instead invests its revenue in opening new stores.

Solution

In order to stay relevant and remain competitive, H&M must also continue to grow and expand in terms of both sales and market share. Zara is outpacing H&M when it comes to opening new stores in new markets, so H&M should look into expanding into new markets in other ways. A potential alternative is for H&M to establish concession stores within department stores such as

Myer. This solution makes use of ANSOFF's corporate growth strategy of market development (appendix f), where existing products are made available to new markets (Marketing Week 2). This type of strategic alliance is an external, integrated growth strategy, and is an agreement for cooperation between H&M and Myer as independent firms to work together toward common objective (Gray 2016)

Evaluation

Strategic alliances offer the potential for rapid expansion into new markets and the possibility of both H&M and Myer being more efficient in innovation and production. The brands have the ability to turn potential competitors into partners, share risks and costs and benefit from additional sources, capital and products (Gray 2016). This strategy has potential for success as it broadens the scope of the brand as there are ten H&M stores located in Australia (H&M 2016), and in comparison there are approximately 61 Myer department stores (Myer 2016). Current H&M stores in Australia are only located in major shopping precincts, however department stores can also be found in more local residential areas. This increases the reach of the brand and it would result in more convenience for the consumer, as H&M stores would be located in more accessible locations.

H&M and Myer may encounter difficulties in a strategic alliance as each firm may have different management styles and ways of operating. There is also the possibility of mistrust when competitive information is involved. This would be a new type of market expansion for H&M and it would be suggested they tread carefully in order to avoid strategic alliances turning negative.

ISSUE 4: RISING COST OF PRODUCTION IN ASIA

Analysis

The case study highlights a major issue for H&M associated with increasing cost of production, particularly in Asia. Currently 60% of H&M's manufacturing takes place in Asia, with a massive 1088 manufacturing, production and second tier factories in China (H&M 2016). China's economy has a large dependence on overseas markets and suffered in the decline of the global economy. In order to transform its economic model, the Chinese government has been developing its high tech industries and service sector to provide sustainable growth. As a result, the government has "driven up minimum wages, allowed the Yuan to appreciate and aggressively enforce labour and environmental regulations" (China Briefing 2014).

If H&M chose to keep production in China it would need to increase the price of products to offset the rising costs. However in the case study, H&M's chief executive Karl-Johan Persson stated, "despite increased purchasing costs, we have continued to strengthen our customer offering … by not raising our prices to customers." Maintenance of the brand's low prices while production costs are increasing in China means that H&M's margins are starting to decrease, as stated in the case study. These eroding margins are not sustainable long term and H&M must seek viable alternatives to combat the rising cost of production.

Solution

One of the ways to combat the increasing cost of production is for H&M to seek alternative manufacturing locations where costs such as wages are lower. One such suitable location would be Vietnam, as its minimum wage is less than half of that of China's and is one of the lowest in Asia (appendix g).

Evaluation

Vietnam would be a good choice for H&M to use as alternative as there are many positive factors involved. Vietnam are China share a border, and this close proximity is key as both countries would share the same logistics and distribution channels, and Vietnam's access to water means it would have accessible ports. As stated above, the minimum wage in Vietnam is among the lowest in Asia, however the workers are highly skilled and experienced. Vietnam already has an established textiles industry and in addition has a high level of foreign investment. This strategy would also be within H&M's current resource capacity as H&M already has factories in Vietnam.

There are also risks involved with seeking alternative manufacturing locations. H&M runs the risk of losing strong supplier partnerships that it currently has in China. H&M would also need to invest in establishing these strong supplier relationships in Vietnam, which can be challenging and time consuming. The case study also states that choosing low cost suppliers may entail an extended supply chain that cannot cope with rapid demand changes, and there may be issues regarding quality control. However reducing costs associated with production would long term sustainable benefits for H&M, as they would be able to maintain their formula of offering high fashion at low prices, and this is integral to the brand philosophy, competitive advantage and most importantly, success.

RECOMMENDED STRATEGY

Moving forward it is recommended that H&M proceed with the line extension strategy to grow the 'Conscience Collection' range of sustainable style to a benchmark of 10% of H&M's total product offering across women, men, kids and home wears. Line extension is a marketing strategy that can be implemented company wide at a corporate level, and also have direct benefit and availability to consumers. This strategy also targets the emotional economy and promotes the H&M brand image as a leader in sustainable and affordable high fashion.

This solution is deemed to be viable because the benefits far outweigh the risks involved. This recommended strategy to grown the sustainable range fits with H&M's mission to offer 'fashion and quality at the best price in a sustainable way', aspirations to make a difference in the sustainable environment and objectives to grow the brand and increase sales. It has been established that H&M already have the adequate and appropriate resources, competence and skills to implement the strategy.

