

University of Wales

Trinity Saint David

Velichka Petrova

Assessment 2

Impact of COVID-19 pandemic has had on H&M

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Lecturer: Sadeque Imam Shaikh

Table of Contents

Abstract	3
Introduction.....	3
Main Body.....	4
Micro Environment in COVID 19 Pandemic.....	4
Macro Environment in COVID 19 Pandemic.....	5
SWOT Analysis.....	7
PESTLE Analysis.....	8
Conclusion.....	12
References.....	13

Abstract

I chose to write about the impact of COVID 19 on the Swedish company H&M because I am a customer of this brand and I support their innovations in recycling old clothes and turning them into new ones. They are one of the pioneers of the idea of change to circular and renewable fashion. H&M, the world's second-largest fashion retailer, has more than 5,000 stores worldwide that were closed during the COVID 19 pandemic. The big fashion retailers were among those most affected by the crisis. In this report, I will try to describe how they reacted to the closure by governments around the world, as well as the opportunities they can derive from the ongoing COVID 19 crisis.

Introduction

SWOT analysis is a strategic planning tool that I will use to make a situational analysis of the company. This is a technique for assessing the current strengths (S), weaknesses (W), opportunities (O) and threats (T) that H&M faces in its current business environment. The SWOT analysis framework helps the company identify internal strategic factors as strengths and weaknesses and external strategic factors as opportunities and threats.

The world is still facing unprecedented difficulties due to the crisis caused by the COVID-19 pandemic and the emergence of new strains. People have been forced to take measures to socially distance themselves for a long time, and fashion retailers have had to close their physical stores and reduce production, which is exported to countries such as Vietnam, Bangladesh, China, Turkey and others. This caused significant financial losses to retailers and many had to lay off employees and cancel orders from suppliers.

Retailers also unexpectedly faced other types of ethical issues in the form of criticism from the media and the public for the irresponsibility of the survival of their employees and suppliers (Cernansky, 2020). During the crisis, fashion companies fell into this vicious circle as the external environment (the pandemic) caused internal problems (layoffs of employees and suppliers and public criticism).



Main Body

The crisis is an unexpected situation that disrupts corporate operations and poses financial and reputational threats that in turn harm the company and its various stakeholders, such as community members, employees, customers, suppliers and shareholders. Among the various types of crises, the COVID-19 pandemic can be described as an example of a social crisis, as it is caused by external circumstances and affects society as a whole (Lee, 1998). Due to travel restrictions during the pandemic, clothing sales fell sharply. The supply chain was paralyzed for several months due to factory blockades and supply restrictions from China following the COVID-19 pandemic outbreak. As garment factories in other countries, such as Vietnam, rely heavily on imports of raw materials from China, such blockades in China have simultaneously forced Vietnamese and other garment factories to suspend production and stop exporting to their retail partners.

Micro Environment in COVID 19 Pandemic

Positive internal factors:

- **Strong merchant community-** H&M Company has more than 5000 shops, the brand has recognizable mission, vision and culture. They invest in innovations to recycle old clothes that consumers can return to their stores.
- **Dependable diversified suppliers-** H&M has suppliers in Bangladesh, Cambodia, China and other countries which are responsible for the quality, timely execution and delivery of the clothes.
- **Strong Free Cash Flow-** H&M has strong free cash flows that provide the company with resources to invest in new projects. With strong, profitable online growth and good cost control H&M succeeded in ending the year in profit and with a strong financial position.
- **Highly skilled workforce through successful training and learning programs-** H&M is investing resources in training and development of its employees. The result is a motivated and trained workforce that is one of the power of the company.
- **High level of customer satisfaction and loyalty-** The company manages to achieve a very good ratio between quality and price, which ensures loyal and satisfied customers. The company has a program to return old clothes to their stores against which you receive a discount of 15 % for buying new clothes. Also the company offers membership for loyal clients, bonus vouchers and discounts.
- **Research & Development-** Successful attempt developing new product innovations based on recycling. The percentage of recycled and sustainable materials in the collections is consistently increasing and the brand are offering an ever-growing range of services for a more sustainable lifestyle.
- **Marketing** – H&M has marketing campaigns that inspire a wide and diverse target group in 74 markets.

