

Handm analysis

Business



**ASSIGN
BUSTER**

FRONTPAGE China shit Executive

Summary_____ Table of

Contents_____ Executive

summury Company analysis 1. 1 Company Description 1. 2 Key Financial Data 1.

3 Ethical Position and Recent News 2. 1 S. W. O. T Analysis 3.

1 Peer Benchmarking 3. 2 Porter's Generic Strategies 4. 1 Conclusion 4. 2

Recommendation Appendix: Team Reflection References Additional

Appendices 1. 1 Company

Description_____ H; M is a leading brand in producing frontline affordable fashion. Founded in 1947 in Sweden, as Hennes and Mauritz (H; M), it has expanded globally and found itself having gained a reputation as a major multinational clothes and cosmetics retailer.

The business mainly operates in North America, Asia and Europe, with its headquarters in Stockholm, Sweden. It had over 2, 200 outlets around the world and a turnover of SEK 126, 966 million in 2010. (H; M, 2011e) The company was one of the first retailers to challenge the fashion world by delivering fashionable garments at low prices. It produces a range of well-established products for men, women, teens and kids; including everything from modern basics to high fashion collections. The collections are created centrally by around 100 in-house designers together with buyers and pattern makers.

1. 2Key Financial Data_____ Table 1:

H; M revenue, profit after tax and operating profit (2011-2013 estimates)

Accounting periods for each year starts at 01-12-YY and ends 30-11-YY

2007/08| 2008/09| 2009/10| 2010/11E| 2011/12E| 2012/13E| Sales excluding VAT, SEK m| 88, 532| 101, 393| 108, 483| 110, 826| 123, 611| 137, 484|

Change in sales revenue excluding VAT from previous year, %| 13. 00%| 14. 53%| 6. 99%| 2. 16%| 11. 54%| 11. 22%| Profit after tax, SEK m| 15, 294| 16, 384| 18, 681| | Operating profit, SEK m| 20, 138| 21, 644| 24, 659| | Sources: (H; M, 2011a). Estimates: (Thomson ONE, 2011) Table 2: Hennes ; Mauritz – Key ratios and dividends |

2007/08| 2008/09| 2009/10| | Operating profit margin %| 22. 7| 21. 3| 22. 7| | Return on capital employed %| 61. 1| 56. 7| 58. 7| | Dividend per share, SEK| 7. 75| 8. 00| 9. 50*| | Source: (H; M, 2011a), * Proposed by board of directors For the three last years H; M has shown a steady increase in revenue per annum peaking at 14. 54% in the year 2008/2009. Given the global economic downswing and fluctuating exchange rates during those years the result must be seen as good. Although change in revenue fell to 6. 99% in 2009/2010 the year was seen as extremely good in terms of sales which yielded an increase by approximately 15%. The expanding in online shopping availability for consumers has had a positive effect on this.

H; M 2011b; H; M 2001c)The company has also managed to maintain a high operating profit margin of around 22% reflecting cost efficient manufacturing and overall cost of goods. Given the large increase in raw material costs for

<https://assignbuster.com/hm-analysis/>

2009/2010, where cotton prices nearly doubled, this is particularly impressive. (H; M, 2011b) Furthermore, H; M's return on capital employed floats at around 60%, showing efficient use of its capital resources, giving the firm a lot of "economic muscle" in terms of investing large amounts of profit back into the company for the benefit of shareholders. Not only is this important when considering future growth of the company, but it is also particularly beneficial for shareholders since the reinvested capital is employed against a higher rate of return, which helps produce an increased earnings-per-share growth. Graph 1 and 2 (G1, G2): European (EU) Confidence, Consumption and Income G1 – Consumer confidence and private consumption G2 – Households – real disposable income and consumption Source: (European Commission – Economic and Financial Affairs, 2011) Estimates in sales growth does however show a negative trend for 2010/2011 with sales growth estimated to fall to 2.16% and recovering in 2011/2012.

