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Fast-Fashion Labels Industry: Strategy Evaluation of H&M

Nazim Ullah¹

Abstract

The importance of a corporate strategy hinges on its being an effective means to allocate a company's resources, establish business expectations and improve a company's competitive position, as well as increase shareholder value to something beyond the sum of its physical assets. The purpose of the study is to analysis industry external and internal environments, its capabilities, and capacities of H&M and to identify and investigate the acknowledged and undeclared strategies that are being applied by the H&M. To analyze the objectives of the study, several tools are applied namely SWOT, Porter's 5 force model, PESTEL. The study find that H&M should follow CAGE approach, re-design R&D to measure the behavior of the consumers and their competitors, maintain a flexible strategic management approach so that any time they can change, strengthen their supply chain management and H&M should take more efforts on the fashion design and product more fashionable clothes with the cheaper price to attract own specialized customers.

Keywords: H&M, SWOT, Porter's 5 force model, PESTEL

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1.0 Introduction

Strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. Strategies imply a set of plans while strategic management is the governing body that implements the corporate strategy and policies to achieve organizational goals. Proper implementation of the strategic management that brings financial (i.e., sales, performance, and productivity/ efficiency) and non-financial (i.e., increase awareness, improved understanding of competitors strategy, increase employees efficiency, brand name, and reputation) benefits for the organization. They practice strategic management from the beginning. Based on the application of strategic management they become the market leader. A brief discussion of the history of H&M is discussed and reviewed.

The study aims to identify and critically analyze fundamental issues related to strategic management of the fast-fashion labels industry i.e., H&M for the analysis. The flow of the study is next section implies background of the H&M. Section 2 states literature review on strategic management and last section shows conclusions and recommendation.

1.1 Background of the H&M

Hennes & Mauritz (hereafter H&M) which is founded by Erling Persson in 1947, Swedish clothing retailer H&M Hennes & Mauritz AB (STO: HM-B), has grown into one of the most recognizable brands in the fashion industry in the world. As of November 2019, H&M operates in 74 countries with over 5,000 stores under the various company brands, with 126,000 full-time equivalent positions. It is the second-largest global clothing retailer, behind Spain-based Inditex (parent company of Zara). H&M has become the leader amongst the fashion labels due to inventive design, the best quality at the best price, and efficient logistics (Tungate, 2008).

1.2 Objective of the Study

The study aims to identify and critically analyze fundamental issues related to strategic management. Based on the aim of the study following objectives are designed and discussed

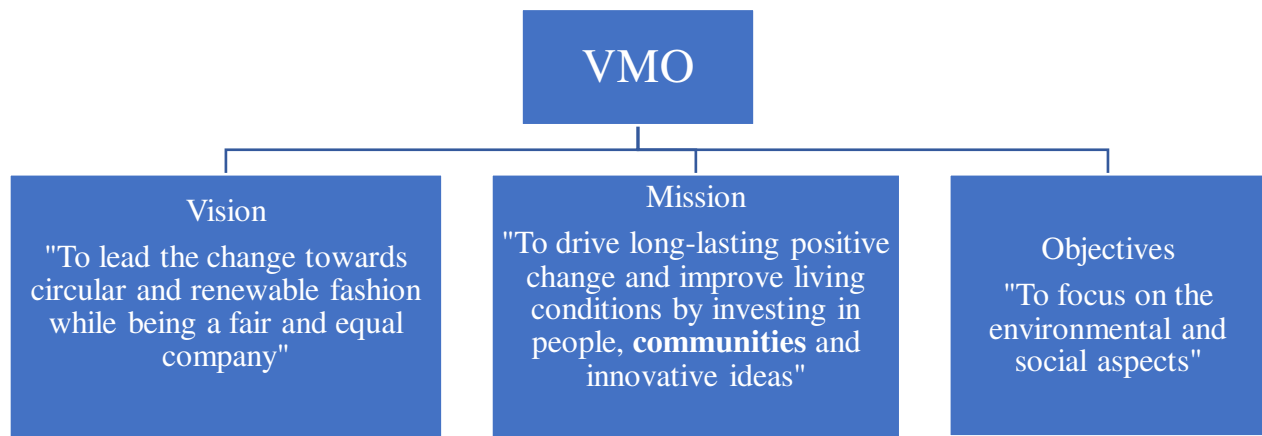
- i To analysis industry external and internal environments, its capabilities, and capacities of H&M.
- ii To identify and investigate the acknowledged and undeclared strategies that are being applied by the H&M.

