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Strategic Analysis and Recovery Initiatives for H&M in Hong Kong's Challenging Fashion Industry

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1. Introduction

This research aims to explore the strategic management of H&M, a prominent Swedish fast fashion retailer and recognized as the world's second-largest apparel retailer (Galica, 2021). The focus of this study is on H&M brand¹'s H&M and its operations in Hong Kong.

In the 2023 Annual and Sustainability Report of the H&M Group, it is stated that, *'Our aim is to make fashion and design accessible to everyone in a way that is good for people and the planet,'* and highlighting part of their business idea is *'to offer our customers the best combination of fashion, quality, price, and sustainability'*. This reflects the evolution of their vision and mission in recent years. Originally, H&M aimed to allow ordinary people to wear styles similar to those of high-end brands at affordable prices. Today, 77 years later, commitments to the planet, quality, and sustainability have been integrated into their strategy. How does a fast fashion company like H&M decide on and implement strategic directions that encompass these values?

Therefore, the study seeks to answer two primary research questions:

1. How effectively does H&M implement its strategic direction in Hong Kong, especially in alignment with its vision, mission, and values, while navigating local challenges?
2. How might H&M improve its situation in Hong Kong by altering its strategies of corporate level and business level?

This introduction outlines the objectives of this report and presents the research questions. The report will proceed with an external, industry, and internal analysis to identify the opportunities

¹ H&M Hennes & Mauritz AB's brands are H&M — which includes H&M HOME, H&M Move and H&M Beauty — and the Portfolio Brands consisting of COS, Weekday, Monki, & Other Stories, ARKET, Afound and Singular Society. Additionally, the group's ventures include the investment arm H&M Group Ventures, Sellpy, Loopier Textile Co., and Creator Studio. (H&M Hennes & Mauritz AB, 2024a)

and threats it faces in the Hong Kong market and the strengths and weaknesses of H&M, as well as Finally, it will summarize the analyses and discussions, highlight key points, and provide suggestions and recommended actions for H&M.

2. External Analysis of the Fast Fashion in Hong Kong

In this chapter, the application of PESTEL analysis will help identify the opportunities and threats that fast fashion companies may face in Hong Kong, especially in the post-pandemic era. Next, the level of impact of these factors on H&M will be evaluated.

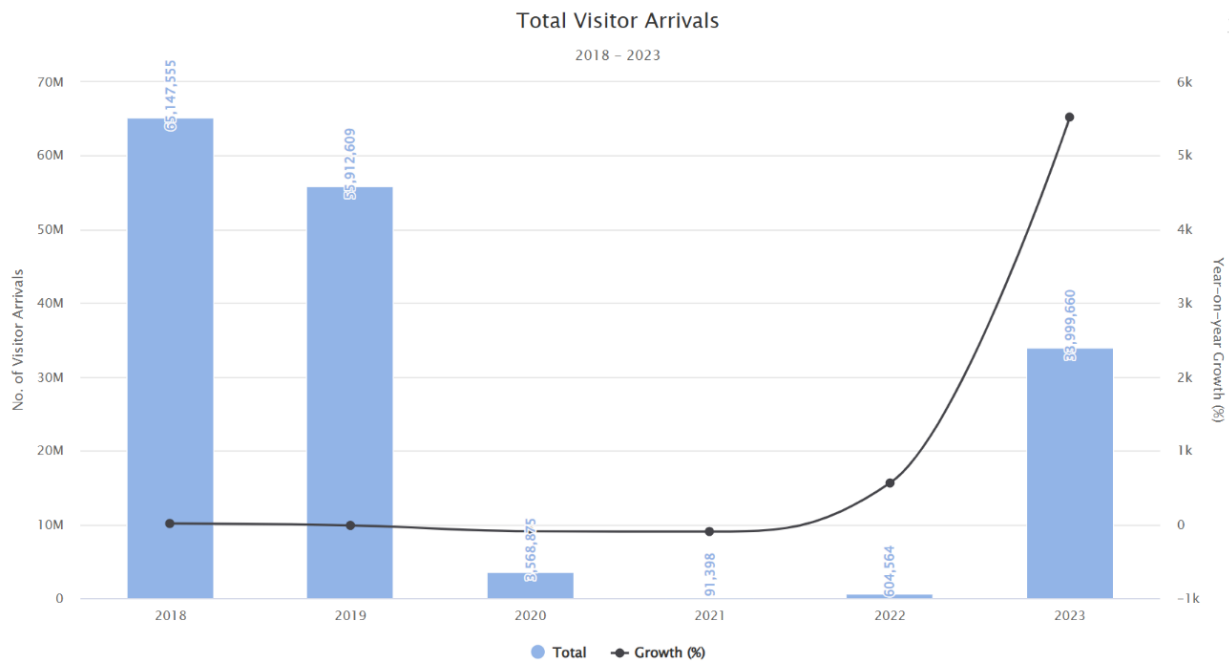
2.1 PESTEL Analysis

For H&M in Hong Kong, the analysis can be structured to examine Political, Economic, Social, Technological, Environmental, and Legal factors, sequenced by their potential impact.

2.1.1 Economic Factors

Globally, economies are on a path to recovery from the pandemic. In particular, Hong Kong has faced economic challenges, with its stock and property markets remaining below pre-2019 levels (Financial Services and the Treasury Bureau, 2024) until September 2024. This prolonged downturn has weakened consumer spending power, adversely affecting the retail sector. Furthermore, the retail industry, heavily reliant on external consumption, has endured four challenging years described as a ‘cold winter’. As shown in Figure 2.1, even in 2023, visitor numbers have only recovered to 50% to 60% of pre-pandemic levels. Additionally, the spending power of these visitors remains lower than before the epidemic (Hui, 2024).

Figure 2.1 Hong Kong Total Visitor Arrivals (2018-2023)



Source: Hong Kong Tourism Board (2024)

Additionally, interest rates² have not returned to the pre-epidemic level thereby increasing the costs of borrowing and mortgages.

2.1.2 Social Factors

Fast fashion primarily appeals to the younger generation, who seek rapidly changing product lines more than seniors do. Consequently, an aging population could significantly influence product offerings and sales volumes. According to the Census and Statistics Department, HKSAR (2023), excluding foreign domestic helpers, the number of elderly persons in Hong Kong is projected to rise from 1.45 million in 2021 to 2.74 million by 2046. The corresponding share of the population is expected to increase from 20.5 percent to 36.0 percent. This means that more than one in every three people in Hong Kong will be elderly. Additionally, obesity rates among Hong Kong residents are on the rise. According to a survey by the Department of Health (2023), 32.6% of individuals aged 15-84 are obese, and another 22.0% are overweight.

² Discount Window Base Rate: It was 2.25 in June 2018 and increased to 5.75 by June 2024 (HKMA, 2024).

Obesity and overweight are most prevalent among women aged 65-84, affecting 57.0%, and among men aged 45-54, affecting 74.6% (Department of Health, 2023). These gradual changes in body shape are likely to influence the fashion industry's marketing strategies and purchasing decisions. After the pandemic, many firms and corporations have transformed their office functions and now allow their employees to work from home; video conferencing has replaced physical meetings. Therefore, the sales of office fashion are likely to decrease.

2.1.3 Technological Factors

Online shopping has become a part of life after the epidemic. Most sizable retail companies now offer e-commerce solutions, and some employ an Online to Offline (O2O) strategy. If the goods return procedure is simple and convenient, and the user platform is responsive and smooth, more customers are likely to make repeated purchases (Appendix B). Additionally, as fast fashion involves frequently updating collections³, an accurate and cost-effective stock control system, such as radio-frequency identification (RFID), is crucial. This technology can enhance efficiency and enable innovative customer service offerings. Digital marketing is essential; on popular platforms like Instagram, Facebook, and 'Little Red Book', sometimes a single gimmick post can create an overnight sensation for a business. Advanced technology has the potential to develop recycled clothing and materials more cost-effectively, reducing the currently high costs associated with these processes.

2.1.4 Environmental Factors

Hong Kong has implemented environmental publicity and education initiatives, but its actions appear to lag behind those of other cities. For example, the original Scheme for Municipal Solid Waste charging was suspended, a decision that did not elicit strong dissatisfaction among the

³ H&M was 12 times a year procurement rather than quarterly procurement (Xuejie, Chang, and Zhu, 2019).

Hong Kong public. On the contrary, it seemed to alleviate their previous concerns. It is believed that when purchasing clothing, people in Hong Kong may not prioritize whether the materials are environmentally friendly or whether the items can be decomposed or recycled. However, environmental protection and sustainable development are critical for the future of humanity and the planet, and they also present significant business opportunities.

2.1.5 Political Factors

Hong Kong, as a free port, allows international brands to offer their goods at relatively lower prices to customers due to the absence of customs tariffs on imports. However, the region's increasing integration with mainland China, compounded by the Sino-US rivalry and competitive challenges, may cause some foreign companies to hesitate to do business in Hong Kong. Furthermore, sensitive political topics could also impact business operations. For example, although the controversy regarding companies pledging not to cooperate with any clothing manufacturing factory located in Xinjiang (BBC, 2021) has not significantly impacted Hong Kong, it illustrates the types of geopolitical issues that can affect business sentiments. Additionally, businesses in Hong Kong might see decreased patronage from visitors from mainland China, particularly if those businesses are perceived to be boycotted in China.

2.1.6 Legal Factors

The retail industry must comply with Labour Laws, Data Protection Regulations, the Trade Descriptions Ordinance, the Plastic Shopping Bag Charging Scheme, among others. However, these factors currently have a relatively low impact on the industry. This could change in the future if waste management laws are extended to cover clothes and accessories.