This goes hand in hand with the recent downturn in the European economy, which accounts for approximately 50% of H&M's sales geographically (excluding group functions). (H; M, 2011b) G1 and G2 show a steady decrease in consumer confidence (CCI), consumption (C) and real disposable income (DY*) for 2011 and the beginning of 2012. Given the current problems in the Eurozone, especially in the south, it is fair to suggest that a continuing downturn in economic activity throughout the region is to be expected. Hence, a decrease in CCI, C and DY*, ceteris paribus, is most likely to affect H; M's sales in the euro region negatively. 1.

3Ethical Position and Recent News_____ In 2010, H&M suffered from many scandals. First of all, in early January, the American H&M branch was found destroying unsold clothes. This action was anti-ecological and anti-social, as the clothes that were destroyed could have been given out to charities, as is usually done by H&M (Dwyer, 2010). The company denied this action to be policy, but some people remained sceptical as the operation seemed well organised. Later that same month, the German edition of the Financial Times newspaper uncovered an organic cotton fraud by H&M: the newspaper claimed the brand mixed their organic cotton with genetically modified (GM) cotton (treehugger.

com, 2011). H&M declared that this happened without their knowledge, at the source of the organic cotton production: India. The brand also declared it would put in place and enforce firmer rules regarding the organic cotton chain production. Eventually, H&M “won”, as the German Financial Times had no consistent proof of the cotton fraud, but considering how important the organic cotton was to H&M’s popularity, the brand’s sales suffered an important blow from this article. Nevertheless, H&M cares for its image and has been rated one of the Global 100 Most Sustainable Corporations List in 2010 (Global 100, 2010).

Finally, H&M are regularly accused of using child labour and paying substandard wages to their workers, but the company has worked hard to restore its image by introducing ethical rules for production and installing a partnership with the UNICEF (Which has now been going on for 7 years). The H&M site states that if child labour is found on the production chain, the company will either propose that the child study until legal working age while <https://assignbuster.com/hm-analysis/>

paying wages to the family so that it does not lose its income or offer the job to an older member of the household (H&M, 011d). With those new ethical rules, H&M aim to gain popularity and credibility. 2. 1S. W.

O. T Analysis_____ Table 3: S. W. O.

T Strengths| Weaknesses| Highly fashionable clothing at a low priceGuest top designers creating collectionsStrong revenue growthWidespread geographic presenceStrong marketingFast retailing enabling meeting trends and demand on a short noticeH&M shop online| Dependant on third party vendors for supply of production material| Opportunities| Threats| Increased preference in online shoppingExpanding in key growth markets in Asia and South Eastern EuropeThe growing market for plus size apparel| External factor change in the market of production: Raw material prices have increased, i. e.

cotton prices almost doubling in 2010 – May pressurize marginsLow Consumer Confidence and less disposable income in Europe and USA due to recessionRisk of foreign exchange rate fluctuationHighly competitive market| StrengthsOne of H & M's biggest strengths is its reputable brand. The retailer offers highly fashionable clothing at a relatively low price. Also, the frequently have top designers such as Roberto Cavalli, Karl Lagerfeld, Stella McCartney designing guest collections for them further increasing the brands value. In economic terms H ; M has shown a strong revenue growth for the past few years, as well as having a well-established widespread geographic presence both physically through stores and by marketing. It's extensive and efficient outsourcing of production also enables fast retailing resulting in the firm being able to meet new trends and demand on a relatively short notice.

<https://assignbuster.com/hm-analysis/>

(Datamonitor, 2011) Weaknesses Being a retail firm H & M places the majority of its equity into its stock which is completely produced and supplied by third party vendors. Hence, H & M are highly dependable on these vendors to meet their obligation. Failure to do so would affect H & M's cost of goods and in-stock positions which could reflect negatively on its overall financial results and brand. (Datamonitor, 2011) Opportunities The last decade has shown an increase preference in online shopping, for example, according to the industry estimates, online retail sales in Europe grew by 19% in 2010 reaching approximately \$228 billion and is further expected to reach approximately \$270 billion by the end of 2011.

