

Current business situation of h and m



Hennes and Maurits was founded in first 1947 by Erling Persson and later acquired Mauritz Widfoss in 1968. It is a Stockholm- based fashion company. After the business success at home, in 1964, Hennes launched its first overseas store in Norway, and 3 years later H&M entered the UK market and started her expansion strategies. By the mean time, H&M has more than 1600 stores in 32 countries and had become the 3rd largest clothing retailer in the world.

Hennes & Mauritz (H&M), the probably most legendary fashion retailing firm in recent years, has spared out branches all over the world. In Europe, North America, Asia and even Middle East you can find H&M's stores. After achieved successful sales goal and fame, H&M has entered a very challenging market, Japan, by launching its first shop in Ginza, Tokyo. Although at the beginning H&M has seemed to get great response and do a good work, Japan has long been struggled with economic recession and continues sales drop. Could H&M keep its unbeatable records in Japan? The followings should analyse and recommend the retail strategies in Japan market H&M should take.

" Fashion and Quality at the best price" is the model of hers. H&M produces Women, men, youngster and children wear. Besides garments, H&M also has its own line in accessories, footwear and cosmetics. The " King of Fast Fashion" has its own production offices in Asia and Europe in order to keep the price down.

Business situation is always critical for a company's success or failure. Both the global situation and Japan's market, there are factors that favor or

discourage business sales. In the global level, the mode of fashion retailing has been changing in recent years. Firstly, the influences of new brand or store chain are growing in the international market. For examples, store chains like Zara and Gap, they make huge profits and arouse publicity in international level. They gained reputations and captured high percentage of market shares. Despite the past fashion industry that mostly the high fashion retailers could gain their influences, nowadays chain stores that sell street fashion for middle or lower classes can get their places in the fashion market. And it shows different fashion firms can gain market shares and impacts in the fashion industry. Secondly, the changed life style of the customers of the fashion companies also gives opportunities. Nowadays fast fashion is prevailing and people are getting more conscious and paying more attention to fashion. The market for fashion industry is growing. More important is that customers want fashionable items with lower price rather than expensive high couture, as they would like to change their wardrobe less than one month. That is why fast fashion is getting popular. Thirdly, e-market is one of the fields that fashion retailing firms paying affords in. The sale in e-market is growing, as the sales in internet has no geographic boundaries. Also internet is a good media to promote its company and products.

On the other hand, business of fashion companies also faces a very serious problem — economic tsunami. The economic tsunami affects customers' confidence in buying and purchasing. Also customers tend to save rather than spend. The sales volume of many firms dropped significantly within 1 or few months. More than that, the sales volume predicted to drop continuously in next 1 or few years. Facing the economic difficulties and negative

information about the market's future, it further discourages the customer's buying behavior also the business sales.

In Japan, the business situation is beginning described as challenging and advent H&M. Japan is a fashion capital in Asia and even the world. People especially youngster group paid much attention in trends and fashion. They tend to spend much on clothing and other relatives item to fashion. Due to the great fashion awareness, fashion firms and chains can get ideal sales in Japan usually. Besides, Japan is the model and trends for the neighboring in countries, for example Hong Kong, Taiwan and South Korea. Success in Japan means easier entry into the markets in these Asian markets. Moreover, statistics show that the men's wear market in Japan is great. In the past years, men's wear sales were comparable with women's wear. In 2007, men's wear sales were over the sales of women's wear. It shows that the men's wear market is in great potential for firms to enter and provides great opportunities.

Although Japan seems ideal for fashion companies to get in, there're also shortcomings of Japan market. Japan faces economic downturns in recent years. In the past 10 years were the recessions of Japan's economy. The sales volumes dropped and market for clothing and footwear declined. In the past 2 years things had been once better, however unfortunately there are global economic tsunami. International predicts that in future years Japan's economy will remain in its downturn. Secondly the competition between firms in Japan is ardent. As mentioned above, Japan's market is a paradise for old and new fashion brands. It attracts many international brands for examples the high brands like Marc Jacobs, Gucci, Hermes and also bringing

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like Zara, Gap that operates stores in modes that similar to H&M. The competition between brands is keen. Also the local brands in Japan like Uniqlo abstract high market shares. For the entering of new brand, it's important that one can stand for the harsh competitions. In additions, the aging problem is another concern for the market. As fashion is always viewed as the interest of younger people, the aging problems directly affect the sales of fashion firms.