2.2 External Factor Evaluation (EFE) Matrix

The following Table 2.2 summarizes the external factors in section 2.1 and their significance to the fast fashion industry. The weights are based on the annual reports of the top three global apparel companies⁴, news sources, and the current situation in Hong Kong. The rating for H&M integrates insights from its annual reports, examination of its website and social media, and observations from shopping at its physical stores Appendix A.

Table 2.2 External Factor Evaluation Matrix for H&M

Opportunities		Weight	Rating	Weighted Score
1	Recovering from post-pandemic period	0.16	3	0.48
2	Social media	0.13	3	0.39
3	Online shopping	0.18	3	0.54
4	Plus-size market	0.11	2	0.22
5	Diversified products created due to advanced technology	0.09	4	0.36
6	Cost saving from advanced technology	0.10	4	0.40
7	Environmental protection and sustainable development	0.13	4	0.52
8	No customs tariffs	0.10	4	0.40
		1.00		3.31
Threats		Weight	Rating	Weighted Score
1	Challenges in the Post-pandemic period	0.18	2	0.36
2	Decreased consumer spending power	0.18	1	0.18
3	High interest rate	0.10	1	0.10
4	Aging population	0.09	1	0.09
5	Shift towards remote work and video conferencing	0.08	2	0.16
6	Investment in technology as a financial burden	0.07	4	0.28
7	Challenges of aligning fast fashion with sustainable practices	0.13	4	0.52
8	Geopolitical tensions in Sino-US relations	0.12	2	0.24
9	Increased regulations on waste management, consumption of energy, labour protection, etc.	0.05	4	0.20
		1.00		2.13

Source: (Constructed by the writer)

Remark:

- ✓ (1) Each factor is assigned a weight, from 0 to 1.0, representing its relative importance.
- ✓ (2) Rating: 1 = the response is poor, 2= the response is average, 3=the response is above average, 4=the response is superior.

⁴ According to Fast Retailing Co., Ltd (2024), based on yearly sales, the top three fashion companies are: 1. Inditex, S.A. (ZARA), 2. H & M Hennes & Mauritz AB, and 3. Fast Retailing Co., Ltd. (UNIQLO).

The External Factor Evaluation Matrix for H&M highlights that while the company is poised to benefit from significant opportunities such as recovery in the post-pandemic period, effectiveness in online shopping, and advancements in environmental protection and sustainability, it also faces formidable challenges. The threats, including decreased consumer spending power and the high costs associated with investments in technology, pose serious risks. Notably, the total weighted score for opportunities (3.31) surpasses that of the threats (2.13), suggesting that H&M has strategic advantages that could potentially outweigh the risks if managed effectively. The company's ability to navigate post-pandemic recovery while capitalizing on its strengths in technology and sustainability will be critical in maintaining its competitive edge and securing long-term growth.

3. The Fast Fashion Industry in Hong Kong

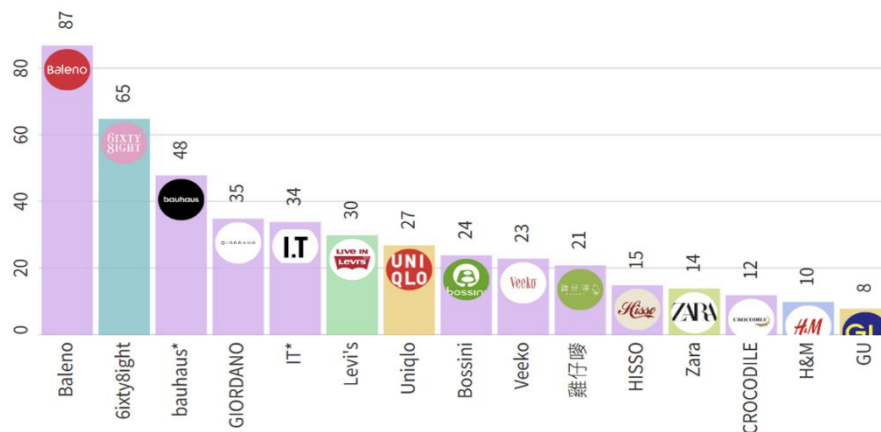
Fast fashion is a business model in the fashion industry known for its quick and cost-effective reproduction of high-fashion designs, making them available at low prices. This model, popularized in the mid-1970s, involves rapid production cycles that allow fashion brands to bring new styles from the catwalk to retail markets in a matter of months, encouraging consumer trends of frequent purchasing and over-consumption. The following fashion chain companies have recently become highly competitive (Fast Retailing Co., Ltd, 2024).



Source: Google (2024)

How about in Hong Kong? According to Lam (2022), the number of stores for the most popular apparel companies was counted as follows. Local brands are highlighted in purple, and brands from foreign countries are in other colors. Uniqlo, Zara, and H&M are included. They provide a sizable shopping space and offer a wide range of styles and colors at affordable prices, perks like free shopping and fitting, notably attracted a vast female clientele.

Figure 3.1 Popular Causal Fashion Store Numbers in Hong Kong.



Source: Lam (2022)

Since this report focuses on international brands and sizable fast fashion retailers, it does not individually introduce local companies. Instead, it concentrates on introducing and discussing H&M and its direct competitors.

Table 3.2 H&M vs. Zara vs. Uniqlo: An Overview (as of May 2024)

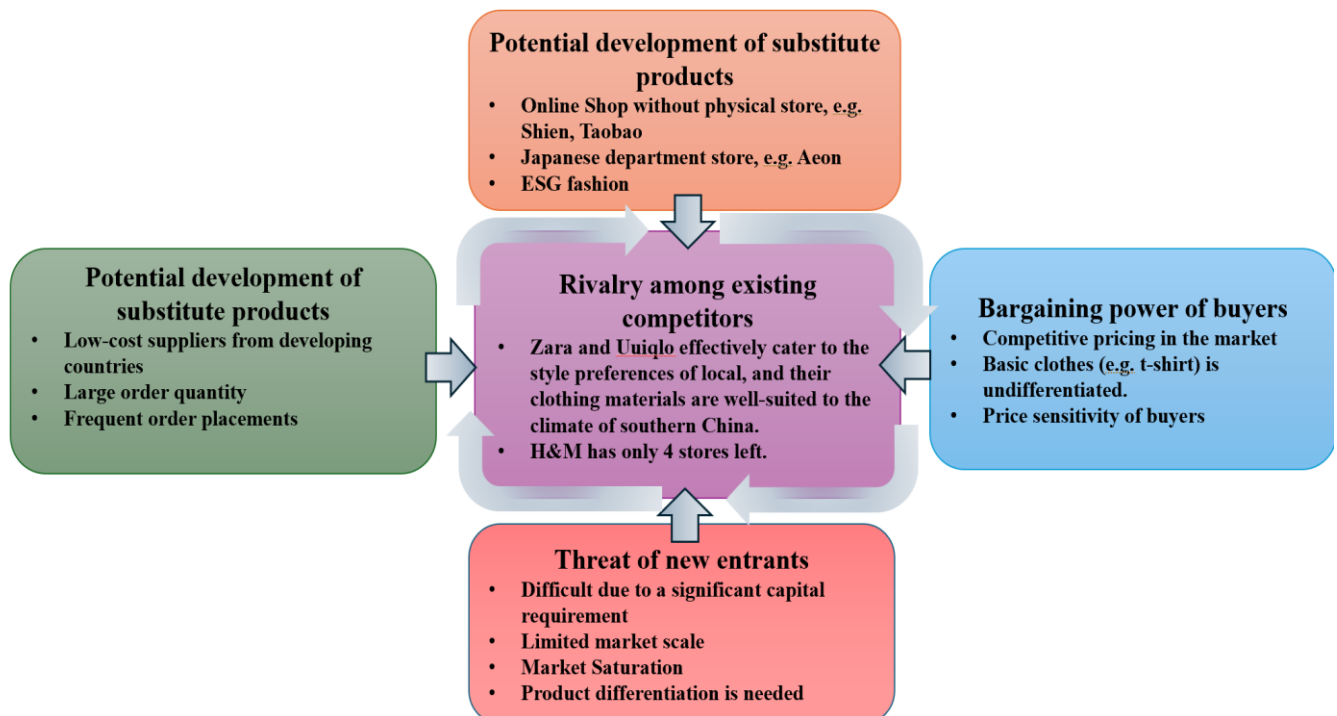
Item	H & M Hennes & Mauritz AB	Inditex, S.A. (ZARA)	Fast Retailing Co., Ltd (Uniqlo)
Year of founded	1947	1975	1949
Original Country	Sweden	Spain	Japan
Worldwide Store Numbers	3,832	2,201	2,000
Worldwide Market	78	96	25
Feature	~ More prolific ~ Well-known designers	~ Higher number of products	~ Timing product ~ Minimalistic style
Growth (local base)	+10.4%	+5.6%	+20.2%
Sales	USD38.9 billion	USD22.8 billion	USD18.3 billion
Stock price (as at 31/10/2024)	SEK158.25	EUR52.30	JPY49,520
Growth of Stock Price (compared to last year)	+4.22%	+60.2%	-2.79%
Market Value (as at 31/10/2024)	SEK225.87 billion	EUR164.50 billion	JPY14.766 trillion
Hong Kong			
Price (compared to other two)	Average middle	Upper low to upper middle	Average low
Product	~ Principle basket of products ~ Causal & Western style ~ Recycled materials	~ Both lower garments & upper garments ~ OL style ~ Frequent collections	~ Simplistic and practical ~ Fine quality ~ ~~Pufftech~~
Place	Physical Store & Online Shop	Physical Store & Online Shop	Physical Store & Online Shop
Stores Numbers	4	10	30
Promotion	TV, Instagram, Facebook, Apps	Instagram, Facebook, Apps	TV, Product Spokesperson, Instagram, Facebook, Apps

Source: Parietti (2024), Google (2024)

3.1 Five Forces Analysis

The Michael Porters' Five Forces model can provide a framework for understanding the competitive forces that shape the Fast Fashion industry. In figure 3.3, H&M operates only 4 stores in Hong Kong, which is significantly fewer compared to others. This smaller number of outlets may limit H&M's market presence and visibility relative to its competitors. However, it may also indicate a strategic, concentrated presence that could focus on high-performing locations or a greater emphasis on online sales channels. Moreover, the market shows potential substitutes including online retailers like Shien and Taobao, Japanese department stores such as Aeon, and Environmentally Sustainable Governance fashion alternatives. The presence of cost-effective online shopping options also increases competitive pressure, particularly on pricing and accessibility. Additionally, H&M may need to consider tailoring its product offerings to better suit the local climate in Hong Kong, similar to how Uniqlo has successfully adapted its products to align with weather changes.