(Datamonitor, 2011) H ; M has for the last few years placed a lot of weight on developing its online shopping and already offers online shopping in a number of major countries and continues to expand, the latest being the United States which launched in 2011. (H; M, 2011b) There are also vast opportunities for expansion in mainly south Eastern Europe and Asia, especially with the economic growth in China, where according to the National Bureau of Statistics, the retail sales 2010 had a turnover of approximately \$2.

1 trillion, which are expected to increase by about 15% for 2011, in addition to an increasing middle class, resulting in a higher demand for several consumer goods. Threats Being a retailer, a large part of H; M's costs are related to manufacturing. Thus external factor changes in the market of production, i. . the double increase in price of cotton 2010, may pressurize margins. Another threat is economical fluctuations in sectors that account for a large proportion of the business, like Europe.

Also having very widespread geographical sources of sales makes the company sensitive to fluctuations in exchange rates further pressurizing profit margins. Lastly, the competitiveness in the retail industry is extremely high with several highly potent competitors that threat H&M's market share.

Conclusion In conclusion it can be said that H; M's three strongest points are its strong brand name that offers highly fashionable clothing for a reasonable price, it's strong financial results and it's short lead time enabling the company to swiftly adjust to consumers demands. The main opportunities lie in expansion in China as well as continuing to develop and spread its online shopping availability. The main weakness and threats are external and include the high dependability of third party vendors and other external factors such as the prices of raw materials used in production as well as a highly competitive industry. 3.

1PEER Benchmarking_____ Table 4:

Competitors comparison H&M| Inditex| Arcadia| GAP| 2010 revenue excluding VAT (?)| 10. 13 billion| 10. 73 billion| 2. 78 billion| 9. 2 billion| 2010 Operating profit (?)| 2. 30 billion| 2.

54 billion| 0. 28 billion| 1. 25 billion| 2010 Operating profit margin (%)| 22. 7| 23. 7| 10. 4| 13.

4| Geographic Presence in 2010 (Number of stores in number of countries)| Over 2, 300 stores in 41 countries| 5046 stores in 77 countries (And a very small number of franchises)| 580 franchised stores in 36 countries and 2, 540 company-owned stores across the UK| 3, 245 company-owned and franchise stores in 41 countries| Amount of cash spent on marketing in 2010|

? 70 million| ? 120 million| ? 150 million| ? 290 million| Production Method|

Designs its own products. Manufacturing is completely third party

dependable. | Designs and manufactures its products in company-owned

factories. | Designs and manufactures its products in company-owned

factories. | Designs and manufactures its products in company-owned

factories. | Sources: (H&M 2011a; Inditex 2011; Arcadia 2011; Gap 2011)

*Currencies converted into pounds using exchange rates from <http://www.ukforex.co.uk/> at 14/11/2011

One of the first noticeable elements in this graph is the gap between Arcadia and the other companies. Arcadia Group is noticeably smaller, mainly because it is firmly based in the UK and has only started its international expansion. Secondly, Inditex is clearly the largest company, with the highest revenue and the widest expansion, yet the brand's marketing expenses are very low compared to its competitors': H&M, Arcadia and GAP's marketing expenses represent approximately 3% of their revenue, while Inditex spends only about 1% of its revenue for marketing. Furthermore Inditex and H ; M clearly run a more cost-efficient operation, this is shown in their 2010 operating profit margins of 23.

% and 22. 7% respectively, which are almost double those of Arcadia and Gap. Finally, it's interesting to note that H&M relies on retailers for its production, a choice that induces two main consequences: H&M has no costs linked to direct factories expenses, but it is responsible for the choice of the retailer, a crucial selection, as shown by the scandals caused by the genetically modified cotton and child labour in H&M's retailers' factories. 3.

