

A retailing analysis of:



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Table Of Content.

Situational Analysis..... **1**

Evolution..... **2**

Competition..... **6**

Marketing Strategy..... **8**

Target Audience & Business Concept.....**8**

Global Presence & Technological Improvements.... **9**

Location Strategy & Merchandising..... **10**

Advertising..... **11**

Financial Analysis..... **12-15**

Works Cited..... **17**

Situational Analysis.

The Current situation in the retail market- Vast changes in this industry has seen it become extremely competitive and complex. With technological advancements much more smaller retailers are selling their goods at a fast rate online. Bigger traditional retailers such as H&M have had to keep up with this change in the retailing environment by coming up with new e-commerce promos and strategies, in which I am going to expand on later on in this paper.

According to Euler Hermes Research- Rising consumer spending, supported by ongoing low oil prices, hasn't saved retail from a slowdown in revenue growth - a mere +2% increase was recorded in 2015. The reason: a fierce battle for market supremacy between traditional and online players. If nothing else, companies protected their margins, and reported steady operating profits. This may not prove feasible again in 2016. No surge in consumer spending is foreseen with +3% and +2% increases in the U.S. and EU respectively, and +8% in China. Economies such as Brazil - where retailers massively invested a decade ago - are struggling. As a result, Euler Hermes

forecasts retailers' revenues to rise by only +1% in 2016 and profits to decline by -1%. The less-than-auspicious situation forces a business model reshuffle between physical stores and online sales, or Omni-channeling.

In 1947 Hennes women's clothing store opened in Västerås, Sweden.

Today the H&M Group offers fashion for everyone under the brands of H&M, COS, Monki, Weekday, Cheap Monday and & Other Stories, as well as fashion for the home at H&M Home.

According to H&M online the **Evolution** of the brand started in-

1947 The first store opens in Västerås, Sweden, selling women's clothing. The store is called Hennes.

1952- Hennes opens in Stockholm.

1964-The first store outside Sweden opens in Norway.

1968-Founder Erling Persson buys Mauritz Widforss, a hunting and fishing equipment store. Sales of men's and children's clothing begin.

The name is changed to Hennes & Mauritz..

1974-H&M is listed on the Stockholm Stock Exchange.

1976-The first store outside Scandinavia opens in London, in the UK.

1977-Impuls stores, focused on teenagers, are launched. Sales of cosmetics begin.

1980s-Stores open in Germany and the Netherlands. H&M acquires the mail order company Rowells.

1990s-Progress continues in Europe with the opening of the first store in France in 1998. Outdoor advertising featuring famous models complements newspaper and magazine advertising. In 1998 H&M online shopping begins.

2000-The first US store opens on Fifth Avenue in New York. The same year stores open in Spain. In subsequent years, H&M opens in more European markets.

2004- H&M initiates designer collaborations starting with Karl Lagerfeld. More collaborations follow with Stella McCartney, Viktor & Rolf, Madonna, Roberto Cavalli, Comme des Garçons, Matthew Williamson, Jimmy Choo, Sonia Rykiel, Lanvin, Versace, Marni, David Beckham, Anna Dello Russo, Maison Martin Margiela, Isabel Marant and Alexander Wang.

2006-A major expansion of online and catalogue sales begins with the Netherlands as the first market outside the Nordic region. The first stores in the Middle East open via franchise.

2007-The first Asian stores open in Hong Kong and Shanghai. In the same year, the new concept store COS is launched. The expansion of online and catalogue sales continues with the inclusion of Germany and Austria.

2008-H&M opens its first Japanese store in Tokyo and acquires fashion firm FaBric Scandinavien AB, which comprises the brands Weekday, Monki and Cheap Monday.

2009-The first H&M stores in Russia open. Beijing also gets its first H&M and Lebanon becomes a new franchise market. H&M Home is launched. Weekday and Monki open in Germany.

2010-The first H&M stores in South Korea and Turkey open. Israel becomes a new franchise market. Online shopping starts in the UK. The first H&M Home stores open outside Sweden. Monki moves into Asia with a store in Hong Kong. H&M becomes the world's largest consumer

of organic cotton and continues to increase its use of sustainable materials in the following years.