COMPETITOR ANALYSIS

Company

H&M

Zara

Gap

Uniqlo

Start from

Sweden, 1947

Spain, 1975

America, 1969

Japan, 1984

employees

68, 000

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150, 000

—

Target market

few middlemen

buying in large numbers

having in depth knowledge and understanding of textiles

few middlemen

buying in large numbers

having in depth knowledge and understanding of textiles

few middlemen

buying in large numbers

having in depth knowledge and understanding of textiles

few middlemen

buying in large numbers

having in depth knowledge and understanding of textiles

price

Low

middle

low

low

Growth strategy

Fashion and quality at the best price with own design

increase the number of stores

zero advertisement

Increase the number of stores

Design a new style every two week

A lot of brand inside

Low advertisement

Fashion and quality at the best price with own design

Cooperate with design and other brand

Sponsor some ball game team

Total stores

1, 600

3, 100

3, 139

800

The number of Japan stores

4

30

130

750 (99in Tokyo)

Start in Japan

9. 2008

1998

1995

1984

Stores size

1, 000

square meters

1, 500

square meters

1, 000

square meters

Figure 1

Refer to Figure 1, analysis is below.

As we know, H&M is a huge brand in the world. It started at 1947 in Sweden. It has 1, 600 stores in 32 countries H&M's major competitors are Zara, Uniqlo, and GAP in Japan. They are the entire well-known brand in the world.

Although H&M's history is longer than them, it' not mean H&M is much better than them. Zara and Gap have more stores than H&M, but their target market is very similar., They also target for a few middlemen, people who can buy in large numbers and having in depth knowledge and understanding of textiles, so that H&M have a big challenge. Their price range also between middle to low, it can make more people afford it. H&M's missing is that fashion and quality at the best price and increase the number of stores. However, Uniqlo also have the same missing, it want to provide a good customer service at the best price and own design. Moreover, Zara can design a new thing every two weeks. It can design 10, 000 produce every year, it much fast than H&M. Their stores also increase very fast.

H&M only have 4 shops in japan, but Zara, Gap and Uniqlo have much more stores in japan, especially Uniqlo. Moreover, they have a long history in Japan, but H&M just enter Japan market in 2008. It is a big problem for H&M, its competitor have more stores and stable customer.

ANALYSIS ON H&M EXISTING MANAGEMENT STRUCTURE

H&M has a clear hierarchy structure as shown in Figure 2

The Annual General Meeting (ACG) is the highest decision-making body where shareholders exercise their rights to make decisions for the company. Board of directors manages the company on behalf of the shareholders. The board gives directions and instructions to the managing director. Hence, the managing director performs daily management as directed by the board. Underneath, the executive managing team and country managers are responsible for central functions and sales countries respectively.

Figure 2. 1

In most cases, large organization generally has a complex structure. Here, H&M has a matrix organization which is a mixed form of functional and divisional structure. Typically, matrix organization structure has two axes.

“ On one axis of the matrix is a range of functional groups and on the other are the products or projects with a manager responsible for each.” (Boddy, D., p246, 2005)

In the case of H&M, the project is organized by regions and each region has a number of stores. There is a manager in each country and he/she is responsible for profitability in their country and thereby has an overall responsibility for all the functions within the region. (refer to Figure 2. 1)

On the other hand, H&M also organize and work on their tasks in project and team bases. By using these methods, managements not only organize their

work more flexible with lower costs, but also giving out a faster response for their project or task. (Boddy, D., 2005) Here the executive management teams of H&M responsible for each function are responsible for the results of work within their function in each country. What is more, specialists from various departments also brought together to form a project team and work on different projects.