2Porter's Generic Strategies_____ Table 5:

Porter's Generic StrategiesThe Cost Strategy| Differentiation Strategy| Few

<https://assignbuster.com/hm-analysis/>

middlemen Large volume Being cost conscious at every stage Having efficient distribution system Have a great knowledge of each goods Having extensive experience of the clothing industry Outsourcing production to third party vendors | Segment their brand with specifics targets Use famous designers to design some collections Use all technological support for their campaign Produce best quality with minimum environmental impact, with good conditions and continuous control The collection is created by a unique design team in Sweden | Cost Focus | Differentiation Focus | Philosophy of fashion and quality clothes at the best price Outsourcing production to third party vendors | Explore more on innovation and creativity Fashion is for everyone, not preserve for rich people | Cost strategy and focus H&M's main strategy to keep costs down is by outsourcing its manufacturing to a large network of garment shops located in mostly low-wage countries, such as Bangladesh. The firm also consistently evaluates its costs and shifts productions accordingly in order to create a downwards pressure on operating costs.

(H; M, 2011f) Differentiation strategy and focus In order to differentiate from its competitors along as many dimensions as possible. H; M has its own design team centrally located in Stockholm, Sweden. H; M believes that reducing cost shouldn't affect the quality. Suppliers must comply with their quality standards, and quality is also ensured through continuous controls. Quality also means producing the items with minimal environmental impact and under good working conditions. Overall H&M offers a large range of different clothes and style, from basic wear to trendy and high fashion clothing, often designed by famous guest designers.

Their range of clothes and accessories also extend to a large group of people, from women to men, teenagers and children, which are available in stores all around the world as well as online in various countries. (H&M 2011b; H&M 2010b) Cost leadership and differentiation focus strategy H&M philosophy is to provide customers fashion at the best price with the best quality. To reach their goal they must follow their cost leadership and differentiation strategies. By following these two rules, they increase competitive advantages, which result in better position to adapt quickly to environmental changes, learn new skills and technologies more quickly and be efficient in their production and creations. H&M claims that it is wrong thinking that fashion should be the preserve for the rich, but for everyone.

To do this successfully, H&M must truly be unique and be perceived as unique. They prefer to focus and operate more on precise target such as satisfy customers than concentrate on competition. (H&M, 2010b)

Comparative Advantage – Conclusion H&M adopt three key strategies in order to differentiate itself from its competitors and gain a comparative advantage. Firstly it is by far the leading retailer in terms of utilizing famous guest designers to strengthen its brand and increase the uniqueness and diversity of its products. Names include legendary designers like Karl Lagerfeld, Jimmy Choo, Sonia Rykiel and Roberto Cavalli. Secondly, the collections are created with a broad clientele in mind, where the aim is to satisfy as many different tastes and requirements as possible as well as environmental and other ethical concerns, rather than concentrating on the competition.

H&M 2011c) The third and last key strategic point is that opposed to its competitors H&M choses to outsource its manufacturing to a large network of third party vendors/producers which they evaluate constantly and shift in order to get the best deal and push down cost. H&M also have one of the fastest turnaround rates enabling them to get a new piece from the design table, to production and into store in a short period of time, meeting demand and increasing sales. (H&M, 2011g) 4.

Conclusion _____ H&M is a leading brand creating fashion and quality at the best price. It produces a range of well-established products for men, women, teens and kids; including everything from modern basics to high fashion collections.

It has a large geographically spread market, with over 2, 200 outlets around the world. Although involved in some scandals recently, H&M publically takes a strong stand for sustainable development as well as human rights and other ethical issues, i. . being rated one of the Global 100 most sustainable corporations in 2010. Financially the company has shown very strong figures the recent years, reaching a staggering revenue income before tax of SEK 108, 483 million in 2010 having and an operating profit margin of over 20% for the last three years.

Furthermore the company does have a lot of financial resources and high leverage possibilities given the recent year's financial results and a ROCE at around 60%, reflecting a strong ability for future growth of the company. However, recent economic and political news in Europe suggest a continuing downturn in economic activity throughout the region as seen in the European Commission's latest CCI report, which most likely affect H&M's sales in the

<https://assignbuster.com/hm-analysis/>

euro region negatively. In addition, a sharp increase in price of raw materials such as cotton has been seen in the last year, increasing the costs of production for H; M and thus pressurizing its profit margins downwards. In terms of competition H; M faces a highly competitive market with a number of firms with turnovers each year in the billions. However, H; M's outlooks are bright given its product differentiation strategy through high end designing, strong branding and marketing, as well as its ability to meet customers demand in a short time period through short turnaround rates and a high awareness of what the customer wants.