The flow of the study, Section 2.0 shows the main body of the analysis while Section 3 implies the conclusion and recommendation of the study.

2.0 Literature review

“Without a strategy, an organization is like a ship without a rudder, going around in circles. It’s like a tramp; it has no place to go.” Joel Ross & Michael Kami (Fred 2011, 35)

2.1 Vision, Mission, and Objectives (VMO) of H&M



Strategic management of H&M is towards the direction of vision, mission, and objection (VMO) as mentioned above.

There are two types of strategic management such as either prescriptive or descriptive. Taking strategic decision in advanced for the sake of the organizational issue is called prescriptive strategic management while practical implication of those strategies is called descriptive strategy. (Pisano, 2017).

According to the analysis of Trigeorgis, and Reuer (2017) which states that there are four steps to strategic management such as analysis, formation, execution, and evaluation. Moreover, analysis implies to do a SWOT analysis for external and internal focus. Designed plan to reach the goal is called formation while implementing plan based on the gaining stakeholders maximizing values are called execution (Ferrer Romero, 2018). Finally, the evaluation indicates that was the process implemented appropriately? did the organization achieve the visions, mission, and objective (VMO) (Ince, 2018)?

The main purposes of implementing strategic management are to **competitive advantage**: it gives the company additional values that differentiated from each other. **Achieving goals**: it focusses mainly on achieving specific goal withing minimal cost. **Sustainable growth**: due to the proper implementation of the strategic management that helps to retain continuous growth of the organization. **Cohesive organization**: all departments of the organization would be united towards achieving organizational goal. **Increased managerial awareness**: it increase managerial awareness since there is an evaluation of employees performance timely (Varelas, and Apostolopoulos, 2020; Grant, and Baden-Fuller, 2018; Lynch, 2018).

Figure 1 shows the strategic management model

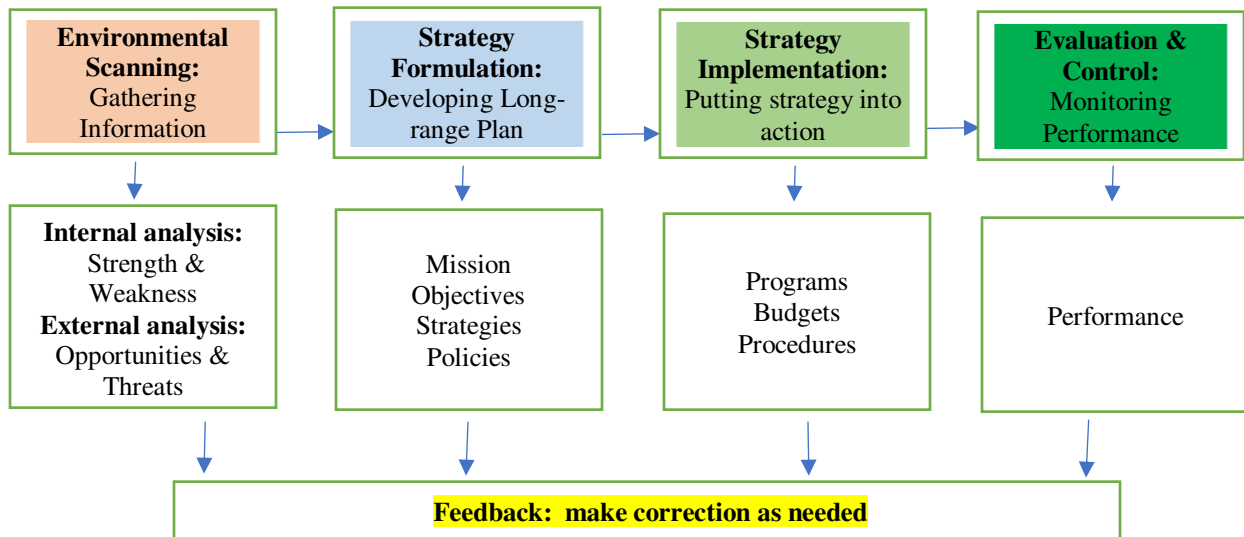


Figure 1: Strategic management model adapted from Hunger Wheelen (2006)

2.3 Application of the Strategic Management Model into H&M

2.3.1 Environmental Scanning

Environmental scanning is categorized as information gathering about the environment. The information can be gathered based on internal analysis and external analysis. In line with that SWOT analysis of H&M is discussed and reviewed.