Figure 3.3 The Five Forces Analysis of Hong Kong's Fast Fashion Industry



Source: David and David, 2017; Supiansyah, 2023

The level of the pressures for each party is shown in Figure 3.4.

Figure 3.4 Result of Michael Porter's Five Forces Analysis

Forces	Value
Threat of New Entrants	Low
Bargaining Power of Suppliers	Low
Bargaining Power of Buyers	Moderate
Threat of Substitute Products	High
Rivalry Among Existing Competitors	High

Source: Figure 3.3

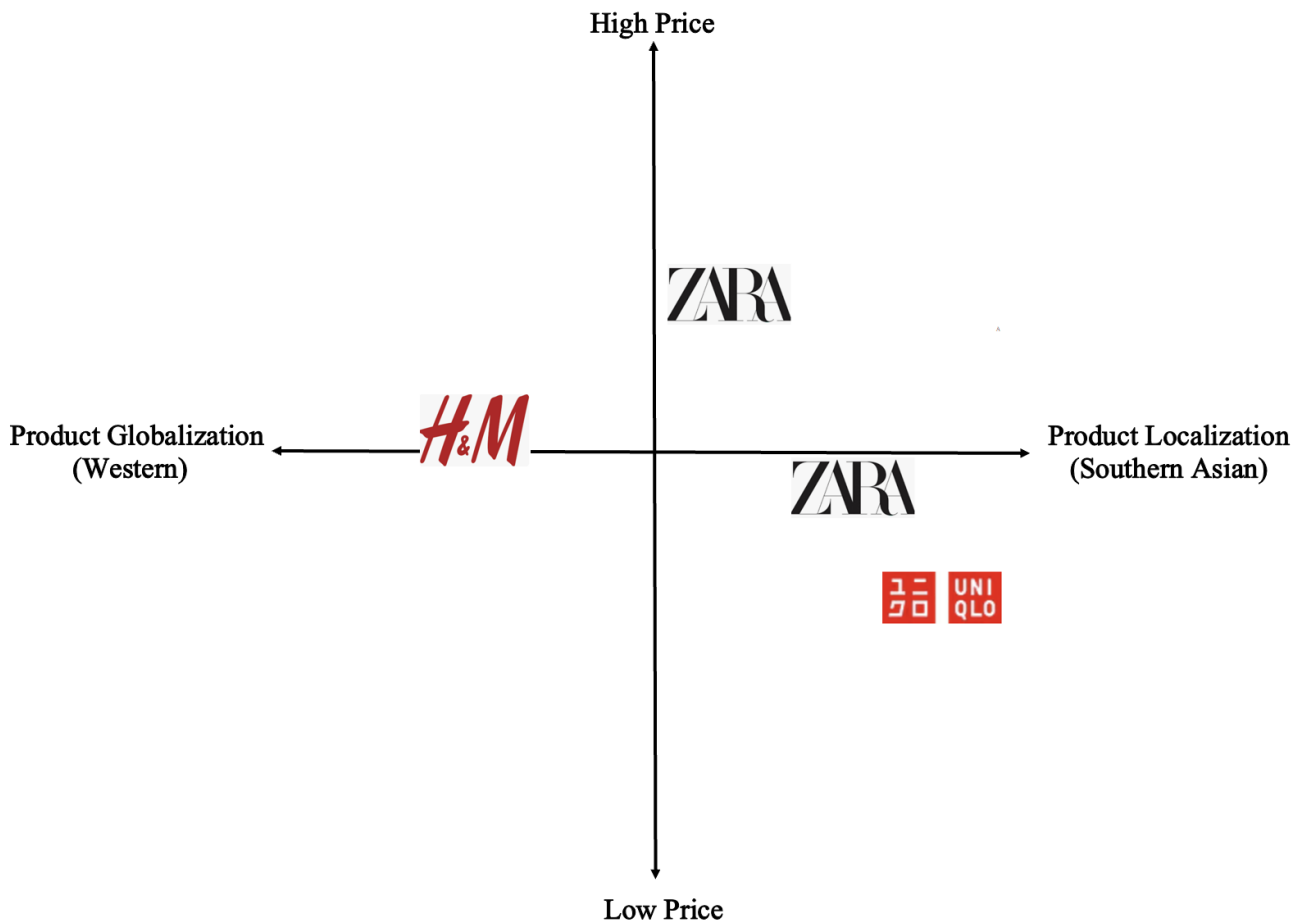
The competition level in Hong Kong's fashion industry is notably high. To share in the industry's profitability, companies must offer unique products, possess a sharp market strategy, and maintain a keen sensitivity to consumer preferences. It is crucial for these companies to have clear and effective brand positioning.

3.2 Market Positioning

The perceptual map in Figure 3.5 for H&M and its competitors in Hong Kong offers a visual representation of how these brands are positioned in terms of price and their approach to product globalization versus localization. H&M positioned toward the globalized, Western end of the spectrum (Parietti, 2024) that H&M maintains a more uniform, globalized product line that does not significantly adapt to local tastes. Zara's split positioning is particularly interesting as it indicates that the brand segments its products not just by style or quality but also by price and the degree of localization. This can be a strategic advantage in catering to a broader audience by addressing varied consumer needs and preferences within the same urban market (Appendix A). Uniqlo is positioned closest to the 'Product Localization (Southern Asian)' end and near the

bottom of the price axis, which indicates that Uniqlo likely offers products that are significantly adapted to local tastes and preferences at a competitive price point.

Figure 3.5 Perceptual Mapping of H&M in Hong Kong



3.3 Competitive Profile Matrix

Based on the previous analysis, a deeper understanding of the competitive landscape within the industry is required. Table 3.6 offers a valuable comparative snapshot of consumer perceptions and performance assessments of these three fashion retailers. The critical success factors are primarily related to customer experience and satisfaction. This analysis does not include factors such as social responsibility, growth, or financial position due to the lack of regional information. Additionally, the weights and ratings are based on literature reviews, daily observations in the store, comments from friends and personal purchase experience.

Table 3.6 The Competitive Profile Matrix for H&M

			 H&M		 ZARA		 Uniqlo	
Critical Success Factors		Weight	Rating	Score	Rating	Score	Rating	Score
1	Competitive price	0.13	6.00	0.78	6.00	0.78	7.00	0.91
2	Trendy style	0.12	6.00	0.72	7.00	0.84	5.00	0.60
3	Wide range of goods	0.12	7.00	0.84	7.00	0.84	5.00	0.60
4	Quality	0.11	4.00	0.44	7.00	0.77	8.00	0.88
5	Quick-turnaround collections	0.08	7.00	0.56	8.00	0.64	5.00	0.40
6	Brand image	0.09	8.00	0.72	9.00	0.81	8.00	0.72
7	Ease of purchase (physical store)	0.10	5.00	0.50	8.00	0.80	9.00	0.90
8	Ease of online shopping	0.08	6.00	0.48	9.00	0.72	8.00	0.64
9	Website, social media, APPs	0.09	7.00	0.63	7.00	0.63	6.00	0.54
10	Sufficient Stock	0.08	8.00	0.64	7.00	0.56	7.00	0.56
		1.00		6.31		7.39		6.75

Remark: Rating range is 0-10. Higher ratings indicate better performance or satisfaction.

Source: David and David (2017)

Zara appears to be the strongest performer among the three, with consistently higher ratings and scores. This could indicate stronger customer satisfaction or product quality perception. Uniqlo, while having some high ratings (as high as 9.00), shows more variability in scores, suggesting inconsistent perceptions or experiences among respondents. H&M shows the lowest average score, potentially indicating lower satisfaction or performance compared to Zara and Uniqlo.

4. Internal Analysis of H&M

After conducting the external and industry analysis, this chapter will delve into the internal operations and management of the company. Due to limitations in accessing first-hand information, most of the data available describes the group as a whole, with specific information on Hong Kong operations being scarce.

4.1 H&M's Current Vision, Mission, and Values

H&M outlines its vision in 'Vision and Strategy' (H&M Hennes & Mauritz AB, 2024c) and 'Our Business Idea' (H&M Hennes & Mauritz AB, 2024e), incorporating founder Erling Persson's original 1947 vision of making 'fashion accessible to all through our business idea: fashion and quality at the best price in a sustainable way' (H&M Hennes & Mauritz AB, 2024c). Recognizing the evolving global emphasis on sustainability, H&M acknowledges the need to adapt its vision. A summarized vision is:-

'All our brands share the same longstanding commitment to offer our customers the best combination of fashion, quality, price, and sustainability, providing unbeatable value. Our diverse range inspires customers worldwide to express their personal style, with H&M Group and its franchise partners maintaining a strong global presence'
(H&M Hennes & Mauritz AB, 2024a).