Figure 2. 1

Regarding the matrix structure adopted by H&M, some benefits are summarized as follows: simplifying the creation of appropriate routines and control systems, smaller units enable closer supervision, higher flexibility, faster response, enabling comparisons between the different companies within H&M. However, this may lead to a significant drawback, which is low uniformity. Since there is high division of departments and regions, it is often hard for the central management to control the management and operation of different units.

To enhance uniformity throughout the whole company, management documents like guidelines and manuals are delivered within the company. Moreover, the code of ethics permeated the entire company, describing the way employees should act in relation to the company and the outside world. For store operations, detailed instructions have also been given to store staffs in order to control daily work in the stores. Though guidelines and manuals are written by central departments, in 2006, inventory of the guidelines was carried out within each department so as to check any guidelines should be updated or created. This showed respect towards each

units' opinions. Evaluation and modification of guidelines and manuals result in better efficiency of work.

To further explain H&M's management structure, the degree of centralization could be examined. The code of ethics, internal policies, and manuals are created by central management. Important decisions that are strongly related to the company's profits are also made by the top management. Purchasing is centrally organized by the head office in Sweden as well. From the above, we could see high degree of centralization is exercised in H&M. Nevertheless, H&M has a decentralized system. There are 20 production offices dealing with 800 suppliers, and 20 country offices within 33 sales countries, handling all business affairs for the region it responsible for. Planning and organizing, such as store operation, advertising are carried out by managers.

There are certain advantages and disadvantages of H&M's decentralized system with centralized management. From the good side, uniformity can be enforced through clear and strict regulations and guidelines. Besides, this enables higher flexibility in tackling small problems in each department and region. On the contrary, higher risk of unsuitable merchandise for the sales countries may be resulted due to centralized buying decision in Sweden. In Japan, consumers are quite different and demanding on quality clothing which usual H&M products may not satisfy them enough. To avoid such problems, more intense research and country-oriented approaches are needed. It is suggested that research or buying teams located in the respective sales regions could be set up to perform closer watch on trends

and social affairs that could alter sales greatly and too quick before response come from the head office.

ANALYSIS ON H&M EXISTING RETAIL STRATEGIES

H&M is a very successful and expansive Swedish fashion group and also a famous company in Japan. H&M's retail strategy has been developing in different aspects.

The Best Price Strategy

H&M aims to give the customer unbeatable value by offering fashion and quality at the best price. It has been developing the Best Price Strategy. It maintains the best price by limiting the number of middlemen, buying in large volumes, relying on our in-depth, extensive expertise within the design, fashion, and textile industries, buying the right merchandise from the right production markets, being cost-conscious at all levels and having efficient distribution systems. In Japan, the product price of H&M is lower than others. Most foreign brands come to Japan and charge more than at home. H&M is aiming to match global pricing. So now H&M is one-half the price of Zara in Japan, thereby making most other Japanese retailers look relatively expensive. If Japanese consumer spending continues to decline, this will play into an even stronger position for H&M.

Main Collection & Sub-Collection

The buying function focuses on customers, fashion and composition of the range. H&M's clothing collections are created in Sweden by around 100 internal designers, 50 pattern designers and around 100 buyers. It operates with two main collections per year, one in spring and one in autumn. Within

each season, however, there are a number of sub-collections so that customers can always find new goods in stores. The aim of the company is to find the optimal time to order each item.

Fashion For Everyone

H&M offers a wide range of fashion using many different concept, from updated classics and basics to clothes that reflect the very latest international trends. In addition, they sell clothes, accessories and cosmetics. The wearing range consists of everyday clothes to partywear. To make things clearer for the customers, it has divided up a range into a number of different concepts for women, men, teenagers and children. The clothes also have a high fashion content within each collection, so that customers can easily combine different garments and find their own personal style.

Online Shopping Service

H&M have three sales channels, stores, the Internet and catalogues. In 1998, H&M began its “ shopping online” service which has since been continuously improved. A considerable expansion of mail order and online sales is being prepared to complement the stores in the existing markets. Stores continue, however, to be the main distribution channel. The strategy behind the owning of it is that H&M can maintain control of the expansion strategy and of business locations. But Japan does not provide online shopping service, the sales channel is narrow.