H&M has also swiftly adopted to the increasing trend in Online shopping and offers the service in a number of major countries, it is also looking continue expanding its number of stores, especially in China and South Eastern Europe in the coming years. 4.

Recommendation_____ _ For this assignment we were asked to answer to questions: * Does this company have a promising future? * Should I invest in it now? Answering the first question. Yes, we believe that the company does have a promising future. Given the recent years increasing revenue, profits, and estimations for the future we believe that the company will be one of the leading players on the fashion retail market for many years to come, despite an expected dip in the year to come due to the current financial crisis. The ability and willingness of H&M to expand is large, and so are the opportunities, mainly in China where the retail sales 2010 had a turnover of approximately \$2.

1 trillion, and are expected to grow by about 15% for 2011. Answering the second question. No, we do not that the company should be invested in now.

<https://assignbuster.com/hm-analysis/>

Although H&M does have a bright future we believe that given the current financial crisis and outlook for the year 2010/2011 as well as 2011/2012, there is still some time before the market will start to recover and a brief hold for a later investment is to be recommended. Furthermore, H&M ends its accounting year 30th November, thus it is not long before its next annual report, which we as stated earlier, believe will reflect the negative financial environment for the year.

This is supported by other analysts that also recommend a hold for now.

(Reuters, 2011b) 5. 1Reference

List_____ Dwyer, J. (2010)

Clothing Retailer Says It Will No Longer Destroy Unworn Garments. The New York Times, 7th Jan, p. A25 New York Edition.

Online references: Arcadia Group Ltd. (2011) FINANCIAL RESULTS FOR THE 52 WEEKS ENDED 28 AUGUST 2010 [Online] Available at:

http://arcadiagroup.td.uk/assets/pdfs/ArcadiaFinancialResults2010_v2.pdf

[Accessed: 12/11/11] Datamonitor (2011) H & M Hennes & Mauritz AB –

Company Profile, publication date: 10/06/11 [Online] Available at: <http://0-web.ebscohost.com.wam.city.ac.uk/ehost/search/advanced?sid=520ce9a6-a23d-4c28-b534-55b3aae84064%40sessionmgr12&vid=2&hid=19>

[Accessed 10/11/11] European Commission – Economic and Financial Affairs (2011) Key indicators for the Euro Area [Online].

Available from: http://ec.europa.eu/economy_finance/db_indicators/key_indicators/documents/key_indicators_

<https://assignbuster.com/hm-analysis/>

en. pdf [Accessed: 12/11/11] Gap Inc. 2010) 2010 Annual Report [Online]
Available from: <http://media.>

corporate-ir. net/media_files/IROL/11/111302/GPS_AR_10. pdf [Accessed
12/11/11] Global 100 (2010) 2010 Global 100 List [Online]. Available at:
<http://www. global100. org/list.>

html [Accessed: 06/11/11]. Hennes & Mauritz AB [H&M] (2011a) Five Year
Summary [Online]. Available from: [http://about. hm.](http://about. hm. com/fi/investorrelations/fiveyearsummary__fiveyearsummary.)
[com/fi/investorrelations/fiveyearsummary__fiveyearsummary.](http://about. hm. com/fi/investorrelations/fiveyearsummary__fiveyearsummary.)

nhtml [Accessed 01/11/11]. Hennes & Mauritz AB [H&M] (2011b) H & M
Hennes & Mauritz Full Year Report 1 December 2009 – 31 November 2010
[Online]. Available from: [http://feed. ne. cision.](http://feed. ne. cision. com/wpyfs/00/00/00/00/00/13/7F/61/wkr0005. pdf)

com/wpyfs/00/00/00/00/00/13/7F/61/wkr0005. pdf [Accessed 01/11/11].
Hennes & Mauritz AB [H&M] (2011c) H&M Conscious [Online]. Available at:
[http://about. hm.](http://about. hm. com/gb/corporateresponsibility/hmconscious__about_conscious.)
[com/gb/corporateresponsibility/hmconscious__about_conscious.](http://about. hm. com/gb/corporateresponsibility/hmconscious__about_conscious.)