Although H&M does not explicitly articulate a formal mission statement, its 2023 Annual Report and Sustainability Report imply several mission elements that guide the company's operations and strategies.

Mission

- | |
|---|
| ♦ Customer in focus |
| ♦ Initiatives for an improved customer experience |
| ♦ Being a leader of fashion and design |
| ♦ Brands - different mission |
| ♦ Towards recycled, regenerative, and responsibly sourced materials |

Source: H&M Hennes & Mauritz AB (2024a)

H&M's Values define H&M's unique culture, guiding who they are, what they stand for, and how they act (H&M Hennes & Mauritz AB, 2024a).

Value

We are one team.	We are entrepreneurs.
H&M is inclusive, respectful and helping each other.	It has strong business mindset, take every opportunity to growth.
We believe in people.	We make constant improvement.
It values everyone's capability to contribute greatly to the team.	It constantly improves by seeking feedback from stakeholders and adapt with speed.
We are cost-conscious.	We are straightforward and open-minded.
It utilizes resources responsibly and doing more with less.	Everyone willing to speak up, but once a decision has been made, whole team commit to it.
We keep it simple.	
It aims for simplicity in order to focus on what matters.	

Source: H&M Hennes & Mauritz AB (2024a)

4.2 Objectives – Short-Term to Long-term

H&M has merged their vision, mission, and objectives into a unified framework. Below is a breakdown of its objectives, categorized into short-term, mid-term, and long-term goals:

Objective (Source: H&M Hennes & Mauritz AB, 2024a)

Short-Term Objectives (1-2 years)

Customer Demand-Driven Production - committed to refining our production processes to be fully responsive to customer demands.

Sustainable Impact Partnership Programme (SIPP)

100% Tier 1 supplier factories implementing SIPP

100% Tier 2 dyeing and printing factories implementing SIPP

100% Non-commercial goods suppliers and 100% of their factories implementing SIPP

Middle-Term Objectives (3-5 years)

New Growth & Ventures - to explore and penetrate new markets and included developing second- hand market fashion enabling everyone to live in a more circular way.

Stable growth of revenue from H&M Group Ventures, Sellpy, Looper Textile Co. and Creator Studio

Innovation - systemic change is essential to achieve the transformation required for a more sustainable fashion industry.

Currently is development stage: Prototyping, developing a minimal viable product, pilots.

By 2026, 30% of the materials to be recycled.

By 2030, 100% of the materials to be either recycled or sustainably sourced.

Long-Term Objectives (5+ years)

Reducing Greenhouse Gas Emissions - to decouple financial growth from the use of finite natural resources.

By 2030 at the latest, double revenue while at the same time halving its greenhouse gas (GHG) emissions in line with our targets.

-Reduce our absolute scope 1 and 2 GHG emissions by 56% by 2030, against a 2019 baseline.

-Reduce absolute scope 3 GHG emissions by 56 % by 2030, against a 2019 baseline.

-Reach net-zero by 2040

Social Impact Across Our Value Chain - respecting colleagues and all stakeholders' rights and use international frameworks and principles to identify their needs, minimize risks, and manage our impact responsibly.

No complaints are received.

4.3 Financial Performance

The Table 4.1 and Figure 4.2 displays the performance of a company over several years, presenting data in HKD million for net sales, gross profit, operation profit, profit after financial items, and profit for the year, alongside yearly average exchange rates. Over the years shown, net sales peaked at HKD189,928.08 million in 2018 and had a low of HKD157,311.77 million in 2020. The profit for the year showed a decreasing trend from a high of HKD14,788.94 million down to HKD6,441.06 million by the end of the period. Exchange rates varied, starting at 0.9138 and ending slightly lower at 0.7384, indicating fluctuations that could have impacted financial outcomes.

Table 4.1 H&M - Financial Report Highlight (2017-2023)

Swedish Krona (SEK), Million

	2017	2018	2019	2020	2021	2022	2023
Net Sales	200,004.00	210,400.00	232,755.00	187,031.00	198,967.00	223,553.00	236,035.00
Cost of Goods Sold	- 91,914.00	- 99,513.00	- 110,302.00	- 93,487.00	- 93,961.00	- 110,276.00	- 115,139.00
Gross Profit	108,090.00	110,887.00	122,453.00	93,544.00	105,006.00	113,277.00	120,896.00
Selling Expenses	- 80,427.00	- 87,512.00	- 96,279.00	- 81,425.00	- 80,535.00	- 94,542.00	- 96,435.00
Administrative Expenses	- 7,094.00	- 7,882.00	- 8,828.00	- 9,020.00	- 9,216.00	- 11,566.00	- 10,895.00
Operation Profit	20,569.00	15,493.00	17,346.00	3,099.00	15,255.00	7,169.00	14,537.00
Interest Income and Similar Items	281.00	292.00	376.00	252.00	203.00	162.00	616.00
Interest Expenses and Similar Items	- 41.00	- 146.00	- 331.00	- 1,299.00	- 1,158.00	- 1,115.00	- 2,143.00
Profit After Financial Items	20,809.00	15,639.00	17,391.00	2,052.00	14,300.00	6,216.00	13,010.00
Tax	- 4,625.00	- 2,987.00	- 3,948.00	809.00	- 3,290.00	- 2,650.00	- 4,287.00
Profit for the Year	16,184.00	12,652.00	13,443.00	2,861.00	11,010.00	3,566.00	8,723.00
Yearly Average Exchange Rate (Source: Exchange-Rates.org) HKD, Million	0.9138	0.9027	0.7431	0.8411	0.9061	0.7764	0.7384
Net Sales	182,763.66	189,928.08	172,960.24	157,311.77	180,284.00	173,566.55	174,288.24
Gross Profit	98,772.64	100,097.69	90,994.82	78,679.86	95,145.94	87,948.26	89,269.61
Operation Profit	18,795.95	13,985.53	12,889.81	2,606.57	13,822.56	5,566.01	10,734.12
Profit After Financial Items	19,015.26	14,117.33	12,923.25	1,725.94	12,957.23	4,826.10	9,606.58
Profit for the Year	14,788.94	11,420.96	9,989.49	2,406.39	9,976.16	2,768.64	6,441.06

Source: Constructed by the writer. (Yahoo, 2024b), (MBH Media Inc. 2024)

Figure 4.2 H&M - Net Sales and Profit Trend from 2017 (Source: Table 5.1)

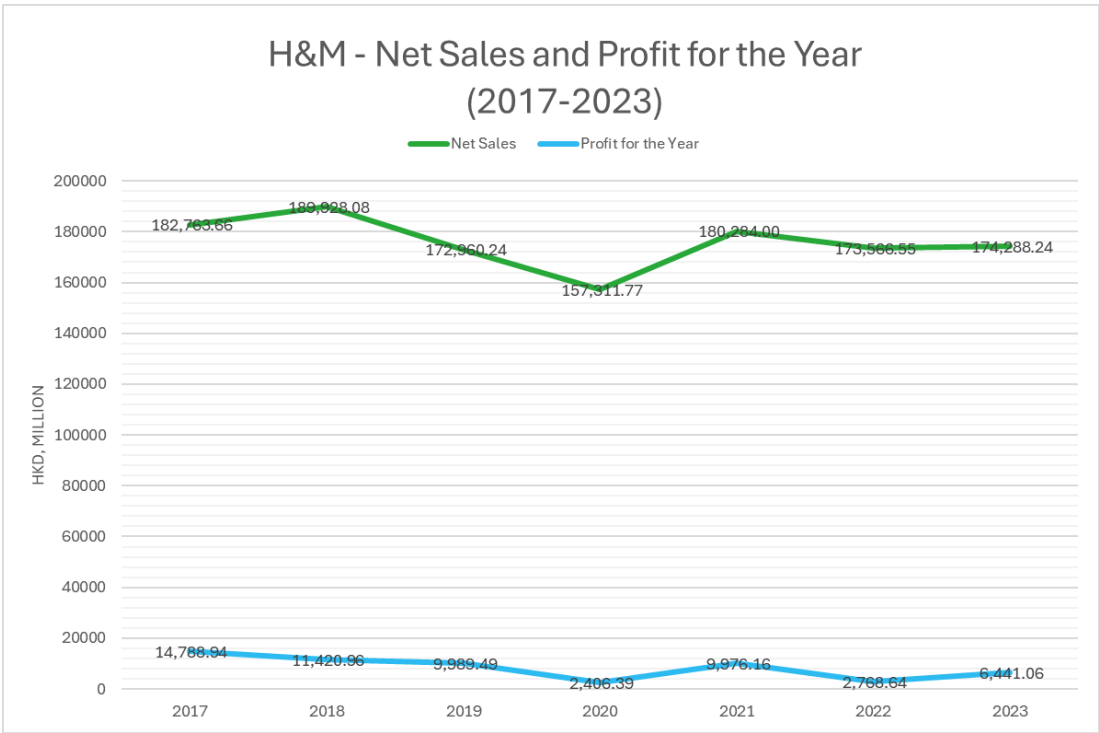
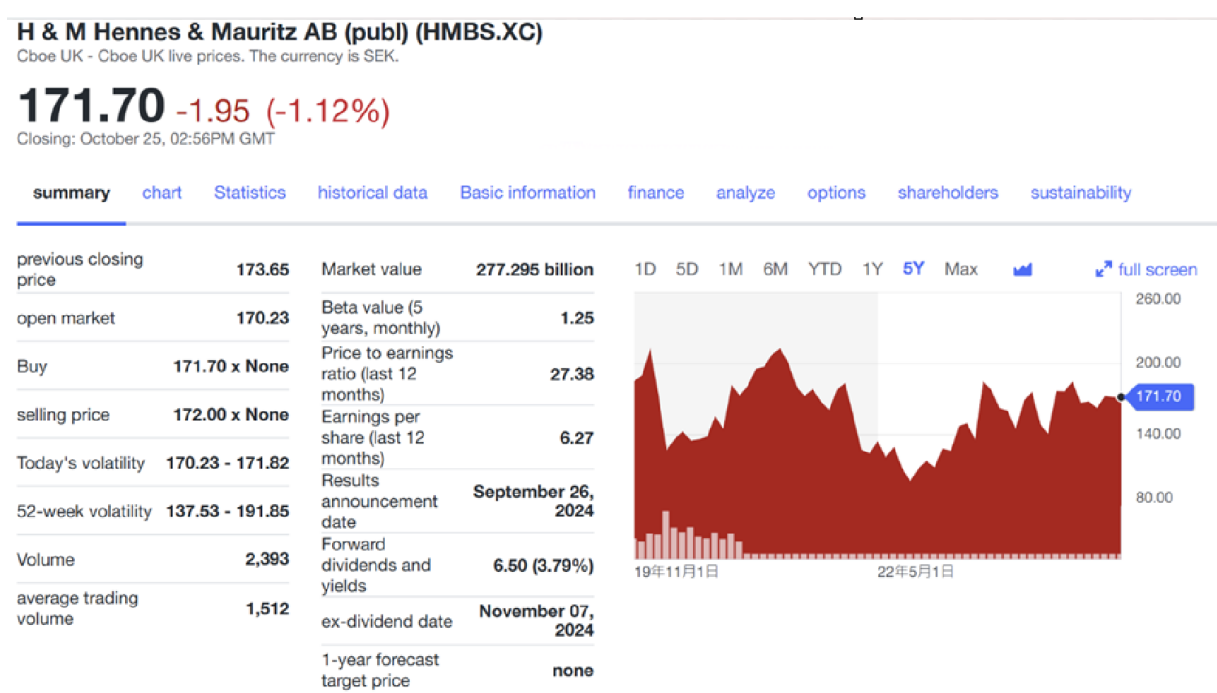


