

# 1840 fashion retail industry stores



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Long term objectives are strategic plans company make for future five years. These objectives are set in seven key areas- productivity, profitability, competition, employee development, employee relations, technological leadership and public responsibility and show where company wants to be when they are achieved. Long term objectives have to be motivating, flexible, measurable, suitable, understandable, realistic and acceptable by employees.

Three main strategic goals for H&M for the next five years would be linked with profitability, competition and technological leadership. H&M has reported a rise in sales and profits and sales for the three months to 31 August. Net profit for the third quarter of 2009 rose 4.1% to 3.46bn Swedish crowns from 3.33bn crowns last year. Sales, excluding sales tax, increased by 13% to 23.6bn crowns. So first LTO is to maintain financial stability H&M has achieved. H&M plans to increase sales revenues by 20% and earnings per share by 30% till 2015.

Secondly as main strategy of H&M is expansion, LTO in competition is to increase number of stores by 10% to 15% every year. Today H&M has as 1840 stores up from 1618 at the same time last year. New stores will be open in the cities H&M already has stores and also in completely new markets.

H&M is following all the latest innovations in the clothing manufacturing. It is important to increase efficiency, cut costs and keep prices low while raising quality. Third LTO in the technological leadership for H&M is to lower maintenance costs by 15% and decrease waste by 10% till the year 2015.

Porter's four generic strategies are cost leadership, differentiation, low cost to narrow market strategy and niche strategy. H&M has cost leadership strategy. H&M offers fashionable clothing for cheap prices selling to broad markets. This strategy is also very suitable for the current economical situation. In the financial crisis people have less disposable income and they think more carefully about spending of the money. As there is tight competition in the fashion retail market buyers have the power to choose and dictate prices. If they are not satisfied with brand's pricing policy, they will walk to the competitor which offers same product for lower price. H&M with this strategy also set high entry barriers for the competitors.

H&M has achieved ability to be efficient. As there is low profit margin being cost leader, H&M is very focused on expansion and increase of market share. It is important for H&M to sell more volumes of the product to earn profits. Fixed costs are high and by every product made variable costs are lowering. It has secured suppliers because H&M doesn't own factories itself but have long term production contracts with factories in Bangladesh, Morocco and Turkey. It is very important buyer to textile sellers as H&M buys large quantities several times per year. H&M has good long term contracts with its producers and suppliers.

It has achieved dominant market position in Europe as well as in USA. It has low cost advantages- buying clothes from the producer for low prices, importing in big amounts leads to the lower final price for the consumer in the store.

H&M is very well recognized brand in Europe and also in USA, where it is operating since 2000. Today the value of Swedish brand H&M is 10, 36 milliard Euro and is the most valuable brand in Europe. That is more than such chains as Tesco, Marks & Spencer, MediaMarkt and Zara.

In the recent past H&M has opened few stores in Asia. H&M has already secured its position in those markets and its main strategy is to expand into new markets. One of LTOs is to increase number of stores by 10 to 15 % per year. It is more realistic when entering new markets. The best grand strategy for H&M is market development strategy. Market development strategy is growth strategy of four Ansoff's matrix strategies. Market development strategy is second less costly strategy. H&M will not need a lot of financial resources to open up in new markets, so H&M will use its own investments. H&M will manufacture production for new markets in the same factories and just slight modifications will be made. A lot of financial resources will be invested into marketing campaigns to popularize brand name in those new markets.

H&M open the stores by themselves in different locations. It is because there are no partners like in franchise, where the profit goes to the franchiser while they are paying for the usage of the brand etc. In the Middle East H&M has a franchising arrangement with Alshaya, a leading retail player in the Middle East. This cooperation allows H&M to reach a region in which it is not possible to establish wholly-owned subsidiaries, which is otherwise H&M's principle for expansion. It is an interesting business opportunity that provides H&M with access to a region with high growth and customers with plenty of purchasing power.

H&M doesn't buy properties, but rent premises in the shopping centers as well as in the centre of the cities. H&M researches the new market, real estate sector, the locations and people habits. After this research they start looking for the property they could rent with more advantages such as good location, adequate price, and condition of the premises and open the store in. H&M stores are not small. The concept of H&M defines that the store needs area of 1200-1500 square meters. The opening of new store costs from three till fifteen million Swedish crowns. The time when the store will pay off the invested money differs. It depends of many factors- is the store first in the city or there already is another H&M store. In the first case it takes proximately five to six years or in the second case one up to two years. So this market development strategy will pay off in the long term.