2011-H&M opens in Romania, Croatia and Singapore, as well as via franchise in Morocco and Jordan. COS opens in Sweden, and Monki and Cheap Monday in the UK. The H&M Incentive Program – a reward and recognition program for all employees – starts. COS and Monki launch online shopping in 18 markets.

2012-H&M opens in Bulgaria, Latvia, Malaysia and Mexico, and via franchise in Thailand. COS opens in Finland, Italy, Poland, Hong Kong and Austria, and opens via franchise in Kuwait. The Monki brand grows in China and Weekday opens in the Netherlands.

2013-The first H&M store in the southern hemisphere opens in Chile. H&M also opens in Estonia, Lithuania and Serbia. Indonesia becomes a new franchise market. H&M introduces online shopping in the US. The & Other Stories brand is launched in several European countries. COS, Monki, Weekday and Cheap Monday also open in new markets.

Weekday and Cheap Monday launches online shopping. A global clothing collecting initiative starts in selected stores.

[[about.hm.com/Our History](http://about.hm.com/Our%20History)].

The Parent company- H&M Hennes & Mauritz AB, have brands such as H&M, COS, Monki, Weekday, Cheap Monday. The most successful out of all those brands named is H&M bringing in the most profit with 105 Billion Swedish Kroner in sales before tax in the first half of 2016[H&M six month report 2016 (1 Dec 2015-31 May 2016)]. The strength of H&M has been shown by the extension of itself into “COS”, a fashion brand for trendy men and women who like functional considered design. It was launched in 2007 and has opened stores worldwide, exhibiting how much the H&M brand has grown.

H&M have **Competition** from two main brands, namely Zara, and Uniqlo. Amit Bagaria, Chairman of ASIPAC a consultancy group, speaks about the competition between Uniqlo, Zara, and H&M in an article on ETRetail.com. He says “Uniqlo, Zara, and H&M follow three uniquely different models that are each proving to be hugely successful. All three understand that success in the fashion business does not come from guessing on the next hot style. Any retailer may have a few great buyers who are able to identify some winners, but being dependent on the keen eye or gut feeling of a handful of people is a highly risky strategy”. “Uniqlo identifies styles within product categories that don’t go quickly

out of fashion, finding a way to create levels of differentiation within these styles. The results have been impressive, and Uniqlo is gaining fast on competitors such as Gap". "At the other end of the spectrum is Zara, which has built its strategy around consumer trends, embracing the fast-changing tastes of its customers. Zara has developed a highly responsive supply chain that enables delivery of new fashions as soon as a trend emerges.

Zara comes up with 36,000 new designs every year, and it delivers new products as many as 2-6 times each week to its 1900+ stores around the world. Store orders are delivered in 24-48 hours. It takes the company only 10-15 days to go from the design stage to the sales floor. How is Zara able to do this? By being fast and flexible". "Rather than subcontracting manufacturing to China, India or Bangladesh, Zara built 14 automated factories in its home country Spain, where robots work 24/7 cutting and dyeing fabrics and creating semi-finished products, which are then finished to suits, shirts, dresses and the like by about 350 finishing shops in Northwestern Spain and Portugal".

He goes on by saying "H&Ms approach is somewhat of a hybrid of the Uniqlo and Zara models. It manages to merge a commitment to

longevity while staying responsive to fashion trends. The clothing collections are created in Sweden by 200-odd designers. H&M outsources production to a network of more than 500 suppliers. About a third of their products are made in Europe, whereas almost two-thirds are made in Asia. Generally, the items with very short lead times are manufactured in Europe, with longer-lead items manufactured in Asia. Like Zara, this allows H&M to be more responsive to trends”.

Marketing Strategy.

Target Audience- H&Ms products are made for women, men, teenagers who have medium to a purchasing power, this is pretty much the same audience that their competitors try to syphon also.

‘Fashion and quality at the best price’ is the **Business Concept** H&M tries to convey to its consumers, to the owners design, quality and sustainability are not a question of price they believe H&M should always offer inspiring fashion with unbeatable value for money.

Quality is a central topic for H&M, from initial idea to final product, it is a way to always exceed the customers expectations on quality

[[about.hm.com/Our Busines concept](http://about.hm.com/Our_Busines_concept)].