Figure 4.3 H&M - Five-year Stock Price Trend (Source: Yahoo, 2024b)



In Figure 4.3, the highest point of H&M's stock price on the chart occurs around early 2022, where the stock reached values approaching 200 SEK. As of the latest recorded data in October 2023, the stock is trading at 171.70 SEK, which is lower than its peak but still within a higher range compared to the lowest points observed over the five years.

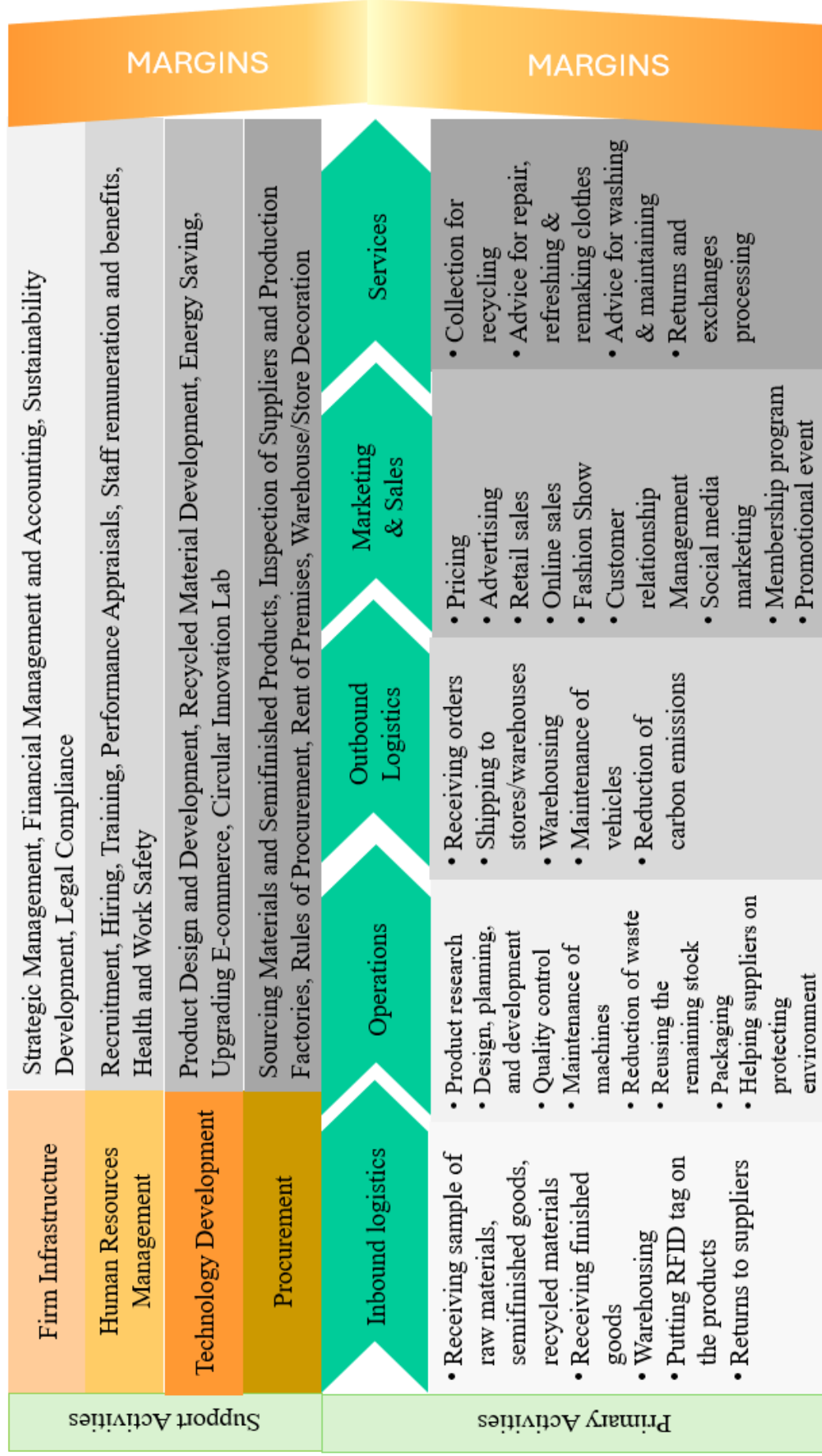
4.4 Value Chain - Primary and Support Activities

To more deeply understand the operations of H&M, Michael Porter's Value Chain analysis will be applied in this section.

In Figure 4.4, the value chain diagram for H&M illustrates a comprehensive breakdown of the company's operations, categorized into primary and support activities that enhance its market competitiveness and operational efficiency. H&M has increasingly emphasized sustainable practices within its business model, particularly focusing on circular fashion and environmental protection. This commitment is evident in the company's efforts to integrate sustainability into various stages of its value chain. For example, in its inbound logistics, H&M prioritizes the receipt and use of recycled materials, and in its services, the company promotes the reuse and recycling of garments. These initiatives are part of a broader strategy to reduce waste and encourage the recycling of clothes, supporting a shift towards a more sustainable fashion industry.

Moreover, H&M's operations involve efforts to reduce waste during the manufacturing process and to minimize carbon emissions during product distribution, aligning with its goals for environmental stewardship. Through these actions, H&M aims not only to mitigate its environmental impact but also to lead by example in the industry, promoting practices that contribute to a healthier planet and setting a precedent for corporate responsibility in fashion.

Figure 4.4 The Value Chain for H&M



Source: H&M Hennes & Mauritz AB (2024a), Dillon (2017), Dyer et al. (2022)

4.5 Internal Factor Evaluation (IFE) Matrix

H&M in Hong Kong is facing various difficulties, but certain strengths can help to mitigate these weaknesses. Table 4.5, the Internal Factor Evaluation (IFE) Matrix (David and David, 2017) for H&M in Hong Kong, assists to better understand the internal factors influencing H&M's business operations and strategic positioning in the region.

Table 4.5 Internal Factor Evaluation Matrix for H&M (Hong Kong)

Key Internal Factors (2024)		Weight	Rating	Weighted Score
Strengths				
1	Every 1-2 days, a new post on Facebook (H&M, 2024).	0.07	4.00	0.28
2	Hong Kong Research Institute of Textile and Apparel (HKRITA) and the H&M Foundation announced the official opening of the 'Open Lab' to promote the sustainable development of the textile and fashion industry (Siu, 2024).	0.09	4.00	0.36
3	Karl Lagerfeld, Margiela... H&M brings back 20 years of designer collaborations (Wang, 2024).	0.08	3.00	0.24
4	30% online sales as a share of the group's net total (H&M Hennes & Mauritz AB, 2024a).	0.10	4.00	0.40
5	30% of employees rated their experience as four stars out of a possible five, in a employee review (Indeed, 2024).	0.08	4.00	0.32
Weaknesses				
1	Only 4 stores remain open; all others have now closed (Lau, 2024).	0.15	2.00	0.30
2	Third-quarter operating profit fell 26% year-on-year (Yahoo, 2024b).	0.12	1.00	0.12
3	Earnings Per Share growth is -6.81% (Yahoo, 2024b).	0.12	1.00	0.12
4	Directly gave up more than 20% of the stores, closed 28 stores in Spain and laid off 588 people (Liu, 2024).	0.09	1.00	0.09
5	Sales growth is 2.33%, which is lower than the industry average of 3.86% (Yahoo, 2024b).	0.10	3.00	0.30
		1.00	27.00	2.53

Remark:

- ✓ (1) Each factor is assigned a weight, from 0 to 1.0, representing its relative importance.
- ✓ (2) Rating: 1 indicates major weaknesses, 2 indicates minor weaknesses, 3 indicates minor strengths, 4 indicates major strengths. These are then used to calculate a weighted score for each factor.