The Best Location Strategy

The Best business location has been a firm principle of H&M since 1947 and is less important nowadays. The H&M store is now a well-established

presence in most prominent shopping streets with considerable customer flows around Europe. In London, for example, they are located on Oxford Street. H&M opened the store in Japan in Ginza, Shibuya and Harajuku. Before establishing stores in a new market they conduct a thorough analysis of demographics and purchasing behaviour. They also carry out a local survey of the shopping areas and shopping centres, document their size and where their competitors' stores are located.

Product Quality Control

In order to maintain the fine quality of merchandise, they carry out quality controls. They strive to ensure that garments have been manufactured with the least possible impact on the environment and under satisfactory working conditions. H&M is known as the king of “ fast fashion” and spots emerging fashion trends, quickly creates knock-off designs and variation using 100 in-house designers. In Japan, the customers are nit-picking and require an extremely high quality fashion. H&M may not satisfy their needs.

OVERALL SWOT ANALYSIS OF H&M

The SWOT analysis is the strengths, weaknesses, opportunities and threats of a company. A SWOT analysis actually has two parts and both are equally significant. Strengths and weaknesses are the internal analysis; the opportunities and threats focus on the external environment. Internal is regarding the information about company's market segments, their competitor's relative weaknesses and strengths as well as the industry as a whole. When conducting an external situational analysis, the business' customers, market and competitors are analysed.

The overall SWOT analysis included the global situation and Japan environment of H&M. Firstly, strengths and weakness of H&M is discussed as below.

Strengths

H&M was established in Sweden in 1947; it has a long history and is around 62 years. The past 62 years, H&M did a great expansion worldwide. In 2009, there are 1, 700 stores spread over 33 different countries and markets, and employ over 73, 000 people. H&M offer each country exclusive preferences and needs. Also there is exclusive clothing designs for online stores, and this system is provided in some of the European countries, such as Austria, Denmark, Finland, Germany, Netherlands, Norway and Sweden.

Informational website is also one of the strengths of H&M, everything about H&M shown in the official website. It is convenient for customers to get the newest issues of H&M, and also provides useful and updated information to all types of users. H&M Magazine provides a good idea of how H&M views fashion. It offers readers a mix of fashion, inspiration and the latest lifestyle trends. It is issued four times a year and is aimed equally at customers and staff. Like all H&M's communication, the magazine can be seen as an invitation to H&M. It is important for building the brand in the long term and is also available on the H&M website.

Besides of the exclusive online shopping, H&M also collaborated with fashion designers, designer labels, fashion models and celebrities to offer customers the exclusive collection, such as Karl Lagerfeld, Stella McCartney, Viktor & Rolf, Kate Moss and Madonna. On 20 September 2005, H&M announced they have dropped Moss for the advertising campaign of their autumn clothing

collection, stating that her image was “ inconsistent with H&M’s clear dissociation of drugs” in light of recent drug allegations. H&M did concerned about the society. In November 2008, Comme Des Garçons, a significant figure in modern fashion – Japanese designer, exclusive collection for H&M sold in 200 stores worldwide, including Japan, Hong Kong, US and UK. One of the most significant figures in modern fashion, Kawakubo has created a full men’s and women’s collection for H&M, complete with accessories and a unisex fragrance.

H&M provides variety in fashion, different kinds of clothing and accessories that could easy for customers to match up with. The stores are refreshed daily with new fashion items. As with H&M’s clothing heritage, the idea across the Home collection is that consumers mix and match items and add to their existing décor and colour schemes. The first home collection will be available from February 2009 in the markets: Sweden, Norway, Denmark, Finland, Germany, Austria and the Netherlands. Cushion cover and bed linen sets are the key pieces. The materials are mostly cottons, linens, viscose-cotton mixes and organic cotton.

The long-term investment in organic cotton is continuing at H&M, aims to increase the use of organic cotton and the development of new green materials such as recycled cotton, wool and polyester. H&M offering garments that are both fashionable and environmentally compatible. H&M had a fantastic response to their eco-fashion, which shows that the customers care about both the environment and design.