IMPLEMENTATION

People

Critical talent is essential to the success of any management strategy, as it is important to get the right people to be passionate about their job, especially when it relates to a cause like sustainability. In order for this strategy to be implemented, H&M would need to employ a highly skilled and knowledgeable team to grow and produce the sustainable range. Within this team there would need to be people who specialise in research development, sourcing, merchandise planning, design, product development, manufacturing liaison, distribution, visual merchandising and marketing across all areas of women's, men's kids and home wares. These would not all have to be new employees, as H&M can make use of the critical talent that already exists within their centralised design team.

Resource Investment

H&M would be required to invest in the strategy, as materials development and growing the range would require increased design, sourcing, manufacture and distribution processes. Investment would also be required for marketing the range, launch of the range both in store and online and staff training for when the products reach the retail stores.

Action Plan

In order for this strategy to be implemented, a number of actions need to take place:

<u>For range production:</u>

1. Recruit and establish a specific team to produce the sustainable range
2. Conduct research and development into material and fibre types and the sourcing of various fabrics from sustainable areas
3. Organise for the increased manufacturing capability needed from factories
4. Establish logistics and delivery of range from factories to distribution centres and retail stores

<u>Other:</u>

5. Market the range both in store, on line and through social media
6. Train staff to be knowledgeable about the range and promote it in store
7. Launch the range on line and in store through and market through a launch event
8. Set up a plan to measure sales and success of the range
9. Review and evaluate the success of the range
10. Establish a 5 year strategic plan, where future goals can be set

CONCLUSION

The time frame for the first full range of 'Conscience Collection' products at a minimum benchmark of 10% would be 12 weeks from idea development to retail stores. This allows for initial product research, materials and factory sourcing as well as the regular design, development, manufacture and distribution process. Progress of the percentage of sales from the range will be tracked weekly to monitor how the range is selling once it has launched online and in store. Success will be measured through percentage of sales from the range, brand awareness, and customer feedback, feedback from retail staff, in store foot traffic, and online traffic to the sustainable products. As the benchmark for sustainable products will be 10% of the regular range, percentage of sales from the sustainable range as a whole is expected to be 10% of total sales. Three months after the launch of the range, H&M would organise an initial meeting to review and evaluate the success of the range, and this would occur approximately every three months.

APPENDICES

Appendix A - swot analysis

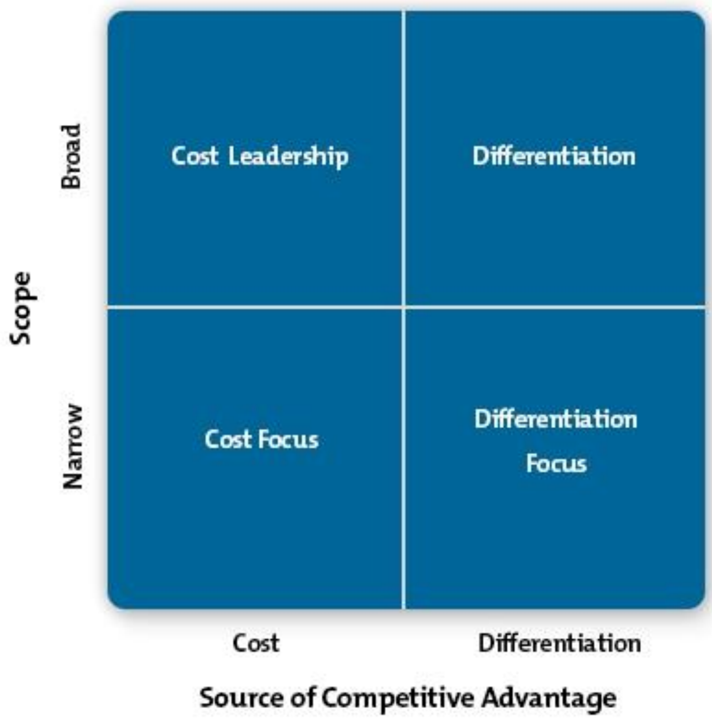
INTERNAL ENVIRONMENT	
STRENGTHS	**WEAKNESSES**
FROM CASE STUDY • Fast fashion (quick response to trends) • Centralised design and buying team • Research and predict emerging trends • Do not copy design trends • Broad product offering • Focus on quality • Low product prices • Deep understanding of customer wants and needs • Broad market with high global reach • Emphasis on economies of scale • Constant growth strategy • Distinctive business approach (high fashion at low cost) • Integrated Internally controlled and integrated logistics • Each store connected with corporate logistics, procurement systems and central warehouse • Replenish rather than hold stock • Excellent supply chain management • Constantly redefine production and distribution in response to changing market • Reduced lead times (4 weeks) • Strong brand image (value and stylish) • Unique collaborations • Customer focussed Strong corporate culture (the spirit of H&M) • Participatory management philosophy • Weekly itemised reporting on sales • Stores are in best locations • Flexibility from renting store locations • Strong social media presence • Low input costs • 50+ Production offices mediate suppliers and central production office • Emphasis on Corporate Social Responsibility • ‘Conscious Collection’ using sustainable materials • ‘H&M Conscious Actions’ (commitments to ethical practice, natural resources, improving working conditions, community investments) • Market segmentation with partner brands • Latest IT systems and information sharing **FROM RESEARCH** • H&M Life Magazine (fashion, beauty, culture) • Sub collections allow quicker response to trends • Tailored product range to market e.g. Australian exclusive range	**FROM CASE STUDY** • Does not own factories (outsource) • Suppliers subcontract factories • Constant scrutiny over suppliers • Business approach under scrutiny • **FROM RESEARCH** • Late to establish online retailing • Customer service has suffered to maintain low prices e.g. less sales staff and long cues for fitting room and cashiers • 23.9% of product offering is discounted • Low product differentiation