The total weighted scores for strengths (1.60) and weaknesses (0.93) result in an aggregate score of 2.53. This implies that H&M in Hong Kong has a moderately effective internal strategy, but significant weaknesses, particularly in terms of financial performance and physical store operations, are hindering its overall success. The company needs to leverage its strengths in digital sales and sustainability effectively while addressing critical weaknesses, especially in operational efficiency and market adaptation strategies.

5. Evaluation of H&M's Strategic Effectiveness and Conclusion

This chapter evaluates the effectiveness of H&M's strategic direction using the Balanced Scorecard, a comprehensive tool that assesses the company's strategic performance across multiple dimensions. The conclusion will summarize the business opportunities and strengths identified in previous chapters to enhance competitiveness.

5.1 Balanced Scorecard for H&M

H&M's strategic direction, as assessed through the Balanced Scorecard framework (Marques et al., 2022) and presented in Table 5.1, shows a mixed landscape of success and challenges across various operational areas. The Strategic Objectives, Performance Indicators, Targets, and Results are derived from Chapter 4, the H&M Group Annual and Sustainability Report 2023, industry indicators, and discussions from Marques et al. (2022). Here are the highlights of the Balanced Scorecard:

The overall Financial Perspective fell short of its targets. However, the company has exceeded its Growth Rate target, indicative of the growth of the second-hand fashion company of which H&M owns 80% shares. H&M has invested considerable effort in developing the second-hand clothes market, aligning with its mission to explore New Growth & Ventures.

H&M has excelled in customer satisfaction. This perspective includes improvements among suppliers, which are not only to product and service quality but also to customer perceptions.

The Internal Processes Perspective shows robust results in internal operations and sustainability efforts. Operational efficiency, problem minimization, and quick business decisions and approvals are key indicators of effective management. The 2023 annual report states, '...manage the business in the most appropriate and effective manner possible, ensuring reliable financial

reporting and compliance with applicable laws and regulations.’ It is recommended that the company provide more detailed, measurable data in its annual reports.

Data on Learning and Growth metrics are limited; the available employee satisfaction results from a recruitment website review may not be entirely accurate, yet they still indicate suboptimal performance. The success in creating an organizational culture and optimizing technological investments could not be assessed due to missing data. It is suggested that H&M could include a detailed list of employee training and development plans in their reports, rather than merely mentioning 'human rights'.

Overall, H&M's strategic direction shows effectiveness in expanding market presence, integrating sustainability into its product lines, and maintaining customer satisfaction. However, the company faces challenges in financial performance metrics and employee satisfaction. H&M needs to address these financial and employee-related shortcomings while continuing to build on its strengths in customer engagement and operational sustainability.

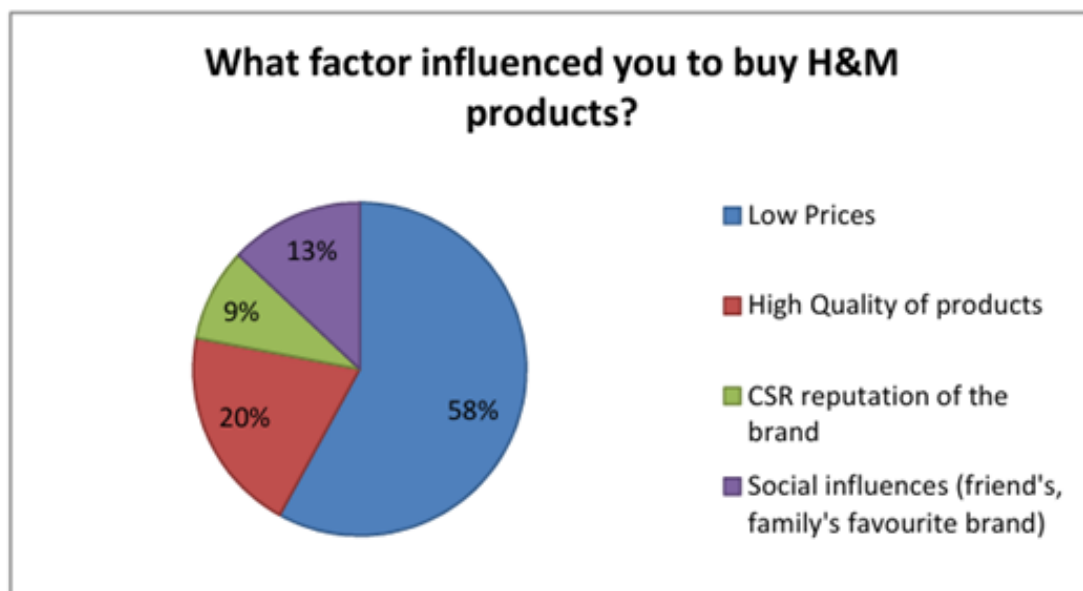
Table 5.1 Balanced Scorecard for H&M				
Perspective	Strategic Objectives	Performance Indicators	Target (yearly)	Result (2023)
Financial	Increase in profitability	Net Profit Margin	Reach 3.58%	Failed [3.46%]
	Increase in turnover	Net Sales	Reach 10%	Failed [5.58%]
	Increasing the value of the company	Return on equity	Reach 14.87%	Failed [13.77%]
	New Growth & Ventures	Growth rate	Reach 5%	Succeed 85% (2022)
	Reducing costs	Production cost reduction rate	Reduce 5%	Failed [4.4%]
Customers	Ensuring maximum customer satisfaction and loyalty	Satisfaction index	Reach 90%	Succeed 96% (2021)
	More products differentiated according to established sustainability principles	Number of new recycled products	Reach 30%	Succeed 85%
	Customer Demand-Driven Production	Supplier factories implementing – Sustainable Impact Partnership Programme	Reach 100%	Succeed 100%
	Implementing the brand in new markets	Number of countries present	2 new countries	Succeed – 5 countries
	Operational efficiency and minimizing problems	Error Rate	Reduce 10%	(no data)
Internal Processes	Fast business decisions and approvals	Approval Process Cycle Time	Reduce 30%	(no data)
	Reducing Greenhouse Gas Emissions	GHG emissions	Reduce 10%	Succeed -24%
	Efficient resource management	Product use, reuse, recycling for material/resource use and waste, incl packaging	Reach 100%	Succeed 100%
	Improving employees' skills and competences	Index training and development of employees	Increase by 20%	(no data)
	An organizational culture based on the values of the organization	Information flows	Reach 5 types	Succeed – at least 5 types
Learning & Growth	Optimizing the use of technological investment	Time of use of equipment	Increase 50%	(no data)
	Increasing employee satisfaction and motivation	Employee satisfaction index	Reach 80%	Failed [3.6/5]

Source: Marques et al. (2022)

Although H&M consistently prioritizes a customer-oriented approach in its vision and mission, its objectives focus heavily on resource utilization, product recycling, and reducing greenhouse gas emissions. Therefore, customer satisfaction can be achieved in two ways. Directly, by offering products that are valuable and bring joy to consumers; and indirectly, by ensuring that the production processes are harmless to people (Alsawafi et al. 2019) and minimize the environmental impact on flora and fauna (Zaidi, 2021).

Despite H&M's significant investments in sustainability, Figure 5.2 reveals that only 9% of consumers purchase their products due to the company's Corporate Social Responsibility efforts. This might explain why, as shown in Table 5.1, while all customer-related targets are met, the financial targets are 80% unmet.

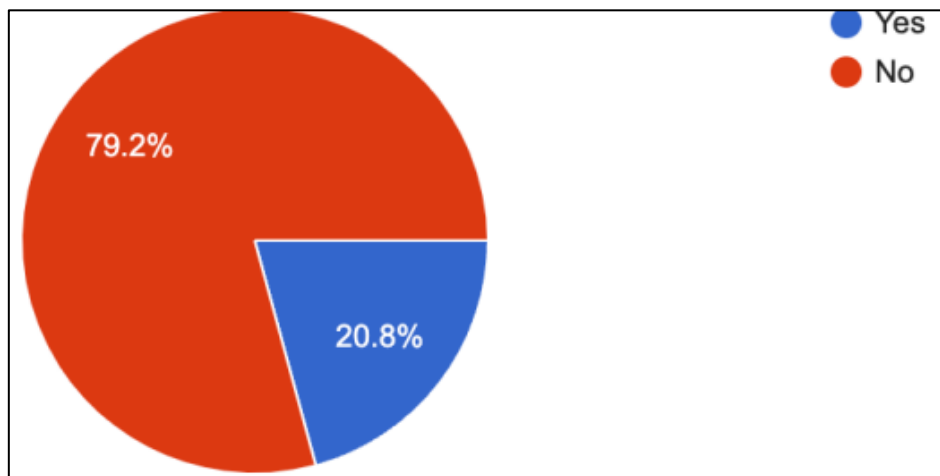
Figure 5.2 The factors influencing people buy H&M products



Source: Galica (2021)

According to Jutrzenka and Tubić (2024), H&M's 'Garment Collecting Programme' ranks among the most notable sustainability initiatives of the H&M Group. However, Figure 5.3 indicates that a significant majority of survey respondents, 79.2%, are skeptical of the campaign's claims.