- **Online shops** - H&M said “greater emphasis” on its digital channels “partly compensated” for the slump in store sales. The second wave of the pandemic led to
- new restrictions and blockages in global markets, which led to a slowdown in recovery.

Negative internal factors:

- **The clothing supply chain was paralyzed by COVID 19-** H&M declined in profits and sales throughout the year as the coronavirus crisis shattered its chain (Tugby, 2021)
- **Decline in sales due to closed shops and quarantine** - H&M was significantly affected by pandemic as profits drop 88%. At least 80 % of H&M’s store estate remained shut during the height of the pandemic. Despite vaccination drives progressing significantly in some of its major markets, such as the US and UK, many European countries were still in lockdown during first 6 months in 2021, so H&M’s sales remained a significant lower 20.2% than the same period in 2018/19 (Global Data Retail, 2021)
- **Reduction of corporate structures and employees due to COVID 19-**H&M said it was "quick to implement" a series of measures during the year to mitigate the pandemic in areas such as product purchasing, staffing, financing and rental obligations (Nazir, 2021)
- **A quick look at the stock market** shows that there has been too much volatility in the company's share price over the past year due to COVID 19, which is not profitable for the shareholders.
- **Canceled orders due to COVID 19-** More than 1,000 workers in a garment factory in India lost their jobs without warning, reportedly after H&M cancelled their orders amid the coronavirus pandemic (Crump,2020)
- **Planned closure of physical stores due to COVID 19** - H&M has announced plans to permanently close 250 of its stores across Europe. (BBC News, 2020)

Macro Environment in COVID 19 Pandemic

Positive external factors:

- **The new circular economic rules imposed by Parliament in Brussels, which encourage and supports the recycling of clothing-** H&M works with many foundations, organizations and governments to create a 100% circular business model. This model will cover all parts of the business, including:
 - Products and offers for clients
 - Supply chain
 - Non-commercial goods, such as packaging and articles used in the interior of shops, offices and distribution centers. So far, they recycle at least 97% of the clothes collected in their stores. (Bumpus, 2015)

- **Increasing the market for recycled clothing-** The share of customers engaged in environmental campaigns is increasing.
- **New customers from the developed online channel due to COVID 19**
- **Focus on online growth and good cost control-** In recent years, the company has continued to invest in its online platform and application. Due to the well-developed online channel, the company managed to maintain a good level of sales during the lockdowns in 2020. (Nazir, 2021)

Negative external factors:

- **Shortage of skilled workforce in certain global market and fluctuations in sales** due to lockdowns represents a threat to steady growth of profits for H&M in those markets.
- **Intense competition between the main major fashion companies for share market**
- **Rising pay level an hour and rising prices in China could affect H&M's profitability**
- **As the company operates in many countries, it is exposed to currency movements,** especially given the changing political climate in many countries around the world. H&M depends on local decisions on the imposition and duration of lockdowns due to COVID 19.



SWOT Analysis

The clothing retail industry was one of the fastest growing industries, but it was also one of the most affected industries during the COVID 19 pandemic. Advances in technology and new business models have further boosted the growth of this industry, but much of the change is due to the online platforms and e-commerce applications. The H&M group also benefits from technological advances. Owing to its well-developed online stores and applications, the company managed to maintain a good level of sales through all lockdowns. The SWOT report shows some of external and internal factors for the development of the company.