H&M have a huge **Global presence** and only want to increase this presence through the use of **Technological** advancements and strategies. They have grown through sustainability, quality, and high profitability; but there is always room for improvement. According to the global expansion section on the about H&M website the owners speak about their worldwide expansion saying “H&M’s growth target is to increase the number of stores by 10–15 percent per year, and at the same time increase sales in comparable units. Expansion includes H&M as well as COS, Monki, Weekday, Cheap Monday, & Other Stories and H&M Home”. “The strong pace of expansion continues into 2016 with a planned 400 new stores net. Most expansion this year will take place in existing markets. New markets planned for 2016 are New Zealand, Cyprus and Puerto Rico. In addition, H&M plans to offer e-commerce in a further four existing markets.” This revealed to me that H&M is a company that is constantly looking for ways to improve itself, its brand, its profit, e.t.c.

The expansion doesn’t stop there H&M wants to also increase its online presence, on the about H&M website, in the global expansion section the owners say “ To meet the rapid development of the online market, in

particular shopping via smart phones and tablets, our investments into distance selling continues. H&M's shop online is available in 32 markets, including the US. The easily navigated digital store is fully mobile-adapted and very popular with our customers. Rollout of shop online to other markets of the H&M Group will follow”.

For **Location strategy**, from my research I have noticed that H&M build stores in developed countries and countries that have a young and vibrant crowd such as the European countries, the Americas and the Australasian countries. They have expanded into a few developing countries also, and are looking to have more influence in the Arab Emirates.

Merchandising is a key to success at H&M. Their design process is very close to home, H&M employs 160 in-house designers and 100 pattern makers, as well as several design assistants and print designers. [about.hm.com/from idea to store/design process]. The owners say “The team is large and diverse, representing different age groups and nationalities who draw inspiration from every corner of the globe and a wide variety of sources. From art, cinema, magazines and music to street fashion, trade shows and trend seminars. All these influences are

then filtered into constantly updated collections full of inspiring fashion at unbeatable value for money. Men, women, teenagers and children should always find something just for them at H&M whatever their taste or style [about.hm.com/from idea to store/ design process]. The production of these merchandise is done through independent suppliers, mainly in Europe and Asia. These suppliers manufacture H&Ms products and generally source fabrics and other components needed [about.hm.com/from idea to store/Production process].

H&Ms **Advertising campaigns** the owners say “are produced internally at their head office in Stockholm, Sweden, by the marketing department in co-operation with creative professionals located in the major fashion hubs of the world. The campaigns are designed to be clear and simple and aim to inform our customers of what is new at H&M. All of the campaigns show the season’s designs and the price of the clothes pictured. The advertisements that H&M produce are largely identical in all of our markets, but the media strategy is adapted to local requirements and conditions”. Due to their sales in the first half of 2016, which estimated to about \$22.9 billion dollars, I believe H&Ms

advertisement campaigns and strategies have worked and is part of what has led to their success this year.

Financial Analysis.

First half-year (1 December 2015 — 31 May 2016) ¶The H&M group's sales including VAT increased by 7 percent in local currencies during the first six months of the financial year. Converted into SEK, sales including VAT increased by 5 percent to SEK 104,965 m (100,024).

Sales excluding VAT amounted to SEK 90,565 m (86,143).¶ Profit after financial items amounted to SEK 10,329 m (13,158). The group's profit after tax

amounted to SEK 7,902 m (10,066), corresponding to SEK 4.77 (6.08) per share.

Second quarter (1 March 2016 — 31 May 2016)¶ The H&M group's sales including VAT increased by 5 percent in local currencies during the second quarter. Converted into SEK, sales including VAT increased by 2 percent to SEK 54,341 m (53,233). Sales excluding VAT amounted to SEK 46,874 m (45,867).

Gross profit amounted to SEK 26,980 m (27,245). This corresponds to a gross margin of 57.6 percent (59.4).

Profit after financial items amounted to SEK 7,002 m (8,435). The group's profit after tax amounted to SEK 5,357 m (6,453), corresponding to SEK 3.24 (3.90) per share. Profits in the second quarter were negatively affected mostly by higher purchasing costs due to the strengthened US dollar and by increased markdowns.

Continued very satisfactory development for H&M's e-commerce.

Successful launch of H&M's e-commerce in nine countries during the quarter: in Slovenia, Croatia, Estonia, Latvia, Lithuania, Luxembourg, Ireland, Japan and Greece.