Figure 5.3 - A survey result on the belief in the responsible recycling of clothes collected by H&M's campaign



Source: Jutrzenka and Tubić (2024)

This highlights the inherent conflict between continual clothing purchases and the goal of reducing waste, a core issue for all fast fashion companies. Many perceive these businesses as hypocritical, believing that their primary motive is profit rather than genuine concern for environmental sustainability or altruism.

5.2 Conclusion

Returning to the main research question: How effectively does H&M implement its strategic direction in Hong Kong, especially in alignment with its vision, mission, and values, while navigating local challenges?

The analysis of the Balanced Scorecards is more relevant to H&M's corporate level. Here is the focus to Hong Kong. Over the years, H&M has significantly reduced its physical presence in Hong Kong, from 28 stores in 2017 to just four flagship stores located in high-traffic areas today. There is room for H&M to enhance its e-commerce capabilities alongside its remaining physical stores by further integrating online and offline shopping platforms.

However, when evaluating how effectively H&M has implemented its strategic direction in Hong Kong in alignment with its vision, mission, and values, several challenges emerge. H&M could enhance its market positioning in Hong Kong by tailoring or specially selecting its product offerings to better suit the local climate. Unlike Uniqlo, which offers lightweight vests and appropriate clothing for fluctuating temperatures, H&M's offerings, such as an old-style and dark brown jumper on its website for on its website. An emerging focus on the plus-size market indicates a move towards tapping into underserved segments.

In conclusion, H&M's implementation of its strategic direction in Hong Kong has been moderately effective. However, its product offerings and marketing strategies have not fully aligned with its global vision and local consumer expectations.

6. Recommendations

Finally, recommendations will be presented. These will be formulated at two distinct levels to propose targeted improvements

6.1 Corporate Level Strategies for growth, sustainability, and market development

To ensure sustainable growth and effective market development, H&M should focus on refining its corporate level strategies in the following ways:

6.1.1 Cost-Efficient Production: Continue to optimize production processes to reduce costs without compromising quality. This might involve adopting more efficient technologies, renegotiating supplier contracts, or shifting to less expensive materials, i.e. waste of the materials, that still meet H&M's quality and sustainability standards.

6.1.2 Increased Marketing Initiatives: Invest in expansive and targeted marketing campaigns to increase brand visibility and attract new customers. This could include partnerships with influencers, engaging social media campaigns, and innovative advertising strategies tailored to different geographic markets.

6.1.3 Operational Efficiency: Regularly review and optimize operational processes to ensure they are as efficient as possible and avoiding error.

6.1.4 Fast Decision Making: Simplify the decision-making process by delegating more authority to lower levels or the head of region and utilizing technology to speed up information flow.

6.1.5 Employee Satisfaction: Foster a positive work environment by maintaining open lines of communication and offering competitive compensation and benefits.

6.1.6 Training Programs: Invest in comprehensive training programs to ensure all employees are skilled in the latest retail and fashion industry practices. Special attention should be given to training staff in customer service, digital tools, and sustainability practices, aligning with H&M's commitment to environmental conservation.

6.2 Business Level Strategies for competitive positioning and operational improvements

To strengthen competitive positioning and enhance operational improvements in Hong Kong, H&M should consider the following business-level strategies:

6.2.1 Establish a Sustainability Interactive Corner at Flagship Stores

- Sustainability Education: Designate a section of each flagship store to educate customers on H&M's global and local sustainability efforts. This could include displays or digital presentations outlining H&M's sustainability objectives, ongoing projects, and milestones achieved, such as reductions in water usage, commitments to renewable energy, and progress in sustainable materials sourcing.

6.2.2. Promote Garment Repair by Launch an Instagram Campaign and Plus-size Market

- Social Media Campaign: Launch an Instagram campaign encouraging customers to share their repaired garments. Use a dedicated hashtag, e.g., #HMFxFashion, to track participation. Feature customer stories and before/after photos to build community and encourage engagement.
- Subtly Promote Plus-Size Clothing Options: Integrate plus-size clothing within existing collections displayed in stores and online, rather than segregating them. Use marketing

materials that feature models of all sizes to normalize diversity in body types and promote inclusivity.

6.2.3 Enhance Integration of Online and Offline Shopping Experiences

- **Expanded Pick-up and Return Points:** Collaborate with sister brands, such as COS, to offer additional pick-up and return points for online purchases. This strategy can alleviate logistical burdens on stores and provide more flexibility for customers.

6.2.4. Promote Lightweight, Versatile Fashion and Educate on Layering Techniques

- **Light and Layerable Fashion Lines:** Introduce and highlight garments that are easy to layer and match, suitable for Hong Kong's hot weather conditions. This might include lightweight jackets, scarves, and breathable fabrics.
- **Style Workshops and Online Tutorials:** Organize in-store and online workshops or tutorials demonstrating effective layering techniques and stylish combinations. These sessions can be led by stylists or influencers who can provide tips on creating versatile outfits from a few pieces, enhancing customer engagement and boosting sales.

By implementing these strategies, H&M can not only improve its competitive edge in Hong Kong's retail market but also align more closely with the global shift towards sustainable and consumer-responsive business practices. These initiatives will likely attract a broader base of customers and foster greater loyalty among existing shoppers.

6.3 Implementation Programs - using the Gantt Chart

The Strategic Objectives at the Corporate Level have been refined based on the deficiencies identified in Chapter 5. If the Corporate Level Gantt Chart is implemented for only one or two years, it will undergo a review to determine whether it should be terminated or substituted with a new strategy.

At the Hong Kong Business Level, the Strategic Objectives focus primarily on capitalizing on business opportunities and enhancing critical aspects. Given the limited manpower in Hong Kong, not all plans will be executed concurrently.

Figure 6.1 Gantt Chart Overview for H&M

#	Management Level	Strategic Objective	Activity	Year 1 Jan-Jun	Year 1 Jul-Dec	Year 2 Jan-Jun	Year 2 Jul-Dec	Year 3 Jan-Jun	Year 3 Jul-Dec
1	Corporate Level	Reducing Cost	Optimizing production processes						
2	Corporate Level	Increasing Turnover & Profitability	Global Marketing Strategy						
3	Corporate Level	Operational efficiency and minimizing problems	Decentralization						
4	Corporate Level	Fast business decisions and approvals	Reviewing and optimizing operational processes						
5	Corporate Level	Increasing employee satisfaction and motivation	Improving communication between employees & company and salary package						
6	Corporate Level	Improving employees' skills and competences	Employees' Training Programs						
7	Hong Kong Business Level	Aligning fashion and sustainability	Sustainability Education - Education Corner						
8	Hong Kong Business Level	Aligning fashion and sustainability	Social Media Campaign - Repair with H&M patches						
9	Hong Kong Business Level	Increasing Turnover & Profitability	Subtly Promote Plus-Size Clothing Options						
10	Hong Kong Business Level	Increasing Turnover & Profitability	Online to Offline Commerce						
11	Hong Kong Business Level	Increasing Turnover & Profitability	Light and Layerable Fashion Lines						
12	Hong Kong Business Level	Increasing Turnover & Profitability	Style Workshops and Online Tutorials						

6.4 Monitoring and evaluating the implementation success by KPI

The KPIs for the Corporate Level are derived from the Balanced Scorecard outlined in Chapter 5. The targets set for the Hong Kong Business Level are comparatively modest. These will be evaluated either annually or upon reaching the specified completion date.

Table 6.2 Balanced Scorecard for Evaluating the H&M Implementing Program

Strategic Objectives	Activities	Performance Indicators	Target (yearly) (e.g. Industry rate)	Result
Reducing Cost	Optimizing production processes	Production cost reduction rate	Reduce 5%	
Increasing Turnover & Profitability	Global Marketing Strategy	Net Profit Margin & Net Sales	Reach 3.58% & Reach 10%	
Operational efficiency and minimizing problems	Reviewing and optimizing operational processes	Error Rate	Reduce 10%	
Fast business decisions and approvals	Decentralization	Approval Process Cycle Time	Reduce 30%	
Increasing employee satisfaction and motivation	Improving communication between employees & company and salary package	Employee satisfaction index	Reduce 80%	
Improving employees' skills and competences	Employees' Training Programs	Index training and development of employees	Increase by 20%	
Aligning fashion and sustainability	Sustainability Education - Education Corner	Number of 'check in'	Reach 50 times	
Aligning fashion and sustainability	Social Media Campaign - Repair with H&M patches	Increasing Number of Follower Number of Like for each post	Increase 5,000 Reach 50 Likes	
Increasing Turnover & Profitability	Subtly Promote Plus-Size Clothing Options	Net Profit Margin & Net Sales	Reach 2% & Reach 6%	
Increasing Turnover & Profitability	Online and Offline Shopping	Net Profit Margin & Net Sales	Reach 2% & Reach 6%	
Increasing Turnover & Profitability	Light and Layerable Fashion Lines	Net Profit Margin & Net Sales	Reach 2% & Reach 6%	
Increasing Turnover & Profitability	Style Workshops and Online Tutorials	Net Profit Margin & Net Sales Survey-Satisfaction	Reach 2% & Reach 6% Reach 90%	

6.5 Contingency Planning

In developing a comprehensive contingency plan for H&M, it should prepare for various scenarios that could impact its operations. For instance, if a major competitor, such as Zara downsizes its markets, H&M may capitalize on this by enhancing its market presence and possibly expanding into those areas. Should H&M's sales not meet objectives, the company could implement promotional strategies and review product offerings to boost demand. In cases where product demand unexpectedly outstrips supply, increasing production capabilities and optimizing the supply chain would be essential. Additionally, H&M must have strategies in place for potential crises, such as technological failures or natural disasters, which would include data backups, diversified supplier networks, and robust disaster recovery protocols. Lastly, to stay competitive against technological advancements that may render existing products obsolete, H&M should continually invest in research and development to innovate and adapt its product lines promptly (David and David, 2017). Table 6.2 is the Contingency Plan for H&M Hong Kong.

