

Report
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Understanding and Engaging in the
Customer Experience BMSW 5103
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Assessment task:

“You are required to Produce an academic report of 4,500-word (+/- 10%) by applying academic marketing (service) models, methods, and theories to assess the factors that influence an organisation’s ability in maximising customer value.”

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Introduction

During the pandemic, companies' contact with consumers has become even more important. The possibilities of establishing physical interaction with the company's employees have been severely limited, and the contact has shifted to other channels, which customers use according to their preferences. The coronavirus pandemic has turned many aspects of our lives upside down. It is also visible in business, which is particularly susceptible to any political, social, or economic changes. This forces companies to take various actions, often associated with additional responsibility for various aspects that previously were not necessarily their priorities.

A professional company that cares about Customer Experience knows how important the emotions of its customers are. Nowadays, striving for a client is more and more based on influencing his feelings and the level of emotional satisfaction. With fierce competition in almost every industry, it is these issues that become key to gaining a loyal customer. It is extraordinary that such important aspects as price, product functions or its availability are often relegated to the background, giving way to the approach to the customer.

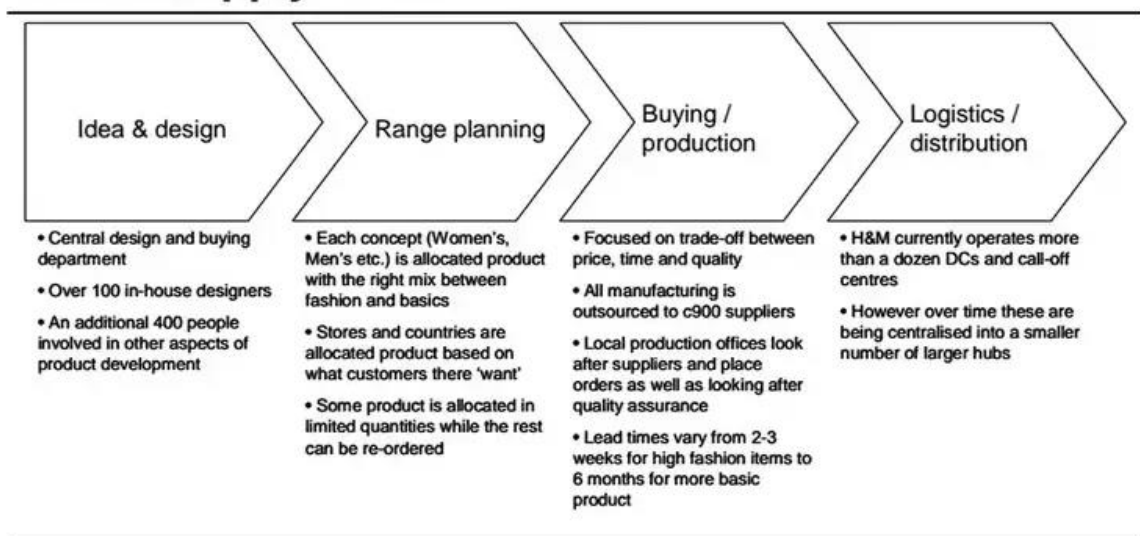
The organization I chose is H&M. I will examine their Customer Experience and will try to find internal and external factors affected or influenced their systems and controls for customers. I will use Ansoff Matrix and PESTLE analysis.

Organisation: H&M

Hennes & Mauritz was founded in 1947 in Sweden by Erlin Persson. The first store was called Hennes (which means "her" in Swedish), and it offered clothes for women. In the 1960s, the company began its expansion - the first store in Norway was opened. At the same time, Persson bought the Mauritz Widforss company, which produces hunting clothes, and thus expanded the range with men's collections. The company changed its name to H&M. In 1976, the first store outside Scandinavia was opened - in London, while the first store in the USA was opened in 2000 on Fifth Avenue in New York. H&M has been recognized by Forbes as the 36th most valuable brand in the world and 506th largest company in the world (Wikipedia, 2022).

H&M offers clothing for women, men, and children. In stores you can also buy fashionable accessories matching the collection, such as belts, scarves, and handbags. The company offers creations, incl. Robert Cavalli and Matthew Williamson. She also led projects in which show business stars designed their own stylizations, such as Madonna, Kylie Minouge and Beyoncé. H&M also collaborates with famous fashion houses, such as Versace and Lanvin. H&M currently has 3,500 stores around the world. Branches are located in 55 countries (Wikipedia, 2022).

H&M's supply chain



H&M Supply Chain Chart, Source: Company Data, Morgan Stanley Research

H&M during the Covid pandemic

The outbreak of the COVID-19 pandemic made it necessary to immediately change all the assumptions and strategies that followed the company. The pandemic affected not only the owners of the company, but also to a large extent consumers, who changed their approach to making purchases.