Strengths of H&M

- Good value for money spent
- Affordability of the stores
- High customer's enjoyment and interest in the limited designer's collections
- Strong consistent politic for sustainability and circularity of the fast fashion production
- Well-developed online platforms and apps for shopping
- Membership cards for loyal clients

Weaknesses of H&M

- Lack of authenticity and authorial style in the design
- High daily stocks and lack of good forecasting for future sales
- There are big gaps in the product range
- Slow switching to another segment and big competition for a market share of the series **H&M HOME**

Opportunities of H&M

- Increasing popularity of online stores and apps
- Global market availability throughout online and physically stores
- Increasing awareness of consumer about way of production and responsibility of the companies for the employees and the environment
- Continuing the development of innovations for the production of new clothes from recycled material

Threats of H&M

- Changing global world due to new strains of COVID 19
- Many new competitors in fast fashion area like SUPERDRY, UNIQLO, Mango
- Restrictions in International Trade
- Rapidly evolving and unpredictable fashion trends



PESTLE analysis of H&M

Political

The main political decision that affected the company during the COVID 19 were the mandatory lockdowns around the world, which led to a drop in sales automatically. H&M orders its products of suppliers from countries such as Turkey, Bangladesh, Vietnam, Cambodia and others where the political climate is very unstable. In many other countries the company can only sell through franchises, the problem with the political environment is the same. Following the decision to close all physical shops (except pharmacies and groceries), the trader had to turn down orders for millions of euros in clothing from suppliers in India, sparking workers' strikes and media criticism. H&M tried to find a solution in this situation to keep the supply chain that has been built for years. Brexit was another policy decision that adversely affected the brand's sales because the import of clothing was subject to customs duties after Britain left the European Union.

Environment

The textile industry is the second most polluting industry after the oil industry. The companies in this field use many chemicals that are difficult to process and pollute water sources. The human population living near these reservoirs suffers from various deadly diseases. The production of clothes also pollutes the air. There are government regulations to regulate these emissions into the air, but still local authorities cannot control all suppliers' factories for this pollution. Another major problem is the disposal of huge quantities of old clothes in poor countries like India. and the lack of technologies for their processing or recycling. At the same time, customers of fast fashion are becoming more aware of these processes and the percentage of consumers looking for eco-friendly products.

Aware of these problems, H&M aims to become a 100% sustainable business by 2040 with a circular business model, using old clothes as a resource to produce new ones. The goal is to maximize the use of resources and waste products to preserve biodiversity and prevent climate change. (H&M, 2021)

Social

Young people are directly influenced by social media and celebrities they like. A large percentage imitate the style of their favorite stars and follow them on social media. Buyers prefer designer clothes nowadays and thus the demand is growing more than ever, especially when produced in small series. After the launch of Karl Lagerfeld's collection for H&M all available items were sold out in less than 1 hour. This is the reason for the collaborations between H&M and many famous designers and singers.

Technology

The COVID pandemic has further pushed the culture of online shopping through a smartphone, desktop browser or laptop. H&M managed to maintain a good level of sales during the closures thanks to its platform and application for e-commerce, which allows people to order their favorite products online. The company has linked its online store to various local distributors and logistics facilities. They make the product accessible to customers. The company is using innovative data analysis technologies to improve its efficiency. As the closure trend continues due to new strains, H&M plans to close 5% of its physical stores and increase the importance of its online channels.

Legal

H&M is a global multinational brand and the company operates its fashion business in various countries around the world. The fashion brand has franchise partners in countries such as the UAE, Kuwait, Oman and others. In these countries there are strict rules and regulations that must be observed. H&M has been working with the International Labor Organizations for worldwide safe working conditions, better wages, and hygienic workplaces. The company is also working on mechanizing and modernizing the workplaces so that it won't exploit workers and children for clothes production. A study by the University of Washington found that access to factory jobs significantly reduces the risk of early marriage and childbirth for girls in less economic countries such as Bangladesh, Vietnam and others. (Kelley,2015)

Economic

COVID 19 greatly affected the company, but it managed to maintain a good level of sales, thanks to its online store and delivery to the address. Consumer behavior changed and H&M tried to follow it so as not to lose them. New strains of COVID 19 continue to emerge and the economic trend will continue next year, the company will close 5% of its physical stores and focusing on its online presence. Import laws, tariffs, inflation and currency fluctuations in different countries also lead to uncertain sales. H&M must be very flexible with its pricing policies in each country in which it operates in order to maintain a competitive advantage.