Figure 6.3 Contingency Plan for Hong Kong Business Level Strategies Improvements

#	Management Level	Strategic Objective	Activity	Contingency Planning	
				Low Response	Over Response
1	Hong Kong Business Level	Aligning fashion and sustainability	Sustainability Education - Education Corner	Arrange smart & good looking ambassador for pitching	Change the interaction tools or designs regularly
2	Hong Kong Business Level	Aligning fashion and sustainability	Social Media Campaign - Repair with H&M patches	Send post to some younger groups and provide 'Repair Kit' at stores	Produce more various patches, i.e. design with cartoon or comic figures cross-over
3	Hong Kong Business Level	Increasing Turnover & Profitability	Subtly Promote Plus-Size Clothing Options	Promote on Social Media	Develop a collection for plus-size
4	Hong Kong Business Level	Increasing Turnover & Profitability	Online to Offline Commerce	Offer special discount for O2O purchase	Arrange some collection exclusively sold via online
5	Hong Kong Business Level	Increasing Turnover & Profitability	Light and Layerable Fashion Lines	Invite KOL for a short period promotion	Invite KOL for regular promotion and make it to be a trend
6	Hong Kong Business Level	Increasing Turnover & Profitability	Style Workshops and Online Tutorials	Invite KOL for a short period promotion	Invite KOL for regular promotion and make it to be a trend

It is hoped that the above recommendations will enable H&M to achieve robust growth in sales and sustainable development, both globally and within the Hong Kong market.

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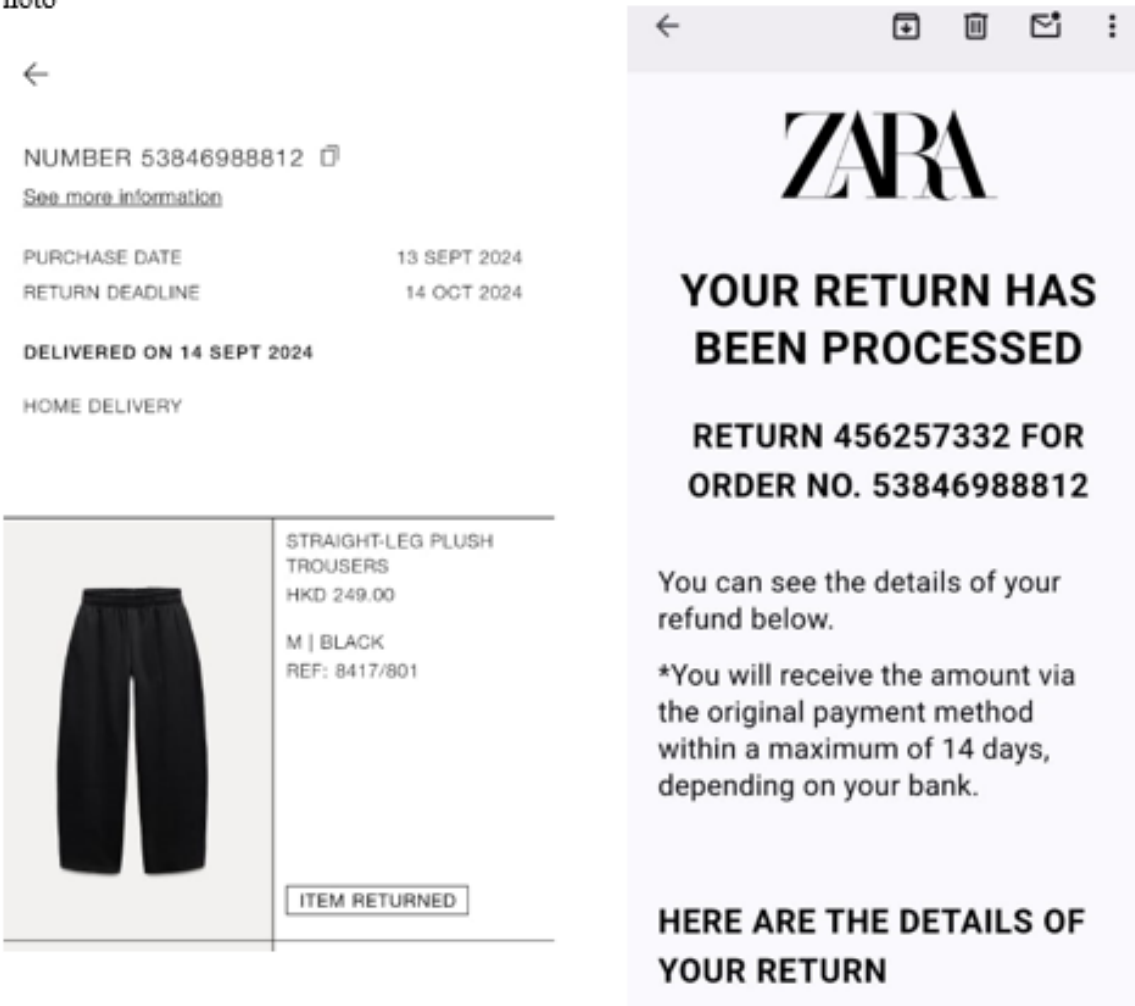
A. The Shopper's Report (Ms. Tsoi Mei Kwan)
H&M

Date and Time	16 Sep 2024 (Monday), 13:15 – 13:50
Shop	H&M-Fashion Walk Flagship Store Shops G01 on G/F, F01 on 1/F, 2/F-3/F, Hang Lung Centre, 2-20 Paterson Street, Causeway Bay, Hong Kong
Observation	1. At the entrance, there is no particularly attractive spots. 2. There are four floors, from G/F to 3/F. It covers an area of 47,000 square feet. It has a full range of men's, women's, sports and children's clothing, making it a large department store. 3. There were about 30-40 customers at that time. 4. The products are neatly placed and arranged. Generally, the product display and placement have no distinction between color, style, occasion, material, and theme, which is not as attractive as Zara. 5. At the end of 3/F is H&M Home, which is more attractive. 6. Some clothes are marked as being made from 20% recycled materials, and the label paper is recyclable. 7. The quality of T-shirts is better than local brands Baleno and Taobao. 8. The price of T-shirts is not competitive. 9. Clothes are cut loosely. 10. Some clothes are not ironed. 11. There is no smile on the staff's face.

Photo



B. The Shopper's Report (Ms. Tsoi Mei Kwan)
Online Shopping - Zara

Date and Time	18 Sep 2024 (Wednesday), 11:30
Brand	Zara
Experience	Online Shopping and Returned Goods Offline: I used Zara's app to buy pants, but one pair didn't fit, so I walked for 10 minutes to the store in Shatin's New Town Plaza to return them. The cashier staff were very friendly and provided clear instructions. The payment was deposited into my credit card account on the same day. Overall, I found the experience very convenient and hassle-free.
Photo	 The photo is a screenshot of the Zara mobile application interface. At the top, there's a navigation bar with a back arrow and icons for home, search, and account. The main content area is divided into two sections. The left section displays order details for order number 53846988812, including the purchase date (13 SEPT 2024), return deadline (14 OCT 2024), and delivery status (DELIVERED ON 14 SEPT 2024). Below this, an image of a pair of black trousers is shown, with text indicating they are 'STRAIGHT-LEG PLUSH TROUSERS' priced at 'HKD 249.00'. The size and color are listed as 'M BLACK' with a reference number 'REF: 8417/801'. A button labeled 'ITEM RETURNED' is positioned below the image. The right section features the Zara logo at the top, followed by a large heading 'YOUR RETURN HAS BEEN PROCESSED' and a sub-heading 'RETURN 456257332 FOR ORDER NO. 53846988812'. Below this, a message states: 'You can see the details of your refund below.' and a note: '*You will receive the amount via the original payment method within a maximum of 14 days, depending on your bank.' At the bottom of this section, it says 'HERE ARE THE DETAILS OF YOUR RETURN'.

Price and Product Comparison

I want to buy a leather coat.



H&M: It looks bulky and too thick. shoulder is too wide.

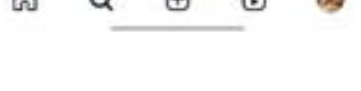


Zara(1): It looks soft leather and stylish. It is cheaper than H&M.



Zara(2): It is more expensive due to double faces with wool. It looks warm and comfortable.

Social Media-Instagram

H&M	Zara	Uniqlo
07:24 84% 35% ← hm  50 posts 38.4M followers 21 following H&M&S Serving since 1947 Followed by ying0308 Follow Message Shop              	07:25 84% 35% ← zara  4,757 posts 62M followers 148 following ZARA @zara For Man collection check @zaraman Kids collection @zarakids Discover Woman collection  go.zara/newin Follow Message Shop                        	07:25 84% 34% ← uniqlo  3,594 posts 2.5M followers 425 following UNIQLO Global @uniqlo · 1 New Clothing (Brand) The global official Instagram #UNIQLO #LifeWear uniqlo.com and 2 more 1-6-7 Ariake, Koto-ku, Tokyo, Japan 135-0063 Follow Message                        