nhtml [Accessed: 12/11/11]. Hennes & Mauritz AB [H&M] (2011d) What we
do if we discover child labour? [Online] Available at: [http://about. hm.](http://about. hm. com/gb/corporateresponsibility/supplychainworkingconditions/supplychainmonitoring/whatwedoifwediscoverchildlabour__monotoringarticle4. nhtml)
[com/gb/corporateresponsibility/supplychainworkingconditions/supplychainm](http://about. hm. com/gb/corporateresponsibility/supplychainworkingconditions/supplychainmonitoring/whatwedoifwediscoverchildlabour__monotoringarticle4. nhtml)
[onitoring/whatwedoifwediscoverchildlabour__monotoringarticle4. nhtml](http://about. hm. com/gb/corporateresponsibility/supplychainworkingconditions/supplychainmonitoring/whatwedoifwediscoverchildlabour__monotoringarticle4. nhtml)
[Accessed: 09/11/11].

Hennes & Mauritz AB [H&M] (2011e) About H&M [Online] Available at:
[http://www. hm.](http://www. hm. com/filearea/corporate/fileobjects/pdf/en/RM_DOWNLOAD_ABOUTHM_PDF_12)

[com/filearea/corporate/fileobjects/pdf/en/RM_DOWNLOAD_ABOUTHM_PDF_12](http://www. hm. com/filearea/corporate/fileobjects/pdf/en/RM_DOWNLOAD_ABOUTHM_PDF_12)
<https://assignbuster.com/hm-analysis/>

99857406876. pdf [Accessed: 09/11/11]. Hennes & Mauritz AB [H&M] (2011f) Our Business Concept [Online] Available at: [http://about. hm.](http://about.hm.com/gb/abouthm/factsabouthm/ourbusinessconcept_ourphilosophy.html)

[com/gb/abouthm/factsabouthm/ourbusinessconcept_ourphilosophy.html](http://about.hm.com/gb/abouthm/factsabouthm/ourbusinessconcept_ourphilosophy.html) [Accessed: 09/11/11]. Hennes & Mauritz AB [H&M] (2011g) Do you want to create a garment that will be worn all over the world? [Online] Available at: [http://about. hm. com/gb/workingathm_career.](http://about.hm.com/gb/workingathm_career.html?jobroleid=13&jobareaaid=3)

[nhtml? jobroleid= 13&jobareaaid= 3](http://about.hm.com/gb/workingathm_career.html?jobroleid=13&jobareaaid=3) [Accessed: 12/11/11]. Hennes & Mauritz AB [H&M] (2010a) H & M Hennes & Mauritz Full Year Report 1 December 2008 – 31 November 2009 [Online]. Available from: [http://feed. ne. cision. com/client/hm/Commands/File.](http://feed.ne.cision.com/client/hm/Commands/File.aspx?id=1076966)

[aspx? id= 1076966](http://feed.ne.cision.com/client/hm/Commands/File.aspx?id=1076966) [Accessed 01/11/11]. Hennes & Mauritz AB [H&M] (2010b) Corporate responsibility [Online]. Available from: [http://about. hm. com/gb/csr](http://about.hm.com/gb/csr) [Accessed 14/11/11].

Hennes & Mauritz AB [H&M] (2009) H & M Hennes & Mauritz Full Year Report 1 December 2007 – 31 November 2008 [Online]. Available from: [http://feed. ne. cision. com/wpyfs/00/00/00/00/00/0E/20/43/wkr0003.](http://feed.ne.cision.com/wpyfs/00/00/00/00/00/0E/20/43/wkr0003.pdf)

[pdf](http://feed.ne.cision.com/wpyfs/00/00/00/00/00/0E/20/43/wkr0003.pdf) [Accessed 01/11/11]. Inditex (2011) Annual report 2010 [Online]. Available from: [www. inditex. es/en/downloads/Annual_Report_INDITEX_10.](http://www.inditex.es/en/downloads/Annual_Report_INDITEX_10.pdf)

[pdf](http://www.inditex.es/en/downloads/Annual_Report_INDITEX_10.pdf) [Accessed 12/11/11]. Reuters (2011a) H&M key developments [online] Available at: [http://www. reuters. com/finance/stocks/HM.b. ST/key-](http://www.reuters.com/finance/stocks/HM.b.ST/key-developments) developments [Accessed: 10/11/11].