COVID-19 impact on the world brand H&M

The COVID pandemic is a typical external social crisis that has affected H&M's internal environment. The impact was even greater in the supplier countries, where the majority of the population relies heavily on the production of clothing for their own the livelihood and stability of their national economies. Firms respond to crises by changing their priorities, and the style of crisis management depends on organizational culture and leadership. (Bowers, 2017). H&M Foundation has donated \$500,000 to the COVID-19 Solidarity Response Fund, launched by the UN Foundation, the Swiss Philanthropy Foundation, and the World Health Organization (WHO) in order to overcome weak health systems all over the world and to prevent spread of COVID-19 (Zane, 2020). Starting in March 2020, H&M immediately switched its production efforts to the production of a large number of personal protective equipment instead of clothing, as donations to hospitals and healthcare professionals around the world. The company laid off a large number of employees in Indian manufacturing plants in response to reduced demand for clothing and closed stores during the pandemic. H&M later committed to pay the full cost of existing orders to its suppliers (Hossain, 2020).

With regard to financial performance, H&M has been initiating cost-cutting measures to address the impact of Covid-19. Measures have been taken in all parts of the business to mitigate the effects of the coronavirus, including canceling dividends, postponing and reducing investments, seeking rent cuts from landlords, cutting working hours for tens of thousands of employees and strengthening the liquidity buffer.

Executives have decided to temporarily reduce salaries by 20 percent and reduce the working hours of tens of thousands of employees.



Online sales in March 2020 increased by 17% in local currencies, which largely offset the losses from the closure of physical stores. As at March 31, 3 778 of 5 065 stores were temporarily closed, in a total of 54 markets – including all stores in Germany, the US, the UK, France, Italy and Spain, which are among our largest markets. In October 2020, H&M announced that it would close 250 of its 5,000-store chain in the wake of the pandemic crisis.

H&M reported that its profits collapse 88.2% to November 30, 2020 and at least 80% of the stores estate remained shut during the height of the pandemic. Despite the losses, H&M said its financial situation "remains strong". (Nazir, 2021)

For the nine months to August 31, 2021, H&M Group's net sales increased by 13% in local currencies compared to the same period last year. H&M clarified that in 2021 it opened 68 new stores and closed 230. The company is launching new websites in response to the ongoing transformation of the industry due to COVID 19, which has rapidly changed customer behavior.

The retail giant said it was affected by supply chain delays in September 2021, which affected sales. Despite that, the company plans to open 40 new stores.

In the third quarter of 2021, the company is in difficulty in meeting the renewed demand for products due to problems in production, transport and ports. (Ringstrom, 2021)

A recent statement from the CEO of H&M said that the company will continue to innovate in technological development, materials and sustainable initiatives, with the ambition to lead the change in the fashion industry to become circular and renewable. H&M group was named as the only retail company in the world to live up to the UN Global Compact sustainability principles.

Conclusion

H&M reported that previous investment in digital helped it turn a profit during the Covid-19 pandemic. Strong profitable online growth and cost control have helped the retailer make a profit in 2021.

The strategy for the company's recovery from slow sales due to COVID 19 will be the wishes of the consumers:

- improving the speed for reflecting the trends in the collections
- engaging a loyal and new audience through social media
- continuation of strategic partnerships with famous designers that excite fashion lovers
- developing strong, unique brands in order to always offer the best combination of fashion, quality, price and sustainability for the customers
- more discounts and vouchers for collecting old clothes and turning them into a resource for new production (Hardcastle, 2021)

H&M will continue its initiatives for digital growth, channel integration and optimization of the store portfolio. Speed, flexibility and sustainability will be even more important in the future, especially in the supply chain, to ensure the best supply to customers and increase availability across all channels.

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