Also good customer service is essential part for the success of H&M store abroad. It can make people to want never come back and to spread bad word about the store around people. And then the brand reputation will be ruined. Atmosphere is important- clean and wide changing rooms with big mirrors and chairs, pleasant music and enough workforces. Customer assistants should help customers to find needed sizes, consult them and be polite at the cash register. To improve customers' satisfaction employees have to be trained better, surveys have to be taken and the employees have to be motivated. In one store there have to be enough workers making sure that clients do not have to wait in long lines. It can easily make them to go to competitors' stores, where the lines would be shorter.

In Asia and Latin America there is a big demand for trendy fashion at reasonable prices, and that's exactly what H&M offers- fashion and quality at

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the best price. This market is strategically very important as China, India and Japan is growing market.

## 2.

H&M is producing and selling many different products – clothes, accessories, shoes, lingerie and also cosmetics. Product lines for men, women, youth, children and maternity clothing. It has several brands in H&M Corporation. If H&M would be single product dominant organization then it would have just clothing line for young women. It would be the most profitable product because women are more fashion conscious. Young women usually don't have families, therefore have more time to shop around and more disposable income to spend on shopping.

There is tight competition in the fashion retail industry. The biggest competitors to H&M is Spanish Inditex group which owns many brands including Zara and British companies Next and Marc&Spencer. All these companies offer similar products- fashionable clothing lines for low to medium price. Latest trends are copied from high class fashion brands and then manufactured in masses by fashion retail companies. So these competitors are really competing which one will bring new designs to the store in the shortest time period. H&M competitive advantage is build around speed and it is closely linked to differentiation strategy. H&M have special team of designers who follow latest trends in the fashion and then design products for manufacturing in H&M factories. Customers have loyalty to H&M as they already know that new styles can be found earliest at H&M, as H&M has rapid response to changes in the fashion industry. H&M doesn't own its factories, but has manufacturing contracts with factories in Morocco, Turkey

and Bangladesh, where managers from H&M is controlling the process. To be the fastest in the fashion industry means following that all the company's operations are done quickly, new technologies are acquired and have excellent logistics network. Inventory in H&M is completely changed eight times each year. H&M produces clothes for the same moment and deliver them to the store immediately. Ready production does not stay in distribution centers longer than two days. New designs are delivered to the store every day. The time from designing a garment and to selling it in the stores takes just two weeks for H&M. But ZARA is very close in beating H&M in the fastness of delivering fashion. So H&M has to pay great attention to strong coordination of designers, production, marketing and distribution.

Fashion retail industry in Europe is in the maturity stage. Market is not growing in Europe, unlike China and India. The most important economical issue nowadays is the decrease of consumers' disposable income and the change of the buying patterns influenced by financial crisis. H&M during the years have created loyal customers and made very well recognized brand name. It is important to increase number of loyal customers and have good customer policies to keep existing ones. H&M understands Pareto's law that 80% of profits are made by 20% of customers. Those 20% are ones H&M now is most concerned with offering them special pricing policies, loyal customer cards and flexible product return policy. In this stage it is also very important to reduce costs. There are two ways H&M can do it- international expansion and horizontal integration. In horizontal integration strategy it could buy some competitor brand. Then create one or more synergies with this new brand. Technological synergy can be created when all new products are

made in already existing H&M factories, marketing synergy using same resources for promoting both brands, cost synergy when selling product from both brands in already existing H&M stores.

International expansion into new markets in Asia and Latin America will increase turnover and profits, achieve continuously growth of company, extend product life cycle, and operate in markets with great number of potential consumers.

### **3.**

At the moment H&M is multi-product company. It has different fashion lines for men, women, and children and also its own brand cosmetics, shoes and accessories. All together H&M offers 18 different product lines to broad target market. Recently it has added new collection Home Fashions by H&M, which is sold in online shop. So far in H&M business portfolio is two brands H&M and COS- Collections of Style. This brand has different target market as H&M. COS target group is the “ mid-market consumer” who either cannot be reached with H&M products or wants to trade up. Prices are higher than in H&M stores, but still pricing level is not as high as for high fashion. Since 2007 when this brand was launched by H&M COS have opened 20 stores in Europe’s biggest cities.

H&M has chosen to have strong links and less diversification between its products. They have been operating in fashion industry for almost 50 years and during this time have made strong and well recognized brand name, expanded in many markets and have developed significant market share. They know their industry and have made decision to stay just in fashion



industry. H&M is not risking by investing in new industries. H&M brand name is the most known brand in Europe, while it is the 66th most recognized brand in the world, worth \$11 billion. H&M could use its reputation and open new business in different industries. They could follow example of high class fashion designers Roberto Cavalli or Giorgio Armani. Their brand name got famous through fashion industry offering expensive clothing lines. Then they added cosmetics and perfumes using popularity of their brand. The next step was to open luxury restaurants and bars under the same name. They have also opened very expensive design hotels and they are famous because interior is made by Cavalli or Armani.