Gross profit amounted to SEK 26,980 m (27,245) in the second quarter, corresponding to a gross margin of 57.6 percent (59.4). For the first half-year, gross profit increased to SEK 49,679 m (49,458), corresponding to a gross margin of 54.9 percent (57.4). Six-month report 2016 (1 Dec 2015 – 31 May 2016).

Zara Parent company Inditex Net income of €521m during the first quarter was 28pc higher than the prior year period. The company signaled that revenue growth in the second quarter has accelerated

Onwuka 14.

slightly so far. In a recent article by John Ficenec in the telegraph he says “Zara is planning expansion in Asia with online sales available in Taiwan, Hong Kong and Macau this year. The company is known for its “fast fashion” whereby stores receive deliveries twice a week and products designed at the headquarters in Artexio, Northern Spain, can be in shops three weeks later. The clothing retailer has opened about 400 stores every year during the past five years and operates in 88 countries. Shares in Inditex were down €0.06 to €29.92 per share on the Spanish stock exchange in early trading”.

Onwuka 15.

Fast retailing the parent company of Uniqlo posted –

Consolidated business performance-

(Billions of Yen)

	Year to Aug 2015		Year to Aug 2016			
	1H Actual	Full-year	1H Actual	(y/y)	Full-year Est.	(y/y)
Revenue	949.6	1,681.7	1,011.6	(+6.5%)	1,800.0	(+7.0%)
Gross Profit	479.5	848.5	476.9	(-0.5%)	-	-
(to revenue)	50.5%	50.5%	47.1%	(-3.4p)	-	-
SG&A Expenses	336.3	671.8	370.7	(+10.2%)	-	-
(to revenue)	35.4%	39.9%	36.6%	(+1.2p)	-	-
Business profit	143.1	176.6	106.2	(-25.8%)	150.0	(-15.1%)
(to revenue)	15.1%	10.5%	10.5%	(-4.6p)	8.3%	(-2.2p)
Operating profit	150.0	164.4	99.3	(-33.8%)	120.0	(-27.0%)
(to revenue)	15.8%	9.8%	9.8%	(-6.0p)	6.7%	(-3.1p)
Profit before income taxes	163.6	180.6	82.0	(-49.9%)	102.5	(-43.3%)
(to revenue)	17.2%	10.7%	8.1%	(-9.1p)	5.7%	(-5.0p)
Profit attributable to owners of the parent	104.7	110.0	47.0	(-55.1%)	60.0	(-45.5%)
(to revenue)	11.0%	6.5%	4.7%	(-6.3p)	3.3%	(-3.2p)

Performance by Group Operation.

(Billions of Yen)

		Year to Aug 2015		Year to Aug 2016	
		1H Actual	Full-year	1H Actual	(y/y)
UNIQLO Japan	Revenue	454.5	780.1	453.6	(-0.2%)
	Business profit (to revenue)	88.6 19.5%	115.6 14.8%	63.6 14.0%	(-28.2%) (-5.5p)
	Operating profit (to revenue)	89.4 19.7%	117.2 15.0%	64.1 14.1%	(-28.3%) (-5.6p)
UNIQLO International	Revenue	345.5	603.6	389.2	(+12.7%)
	Business profit (to revenue)	43.1 12.5%	50.7 8.4%	32.5 8.4%	(-24.7%) (-4.1p)
	Operating profit (to revenue)	42.8 12.4%	43.3 7.2%	29.4 7.6%	(-31.4%) (-4.8p)
Global Brands	Revenue	148.2	295.3	167.3	(+12.9%)
	Business profit (to revenue)	12.3 8.3%	20.9 7.1%	14.2 8.5%	(+15.3%) (+0.2p)
	Operating profit (to revenue)	11.7 7.9%	14.4 4.9%	14.3 8.6%	(+21.9%) (+0.7p)

(Note) Business profit = Revenue – (Cost of sales + SG&A expenses)

Onwuka 16

In Conclusion I would like to say after great study of the different financial statements of my retailer H&M, and its competitors Uniqlo and Zara I do not see the sales of these different retailing firms reducing in anyway in the future. The sales might fluctuate yearly due to their different strategies in promotions but in the aspect of getting a minimum amount of forecasted profits these three companies would be making money for the years coming, except environmental issues come to play and disrupt production.

Onwuka 17.

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Onwuka 18.

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