Weaknesses

H&M business concept is to give the customer unbeatable value by offering fashion and quality at the best price. When comparing with competitors, the garment quality of H&M is doesn't at high level. Since all stock is displayed on floor, there is no backup stock for customers. The customer service is relatively low if the customer could not get any help from the salesperson. For the garment production, H&M does not own any factories, but instead buys its goods from around 800 independent suppliers, primarily in Asia and Europe. The problem is that H&M cannot get tightly controlled to the distribution network to get new product to the stores. The online shopping store is only provides in European countries, such as Austria, Denmark, Finland, Germany, Netherlands, Norway and Sweden. The online store could not gain worldwide customers attention. In Sweden, Norway, Denmark, Finland, the Netherlands, Germany and Austria H&M offers fashion by Internet and catalogue sales. For the employees, there is not a fundamental respect for the individual, which applies to everything from fair pay, reasonable working hours and freedom of association to the opportunity to grow and develop within the company.

Opportunities

It is the positive towards future expansion of H&M and the company's business opportunities. In the past few years H&M has been experimenting with new fascias including market company, which it debuted on London's Regent Street in March 2007. A second company store will open this week in Westfield and the retailer believes there are further opportunities for the offer in the UK. The 14th store in Europe will open next spring in Paris. Since

H&M has signed a contract for its first store in Japan in end of 2006. The store is opened in 2008 November. “ It has been H&M’s dream to open in Japan.” says Rolf Eriksen, CEO H&M. There will be more stores in Japan in the future. H&M has entered into franchise agreement with Match Retail Ltd. for store openings in Israel. The first H&M store is planned to open during 2010.

H&M provides online shopping in a few European countries, but still hasn’t announced plans to do so in Asia, North America and Middle East. It is a large market for H&M. There is an opportunity to set up online store in those countries.

The designer cooperation is the most significant for H&M. The crossover series with the famous designer have made a stir in fashion industry. Many designers are willing to cooperate with H&M, see it as a stage for showing their new design. It brings the new concept to the H&M product and enhances their product competitive. H&M crossover with Matthew Williamson do a spring collection for 2009.

As the Japanese has a strong interest in fashion and Japan is a big fashion market. Japan fashion market is maturing, with competition between global companies intensifying in the Japanese market and with consumers becoming more and more selective about merchandise that they purchased. There is growing presence of shopping centers and fashion malls in and around cities giving consumers increasing choices of locations for shopping. This is causing change in the structure of the Japanese fashion market as well as consumers’ buying patterns.

Threats

There will be a keen competition between the similar style competitors, such as Zara, Gap Inc., and Uniqlo in Japan. And, the changes in consumer behaviors are also the threat of fast fashion. “ End of fast fashion” as shoppers allegedly switches to less throwaway items. Weak holiday sales, economic downpour sales will be conducted in H&M stores. There also will be frantic battles over products, the poor quality compete with the luxury goods; fast fashion compete with high fashion.

Exchange rate fluctuations are strongly related to the export quantities of firms. Since there are a lot of stores all over the world, the rate changes is a big issue of the company.

Internationally, H&M has experienced some sales declines in recent months and sales across the business were two per cent down year on year at established stores in September. However, refuses to admit any serious threat to H&M’s success, stressing again its solid offer. It is not about value, but value for money and H&M think they are unique when it comes to combining price, quality and fashion. It is the feedback that H&M get from customer and it is their success factor.

3 RECOMMENDATIONS

In order to raise the competitiveness of H&M in Japanese fashion market, some retail strategies are recommended. We provide some suggestions based on 4Ps.

Place

For place aspect, it is suggested that H&M should offer various distribute channels for increase the sale and enhance its competitiveness.

First, providing On-line-shop is a good way to sell H&M products. According to Mark Hogan , GM Group vice president said, Japan is the Internet giant of Asia.

There are 47. 08 million Internet users. 62 percent of them use e-commerce. It can prove that online shopping is a popular shopping method in Japan. Besides, there are no limitations of online shops' locations. It means that even there is only 1 H&M shop in Tokyo, people who live outside Tokyo can still buy its products though the online shop. Thus, On-line-shop can help H&M broaden its demographic market to boosting its sales.