<p>Strength</p> <ul style="list-style-type: none"> • Effective Strategy • Global Presence • Competitive Pricing • Variety of Products • Valuable brand • Strong Online Channels • Efficient Supply Chain • Community-Centered Approach 	<p>Opportunity</p> <ul style="list-style-type: none"> • Diversify Products • Exploit e-Commerce Fully • Focus on Emerging Markets • Expand through Acquisition and Mergers
<p>Weakness</p> <ul style="list-style-type: none"> • Overdependence on Outsourcing • Controversial Products • Uninspired Fashion 	<p>Threats</p> <ul style="list-style-type: none"> • Impending Recession • Intense Competition • Increase in Counterfeits • Rising Operation Costs • Trade Tariffs • Global Pandemic




Figure 2: SWOT analysis of H&M

2.3.2 Strategy Formulation

H&M strategy is well designed and developed which is working very well. Notably, based on that the H&M becomes the leader among the fashion competitors by lowering the cost and product differentiation. To permit this huge success, the H&M to management establish a complete strategy that is carefully formulated to achieve the VMO² of the organization. Corporate strategy, business strategy, and functional strategy that is used in a company's strategic management. The different strategies must support and complete each other to be efficient.

² V=Vision, M= Mission, and O = Objective

Firstly, the corporate strategy describes the direction an organization takes to achieve business success in the long term (Wheelen & Hunger 2006, 15). There are three corporate strategies possible namely growth strategy, stability strategy, and retrenchment strategy. Secondly, business strategy implies the attitude of a company to react from its competitors. It could be a competitive strategy or a cooperative strategy. H&M has an aggressive competitive strategy as they do not cooperate with anyone and are always looking to eat the market share from competitors by using low prices and as we previously have seen, their differentiation competitive advantage (H&M, 2009). Thirdly, the functional strategy states that when a company uses one functional area on its organization to achieve the objectives and be more competitive (Wheelen & Hunger 2006,15). For example, an IT company such as Samsung will surely have a functional strategy based on research and development to create new IT materials and be more competitive (H&M, 2009).

2.3.3 Strategy Implementation

H&M provides a wide range of strategic decisions for its operations. They are all extremely confident with decisions made by a big corporation. Even though the objectives are well stated and informed to be acted before, H&M has not been able to provide anything except vague figures or results of these strategic decisions. Here we have a question, if the company only wants to create an image of a responsible company and if it is implementing these strategically smart decisions. However, H&M does show the results of its strategic decisions. As we mentioned before, the sustainability of the company is a major part of H&M's image as it is shown in various campaigns. Besides, the company maintains the importance of the code of conduct created, as it is important in choosing who H&M works with (Parkkali & Sallinen, 2010).

H&M applies vertically integrated business model that has the ability to adapt the offer to customers' desires in the shortest time possible. For H&M, time is the main factor to be considered, above and beyond production cost. This model gives more flexibility that is better than their rival.

Although H&M is a new market within the business area, the company has been utilized 44 strategic marketing moves, including strategic planning to make the market be known in the

marketing environment. The company has also made it possible to be connected to their target market through the use of technological advancement like e-marketing. Moreover, this marketing entry strategy can be considered as effective since the company has included the entire factor to be assessed to make the business prolong its competitiveness and survive in the threatening place of the market.