So far H&M has decided to invest in fashion industry as over the years it has proved to be very profitable. H&M shares infrastructure and capabilities for all products it has. All products are sold under same brand name and the recognition of brand increases sales of new products. Same distribution centers and logistic channels can be used for delivering products from factories to the stores. H&M has good online store and all the products are sold there.

Synergy is the idea that the sum of the whole is greater than the sum of parts separately or  $1+1=2$ . H&M has many synergies. Management synergy is achieved because all the products have the same financial, R&D and distribution departments. It is possible because products are similar, targeted to the same markets and use same logistic network. Technological synergy is between H&M brand and COS brand, they both are manufactured by same factories and also distributed by same channels. Cosmetics and clothes are sold in the same stores- cost synergy and market synergy.

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For the future H&M could use horizontal integration strategy and add value to its brand portfolio. H&M has knowledge and skill in retail fashion industry. It could buy off smaller brands, which all together have quite big market share. H&M can gain this market share and also create more synergies as it already has established good infrastructure and management operations. These acquisitions will definitely pay off in the long term. And bigger, more diverse company can attract more investors. The biggest fashion retail company in the world is Spanish Inditex group. It has many brands Zara, Bershka, Massimo Dutti and others. Zara's brand name is so strong that the recognition of it helps to sell almost everything.

#### 4.

H&M will implement market development strategy. This strategy allows H&M to achieve its LTO- to increase number of stores by 10% to 15% every year. New markets H&M will expand are Asia and Latin America. Challenges H&M might face opening new stores there is building of brand awareness, as potential consumer are not familiar with it, as well as gain customers' loyalty by providing qualitative products for attractive prices and with good service. Also H&M has to consider its logistics. Most important functional tactics H&M has to consider is marketing and operations management.

Marketing tactics have to be adapted to the demands of new markets.

Markets of USA, China and Europe are very different due to culture, traditions, geography and way of life. Products have to be customized to each market as there are different customers' preferences. Designs will be adjusted for each market- Asian market demands smaller sizes; American market is more casual while Europeans follow latest trends, but in Latin

America weather conditions are different. This strategy will benefit in smaller costs and faster product development. H&M general strategy is to be cost leader. It will maintain this position in all markets and offer very good pricing policy to customers. Price in Asia will be slightly higher as H&M is perceived as stylish European fashion. Placement is also following the same rules in new markets as H&M has achieved over the years- renting premises in the biggest shopping centers and stores in the big cities' centers with large areas. Promotion has to be very intensive when opening up in new markets. It will create brand awareness, introduce potential customers with H&M collections and advertise local store openings. In the fashion it is all about the brand name, so H&M will contribute a lot of financial resources to marketing departments.

Company will also have to solve issues of operations management and logistics. Production of H&M is outsourced and done 20% in Europe and 80% in Turkey, Morocco and Bangladesh. Big distribution centers are in Europe and USA, therefore there is a short lead time and effective logistics control. When opening up in new markets, H&M has to take decisions about investing in new distribution plants and choose effective logistic system to continue its speedy delivery of fashion.

Best organizational structure for H&M would be geographical organization structure. With this structure H&M can quicker respond to changes in different markets. Each division is operated as separate business, operations are decentralized. There is emphasis on differentiation by local demands to fit in a culture. H&M would also has geocentric attitude towards international

operations. H&M picks managers not based on their culture but choose them by their skills, abilities and job done in the organization.

When strategy is implemented it is very important to check if objectives are being achieved and plans moving in the right direction. Four types of strategic controls are premise control, implementation control, strategic surveillance and special alert control. Premise control shows how correctly company predicted changes in the environment and industry. Environment is changing and it has to be evaluated all the time. The environment will experience changes in economics after period of depression. There might be fluctuation of interest and exchange rates, which can influence profitability in different markets. H&M has to follow the competitors as its strategy is cost leadership strategy. It has to continuously try to cut costs, improve efficiency and offer better prices as competitors ZARA, Next and Mango. Short term objectives are yearly benchmarks for implementing the strategy. Objectives are checked each year if they are achieved on time. For the first year H&M had to open ten new stores. First year it was achieved by stores in European cities as well as by launching store in new market- China.