Second, providing Automatic Vending Machine (AVM) can help H&M to be successful. Japanese demand for automation. According to the Japan Vending Machine Manufacturers Association report , there are 5. 51 million machines in Japan in 2007, Japanese spend nearly 7 trillion yen (around US\$ 58 billion) a year by shopping though AVM. It is a popular buying behavior in Japan.

Third, it is suggested that H&M should allocate AVM at Railway stations. According to a survey about Japanese Commuting conducted by japan-guide.com , train (JR) is the most commonly used of transportation for commuting in Japan. 53% of students and 48% of company workers indicated to commute to school/work by train or subway. Students and workers is the

main target of H&M. Thus, the suggestion is a fabulous idea for H&M undoubtedly.

Product

For product aspect, release family-set outfit is a potential product for increase the sales. Most Japanese love wearing family-set outfit. Providing family-set outfit can attract those family targets. Besides, family-set outfit is complementary merchandise product. It means that if parents select and decide to buy an outfit, they should buy another one to their child. The sale can increase doubly.

Second, H&M should improve its quality of products in order to succeed in Japan. The cloth of H&M is not top notch quality. Japanese are known notoriously for rejecting products for minute reasons such as poor stitching, loose button, and inferior fabrics and the like. Moreover, manufacturing standards are so uniformly high in Japan that a business model cannot succeed on design and bargain pricing alone. However, Uniqlo, one of the H&M competitors, provide high quality products with a reasonable price. If H&M thirst for success in Japan, it is important for it to improve the quality of its products.

Promotion

For promotion aspect, effective promotion is needed. Promotion can introduce merchandizes to customers and also attract them to come to the shop. There are so many ways to promote the merchandizes. Choosing suitable ways are very important because it affect the effectiveness of the promotion.

First, mobile phone is a good media for promotion. Nowadays, nearly everyone have one mobile phone. Through mobile phone, messages can be easily and successfully transfer to many different people. SMS (Short Message Service) is one common method. In Japan, lots of people like to use SMS to communicate with each other, especially for the youngsters.

Recently, Japan Ministry of Education, Culture, Sports, Science and Technology surveyed over 10 thousand students. In 5 secondary school students, there is one sending at least 50 messages by mobile phone every day. 7% of them even said that they sent about 100 messages every day. This shows that most of the teenagers like using SMS. Therefore, SMS is really a good method to send messages in order to promote products.

Another common method for promotion is using matrix code (2D barcode). 2D barcode is a two-dimensional way of representing information. It is similar to a linear (one-dimensional) barcode, but has more data representation capability. 2D barcodes are in patterns of squares, dots, hexagons and other geometric patterns. QR Code becomes the most popular type of 2D barcodes in Japan recently. The “ QR” is derived from “ Quick Response”. QR Codes are commonly found in the Internet and magazines. Most current Japanese mobile phones can read this code with their camera of the mobile phone conveniently. QR Code can encode Japanese Kanji and Kana characters, music, images, URLs, emails. Through this kind of barcode, information can be easily stored and attract people to get it.

The QR Code

Price

Apart From using mobile phone, some programs can be launched in order to promote the merchandizes. Price deal is an example. Price deal is a temporary reduction in the price in a short period of time. It is very effective because low price can attract customer to go into the shop and pay more. Price deal is suitable for short period promotion. Another good example is loyal reward program. Consumers can collect points, miles, or credits for purchases and redeem them for rewards. In order to get the rewards, customers would like to come more frequently and buy more products. This program can last for longer period, usually a month. Launching different kinds of programs can increase sales effectively.

Not only promotion, a good pricing is also very important to strengthen H&M in Japanese fashion market. Low price should be maintained. H&M have already set low price for the goods. Most of the products are affordable. This can attract customers, especially youngsters who cannot afford high price. The products are already at a best price and it is also one of the competitive advantages. Therefore, low price should be maintained. Another suggestion for pricing is that there should be a price cut for the last season's fashion. Last season's product have less attractiveness than the new products. In order to sell them more