2.3. 4 Evaluation and Control

H&M uses different kinds of reports to evaluate and inform of its past operations. For example, as a big part of H&M’s strategy, sustainability is reported annually in a Corporate Sustainability Report. The company also publishes an annual report to conclude the overall activities of the past year. Financial information is controlled by five-year summaries. In addition to all of these, H&M arranges press releases, annual general meetings, and conferences to further evaluate and inform of its activities. No doubt H&M did an excellent job in the evaluation part, which is one of the reasons for critical success (Parkkali & Sallinen, 2010).

2.4 Application of PESTLE analysis into H&M

PESTLE is an external factor that is used by the organization to assess market condition among the competitors.

<p style="text-align: center;">Political</p> <p>As a global brand operating a number of stores across the globe, the monitoring of political risk is increasingly important for H&M.</p> <p>Due to regulatory reasons, H&M has to collaborate with franchising partners to operate their brands into the rest of the world</p>	<p style="text-align: center;">Economic</p> <p>Due to the <u>COVID-19, all country’s economic condition is fragile.</u> This bad situation would greatly hamper H&M business operation and on its growth.</p>
<p style="text-align: center;">Social-cultural</p> <p>Now a day’s consumers are more about the designable fashion and want to be more</p>	<p style="text-align: center;">Technological</p> <p>H&M continues to develop their apps for mobile devices, recently unveiling the use of</p>

fashionable among them. Moreover, they want more fashionable goods as well.	the H&M club function, which allows consumers to collect reward points from their online and instore purchases using the app on their mobile device.
Environmental	Legal
H&M aims to be 100 per cent circular and renewable by 2030, meaning that all products will be generated from old products of the firm, and that only recycled and durable materials will be used for products.	In the past two years, H&M has been involved in a number of legal disputes regarding infringement by the clothing retailer.

Figure 3: PESTLE analysis of H&M

2.5 The Porter’s Five Forces Model

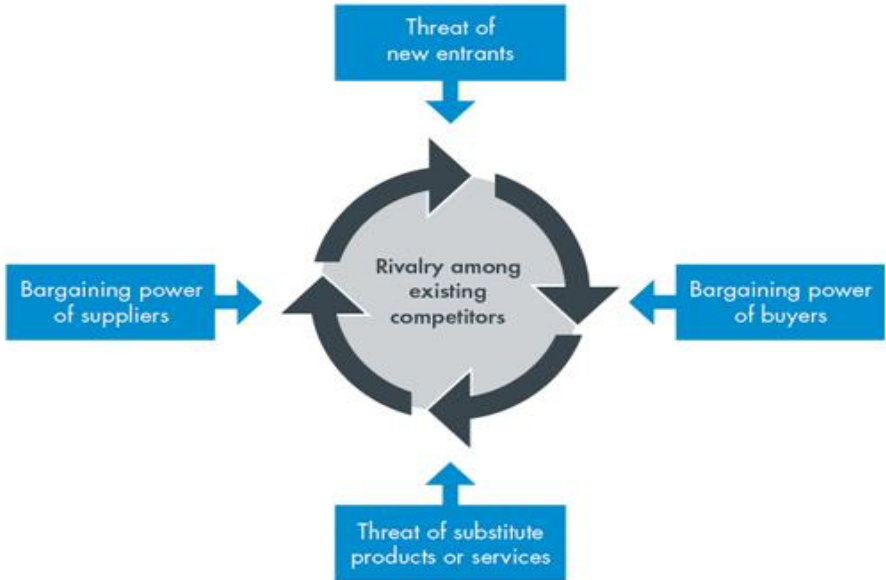


Figure 3: Porter’s Five Forces Model

H&M uses Porter’s Five Forces model for scanning of its competitive position. The model is discussed and reviewed accordingly

i Threat of New Entrants

It is easy to enter for distribution due to the lower capital requirement while it is difficult for manufacturing company since there is need more capital. It is said that fashion products have a high margin. Threats of substitute products meaning not for product but for the brand. All of they able to provide better quality products due to the ability of the company to outsourcing the product at a cheaper rate due to the lower labor cost.

ii Bargaining Power of Buyers

One negative aspect is the almost nonexistent loyalty in the “cheap” fashion segment. Also the switching costs are low. Price is a very important variable for customers. Among the positive aspects it’s important to say that the volume of purchase is small, that is to say a single buyer is irrelevant for the company. Apart from customers association, they are not very well organized to defend their interests.

iii Bargaining Power of Suppliers

Bargaining power is not very high since suppliers’ countries have the opportunity of having lower labor cost. Whereas retailers can impose the demanding conditions because they have more power than suppliers.

iv Rivalry among Existing Firms in the Fashion Industry

There is no limit for competitors, meaning that any where there are many competitors. Due to lower maturity of the sector opportunity growth of the fashion industry is lower. The price variable is very influential in consumers when considering alternatives. In this market is very important the good image of the brand worldwide.