EXTERNAL ENVIRONMENT	
OPPORTUNITIES	**THREATS**
FROM CASE STUDY • Ranked as 21st most valuable brand • Apply simple universal business model and make changes locally • Increased importance on sustainability **FROM RESEARCH** • Franchise measurements (Middle East) • 10-15% new stores annually • Grow partner brands	**FROM CASE STUDY** • Poor economic situation (slow retail growth) • Increased competition for consumer spending (large choice) • Saturated apparel market • Competition among rivalries is high • Zara’s rapid expansion and market capitalisation • Increasing cost of production in Asia • Sharp and unpredictable trend changes • Changing consumer values

Appendix B - tows analysis

	STRENGTHS	**WEAKNESSES**
	• Strong brand image • Fast fashion • Broad product range • Unique collaborations • Customer focussed • Strong corporate culture • Strong social media presence • Emphasis on Corporate Social Responsibility • ‘Conscious Collection’ using sustainable materials • Market segmentation with partner brands	• Lack of omni channel • Late to establish online retailing • Customer service has suffered to maintain low prices • 23.9% of product offering is discounted • Low product differentiation • Does not own factories (outsource) • Suppliers subcontract factories • Constant scrutiny over suppliers • Business approach under scrutiny
OPPORTUNITIES	**SO STRATEGIES**	**WO STRATEGIES**
• Ranked as 21st most valuable brand • Apply simple universal business model and make changes locally • Increased importance on sustainability • Franchise measurements (Middle East) • 10-15% new stores annually • Grow partner brands	• Establish a concession store in Myer department stores • Growth of ‘Conscience Collection’ range	•
THREATS	**ST STAGIES**	**WT STRATEGIES**
• Shift towards service based • Increasing cost of production in Asia • Zara’s rapid expansion and market capitalisation • Saturated apparel market	• Designer collaboration with H&M Home	• Replace China as a production location with Vietnam • Introduce omni-channel business model approach

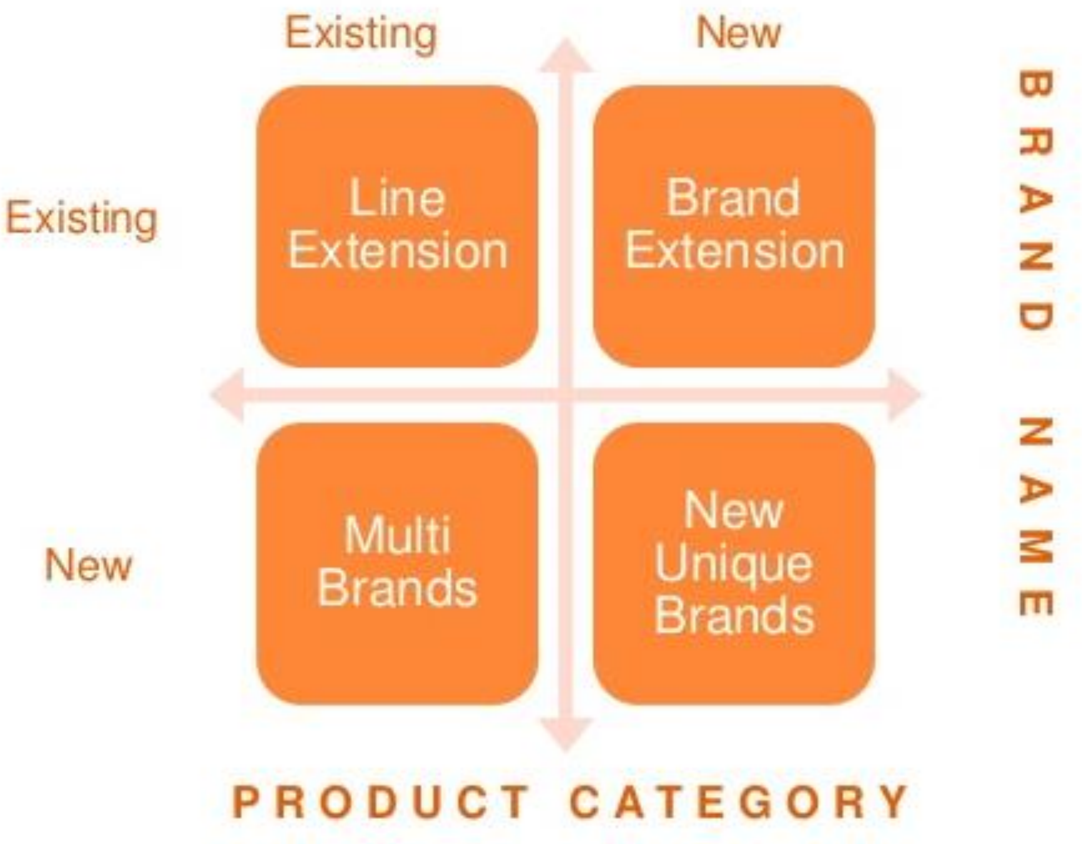
Appendix C - porter’s generic strategies (mind tools 2016)



