

# Case study analysis: hennes and mauritz

[Business](#), [Company](#)



The paper undertakes case study analysis of Stockholm-based multinational fashion retailer, Hennes &Mauritz (“ H&M”). It assesses the following: effectiveness of the firm’s leadership, basis of firm’s competitive advantage & potential challenges to the strategy, and future growth strategies that the firm might pursue to maintain competitive advantage.

### Effectiveness of H&M’s Leadership

According to Johnson et al., (2014), leadership involves the ability to cope with change by influencing the firm’s direction as part of its efforts to attain certain goals. Lack of effective leadership implies that the firm becomes rudderless lacking clarity in motivation and purpose to deliver strategic targets. The top leadership in a firm has pivotal roles in driving strategy.

There are three pivotal roles for top management led by the chief executive including: envisioning future strategy, aligning the firm to deliver the strategy, and embodying change. Leaders can be categorized as transformational/charismatic (developing the vision and identity) or transactional (developing hard systems and controls).

H&M has been a family-controlled business with the current chief executive, Karl-Johan Persson, a third-generation Persson. It has a storied past since the retailer’s founding in 1947 with 2, 206 stores across 43 countries in fiscal 2010. The firm was previously led by Erling Persson and Stefan Persson between 1947 and 2009.

It epitomizes the longevity of long-term orientation of family-controlled businesses. Over the decades, H&M has been largely successful in growing

with the business model referred to as 'cheap-and-chic' instrumental in the success of the brand. However, it has under pressure from the continued success of rival fashion retailer, Grupo Inditex.

In 2009, H&M was the global leader in fast-fashion as Karl-Johan Persson became CEO. The target of the new corporate leader was to sustain H&M's annual growth rate of 20% and still retain market share. Based on fiscal 2010 financial performance, H&M was comparatively in a better position than its now larger rival, Grupo Inditex.

It had a better profit margin at 19.04% compared to the rival's 18.53% along with better short-term and long-term solvency positions. Financial performance is one of the measures that highlights efficacy of a firm's leadership. However, there are underlying aspects that underscore the leadership's ability to maintain the firm's long-term vision.

The founding leader of H&M, Erling Persson represented charismatic leadership as he was the one that developed the firm's vision; the current CEO is a transactional leader. He has maintained the firm's core values: keeping it simple, straightforwardness & open-mindedness, constant improvement, and entrepreneurial spirit.

In addition, there is: cost-consciousness, team work, and belief in people. The firm continues to espouse participatory management with employee involvement in greater aspects of the business. H&M encourages participation at all management levels and actively promotes experimentation embodied by its corporate culture and values.

The firm's leadership has been fairly successful in maintaining stability and retaining the "informal and non-hierarchical management style". Its financial results are robust and pace of new store openings has been within target levels. There are some financial challenges to the firm with slower revenue increase and declining profitability.

#### Basis of H&M's Competitive Advantage & Potential Strategic Challenges

Competitive advantage is the conditionality that informs business superiority of a firm over its rival relative to strategic execution. It is based on comparison of relative position that can be measured as: accounting profitability, shareholder value creation, and/or economic value creation vis-à-vis industry peers or direct rivals.

It is "disequilibrium phenomenon that is a consequence". The advantage is eroded in the long-run mostly from external sources of change such as competition. External sources of change include: changes in consumer demand, changing prices, and changes in technology with internal changes including transition in leadership.

Responsiveness to change has implication on sustaining competitive advantage. It may be difficult to imitate rivals as firms are exposed to causal ambiguity leading uncertain limitability. Essentially, firms are multidimensional bundles of capabilities making it difficult for competitors to discern the determinants of the firm's success.

H&M's differentiating element has been the business model with underlying principle being 'fashion and quality at the best price'. It operates from

leased premises supported by catalogue and online sales. In addition, it does not engage in production of its clothing preferring to outsource from independent suppliers.

It has sought to open new stores at a rate of 10% to 15% annually which is financed by cash generated from operations leveraging on cost advantages from scale. The approach has been combined with internal values espoused from founding principles. In addition to the pace of new store openings, attractive in-store livery has been the mainstay of the brand.

The retailer has sought to interact with customers through attractive window displays and preference for renting instead of ownership offers it flexibility along with strategic store location. It leverages on marketing efforts including strong social media presence to support brand building spending 5% of total revenues on advertising.

H&M has been able to combine all these capabilities to create brand distinction from other fast-fashion rivals and maintain strong margins comparatively. However, the emergence of Grupo Inditex driven by the flagship brand, Zara has cast doubts about sustainability of H&M's operating model. Competition is the biggest threat of its competitive advantage.

Unlike H&M, Grupo Inditex has been able to develop an entirely different operating model based on; internal manufacturing, company-owned stores, zero marketing budget, and short supply chain lead times. The financial results are indicative of the progress that Grupo Inditex has made including eclipsing H&M in revenue generation.

It is instructive of the influence of changing trends in the fashion retail industry. The rival firm has not copied H&M's business model but has developed its own bespoke model. In the industry, subjectivity has implications as fashion trends evolve relatively fast. Grupo Inditex has developed a more responsive model than H&M and it is quickly eroding its competitive edge.

### Future Growth Strategies

A firm's competitive advantage is eroded over time by competitors and the speed in which it is undermined depends on competitors' ability to innovate or imitate. In order to sustain competitive, a firm creates barriers through such aspects as isolating mechanisms that can offer preemptive and/or deterring actions.

Such actions (deterrence and preemption) seek to undermine incentives for rivals to imitate or innovate. H&M has to reconsider the responsiveness of its business model to current fashion environment. The challenge for the brand is that it no longer resonates with specific target market creating identity issues.

In the past, it was considered to have youthful appeal but it has become just another clothing brand. There is need to reposition the brand either through creating brands targeted at different demographics or revitalizing the entire brand direction. H&M focus on expanding the retail footprint through new store openings has to be reconsidered.

Instead the firm can leverage on creating an integrated online strategy. It adopted a digital approach relatively latter than rivals. Integration between digital and physical stores in a 'click-and-collect' model is paramount. The ability to respond to changes in fashion trends along with higher purchasing costs and weather changes is critical.

Grupo Inditex has been able to outperform the industry due to its model that responds to fickle fashion trends fast and has the supply capability to respond to weather changes. It is vital for H&M to improve responsiveness to trends by considering some manufacturing capabilities. The online sales channel model needs to be emphasized coupled with reduction in stores.

### Conclusion

H&M is at crossroads as far as long-term strategy is concerned. The business model that has served the firm successfully is become a real threat to sustainability. There is need to modify certain aspects including having some manufacturing capabilities. The firm might to consider the competitive aspects from Zara's model to avoid further slowdown impacting the brand.