2.6 Alternative Strategy Approach for H&M

I recommend CAGE³ approach for H&M. The motives of recommending CAGE is H&M is only national fashion but also an international fashion leader. CAGE framework coverage cultural,

³ Cultural distance, administrative distance, geographic distance, and economic distance

administrative, geographics and economic distance those are greatly important for H&M incorporating strategic management. Following paragraph implies details of the CAGE approach.

Pankaj “Megawatt” Ghemawat is an international strategy guru who developed the CAGE framework to offer businesses a way to evaluate countries in terms of the “distance” between them. In this case, distance is defined broadly to include not only the physical geographic distance between countries but also the cultural, administrative (currencies, trade agreements), and economic differences between them. As summarized in appendices Table A1.1 "The CAGE Framework", the CAGE (cultural, administrative, geographic, and economic) framework offers a broader view of distance and provides another way of thinking about location and the opportunities and concomitant risks associated with global arbitrage.

3.0 Conclusions and Recommendations

The aim of the study is to identify and critically analyze fundamental issues related to strategic management. Based on the aim, this study focuses on the two basic objectives such as to analyze industry external and internal environments, its capabilities and capacities of H&M and to Identify and investigate the acknowledged and undeclared strategies that are being applied by the H&M. In line with that to address the objectives of the study, theories, SWOT analysis, a number of literatures are conducted and reviewed. The findings imply that H&M applies a strong strategic management approach that is made them the most capable fashion label in the fashion industry.

Based on the finding of the study, I have a few recommendations for H&M. Firstly, H&M should follow CAGE approach. Secondly, they should re-design R&D to measure the behavior of the consumers and their competitors. Thirdly, they have to maintain a flexible strategic management approach so that any time they can change. Fourthly, H&M should strengthen their supply chain management. Fifthly, H&M should take more efforts on the fashion design and product more fashionable clothes with the cheaper price to attract own specialized customers.

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Appendix A

Table A1.1 CAGE framework

Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
Attributes Creating Distance			
Different languages	Absence of colonial ties	Physical remoteness	Differences in consumer incomes
Different ethnicities; lack of connective ethnic or social networks	Absence of shared monetary or political association	Lack of a common border	Differences in costs and quality of the following: <ul style="list-style-type: none"> • Natural resources • Financial resources • Human resources • Infrastructure • Intermediate inputs • Information or knowledge
Different religions	Political hostility	Lack of sea or river access	
Different social norms	Government policies	Size of country	
	Institutional weakness	Weak transportation or communication links	
		Differences in climates	
Industries or Products Affected by Distance			
Products have high-linguistic content (TV).	Government involvement is high in industries that are <ul style="list-style-type: none"> • producers of staple goods (electricity), • producers of other “entitlements” (drugs), • large employers (farming), 	Products have a low value-of-weight or bulk ratio (cement).	Nature of demand varies with income level (cars).

Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
	<ul style="list-style-type: none"> • large suppliers to government (mass transportation), • national champions (aerospace), • vital to national security (telecommunications), • exploiters of natural resources (oil, mining), and • subject to high-sunk costs (infrastructure). 		
Products affect cultural or national identity of consumers (foods).		Products are fragile or perishable (glass or fruit).	Economies of standardization or scale are important (mobile phones).
Product features vary in terms of size (cars), standards (electrical appliances), or packaging.		Communications and connectivity are important (financial services).	Labor and other factor cost differences are salient (garments).
Products carry country-specific quality associations (wines).		Local supervision and operational requirements are high (many services).	Distribution or business systems are different (insurance).
			Companies need to be responsive and agile (home appliances).

Source: Pankaj Ghemawat