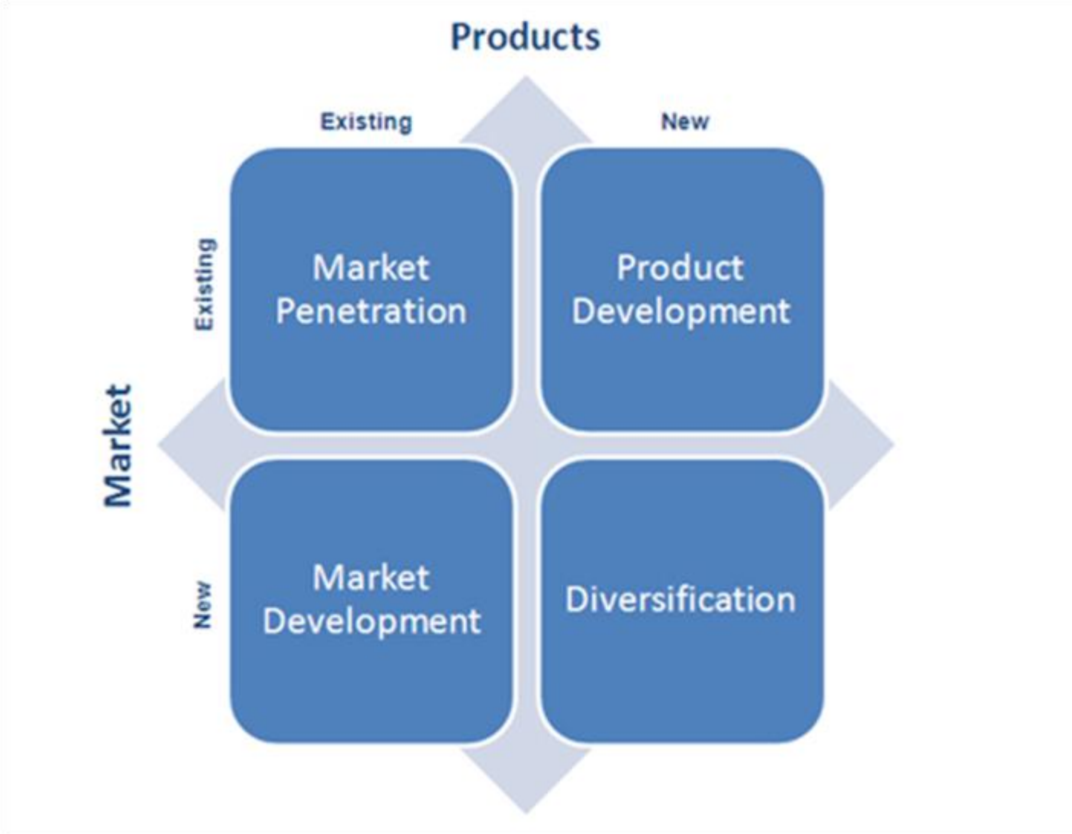
Appendix D - Red ocean strategies (Wilson 2015)

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation and low cost

Appendix E - branding strategies (mishra 2013)



Appendix F - ansoff growth matrix (dudovskiy 2014)



Appendix G (China Briefing 2014)

Comparison between China Wages with other Asian Countries

Country	Annual Minimum Wage (US $)	Adjusted for Employer Social Insurance Contributions (US $)	% Difference Against China
China	2,472	3,337	100%
India	689	740	22%
Indonesia	1,087	1,187	36%
Malaysia	3,107	3,534	106%
Philippines	1,515	1,648	49%
Thailand	3,012	3,169	95%
Vietnam	1,296	1,581	47%

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