Reuters (2011b) Analyst recommendations and revisions [online] Available at: <http://www.reuters.com/finance/stocks/analyst?symbol=HMRZF.PK> [Accessed: 21/11/11]. Thomson ONE Banker (2011) H & M Hennes & Mauritz AB (Symbol: C901510516) Thomson Forecast Report [Online]. First Call – SEK.

Available from: <http://banker.thomsonib.om/ta/> [Accessed 01/11/11]. 6.

1Appendix B – Tables and Graphs_____ Table 1:

H&M revenue, profit after tax and operating profit (2011-2013 estimates)

Accounting periods for each year starts at 01-12-YY and ends 30-11-YY |

2007/08| 2008/09| 2009/10| 2010/11E| 2011/12E| 2012/13E| Sales excluding VAT, SEK m| 88, 532| 101, 393| 108, 483| 110, 826| 123, 611| 137, 484|

Change in sales revenue excluding VAT from previous year, %| 13. 00%| 14.

53%| 6. 99%| 2. 16%| 11. 54%| 11. 22%| Profit after tax, SEK m| 15, 294| 16, 384| 18, 681| | Operating profit, SEK m| 20, 138| 21, 644| 24, 659| | Sources:

(H&M, 2011a).

Estimates: (Thomson ONE, 2011) Table 2: Hennes & Mauritz – Key ratios and

dividends | 2007/08| 2008/09| 2009/10| | Operating profit margin %| 22. 7|

21. 3| 22. 7| | Return on capital employed %| 61. 1| 56.

7| 58. 7| | Dividend per share, SEK| 7. 75| 8. 00| 9. 50*| | Source: (H&M,

2011a), * Proposed by board of directors Graph 1b: Hennes & Mauritz – Sales excluding VAT, SEK m Graph 1c: Hennes & Mauritz – Change in sales revenue

excluding VAT from previous year % Graph 1d: H&M– Profit after tax, SEK m

Graph 1e: H&M– Operating profit, SEK m Graph 1 and 2 (G1, G2): European

(EU) Confidence, Consumption and IncomeG1 – Consumer confidence and

<https://assignbuster.com/hm-analysis/>

private consumption G2 – Households – real disposable income and consumption Source: (European Commission – Economic and Financial Affairs, 2011) Table 3: S. W.

O. T Strengths| Weaknesses| Highly fashionable clothing at a low priceGuest top designers creating collectionsStrong revenue growthWidespread geographic presenceStrong marketingFast retailing enabling meeting trends and demand on a short noticeH&M shop online| Dependant on third party vendors for supply of production material| Opportunities| Threats| Increased preference in online shoppingExpanding in key growth markets in Asia and South Eastern EuropeThe growing market for plus size apparel| External factor change in the market of production: Raw material prices have increased, i. e. cotton prices almost doubling in 2010 – May pressurize marginsLow Consumer Confidence and less disposable income in Europe and USA due to recessionRisk of foreign exchange rate fluctuationHighly competitive market| Table 4: Competitors comparison | H&M| Inditex| Arcadia| GAP| 2010 revenue excluding VAT (?)| 10. 3 billion| 10. 73 billion| 2. 78 billion| 9. 2 billion| 2010 Operating profit (?)| 2. 30 billion| 2. 54 billion| 0. 28 billion| 1.

25 billion| 2010 Operating profit margin (%)| 22. 7| 23. 7| 10. 4| 13. 4| Geographic Presence in 2010 (Number of stores in number of countries)| Over 2, 300 stores in 41 countries| 5046 stores in 77 countries (And a very small number of franchises)| 580 franchised stores in 36 countries and 2, 540 company-owned stores across the UK| 3, 245 company-owned and franchise stores in 41 countries| Amount of cash spent