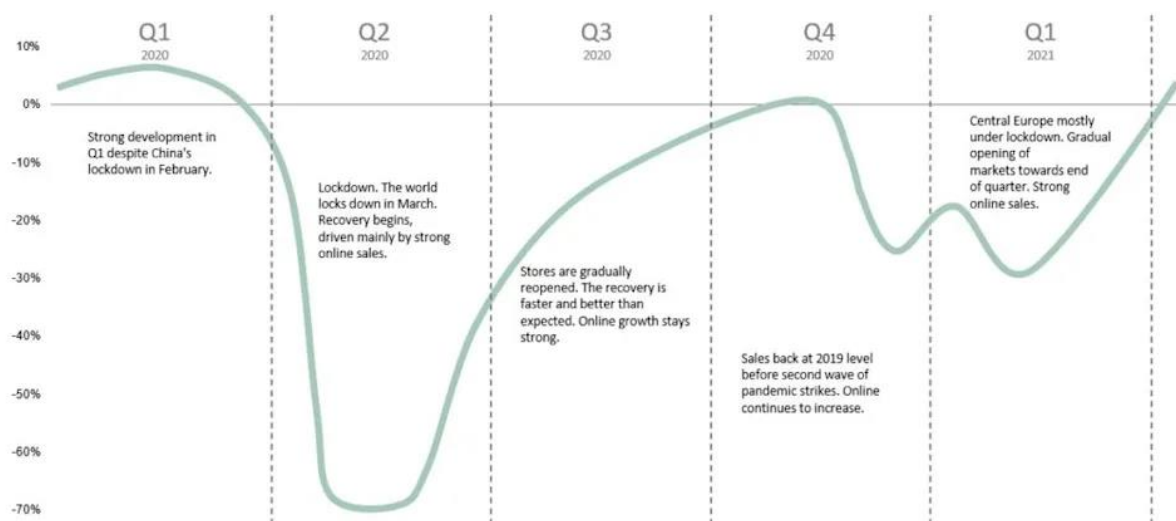
COVID-19 pandemic has changed the purchasing habits of consumers who express the belief that they will live differently in the near future. The determinants of the new reality are, above all, greater uncertainty of tomorrow, both in the financial sphere and the limitations affecting the functioning in everyday life, a lower sense of security when interacting with the environment, and limited possibilities of achieving one's goals and making decisions. At the same time, because of the limitations resulting from the COVID-19 pandemic, a new type of consumer has emerged, which, adapting to numerous and dynamic changes in the environment, has developed new behaviours and habits. Some behaviours were noticeable earlier, but the new conditions significantly accelerated them - such as shopping online or using remote forms of entertainment. Consumers are moving to the online world, using digital technologies in an increasingly advanced way, while reducing the number of physical purchases in brick-and-mortar stores.

The Swedish chain H&M is less associated with online activities and more with classic stores in shopping malls. This, however, is about to change. The company permanently closed as many as 250 of its stores in 2021 and plans to close more and focus more on e-commerce.

The new type of consumer, created during pandemic, is characterized by greater price sensitivity, limiting purchases to basic ones and the desire to feel comfortable and safe while making them. The emergence of a new type of consumer and the change in purchasing habits will be a challenge for the company, due to the need to immediately adapt to the needs of customers, which in the new reality may change overnight.

The pandemic crisis has largely affected the formal wear sector. The lack of mass events means that there is no need to buy new costumes for "going out", which in turn is associated with a smaller number of orders for designers from this sector. Customers with more affluent wallets still buy clothing, but mainly sports, casual and streetwear. H&M launched a special "Work at Home" section where you could find many sweatshirts, pants, and dresses at bargain prices. The "Conscious Exclusive" collection has also started. The fall lockdown of 2020 caused a significant drop in sales of fall and winter collections.

The H&M group's year-on-year sales development in local currencies during the pandemic



Source: Yahoo, H&M Diagram

We can notice on the diagram that sales dramatically dropped during the lockdown in 2020. At the time H&M informed that profits decreased 88.2% to £179m in the year up until 30 November 2020, and gross profit decreased 23.6% to £8.15bn (Yahoo, 2021). Sales started to recover after shops reopened.

Despite the rapid technological development, the more traditional contact with other people still comes first. This is especially important when it comes to building a positive customer experience during this unique period. According to the global Mood Media survey on consumer sentiment around the world, 71% of consumers say that they begin to feel comfortable returning to brick-and-mortar stores after the government eases the restrictions. Indeed, 67% of buyers in the world say they have returned to the so-called pleasure shops. In the US, this figure drops to 60%, and in the UK to just 50%. Chinese consumers, who have the longest-lasting experience of the pandemic and the slow recovery, seem to be most comfortable in this matter - 81% declare their pleasure shopping in brick-and-mortar stores (Mood Media).

The Ansoff Matrix

This strategy can serve to analyse the major strategic management of H&M. The four elements of suggested development strategies included in the Matrix are market penetration, market development, product development and diversification.

Market penetration

The purpose of market penetration is to maintain or increase the market share of the popular products. H&M's measure to penetrate the market is to offer fashionable clothing at a lower price than its competitors. H&M works with famous designers and conducts long-term advertising campaigns, which has increased its popularity around the world thanks to the globalization of fashion trends.

Market development

At this stage, company is promoting their products in new markets. H&M is using strategy, which is broken into two stages, first is to expand into new geographic markets. It is done in two steps. First, is to enter new markets where there are no stores of their brand yet. Second, is to create new outlets in an already serving markets to increase consumer access. Entering a new market, the company spends a lot of money on marketing to build awareness among consumers. Regardless that the retailer mostly focuses on their physical stores, is also selling online in many countries. H&M also develops various pricing policies targeting specific market segments. These can be low-budget products or premium products aimed at a specific social class. Each initiative plays an important part in organisation success.

Product Development

H&M develops this strategy through for example cooperating with well-known designers. Company does not spare for its development and research, retailer presented environmentally friendly materials such as organic cotton to spring collection in 2008. When it turned out as a success, they started to use such materials on a permanent basis. Their own designers are working on improvements in existing products, they create new prints, designs trying to adapt to customers wants and needs. H&M cares for its customers and their feedback is crucial for them.

Diversification

This is the most risky step for H&M. It dictates developing a completely new product designs and entering new markets. In the past, retailer launched household items sell in H&M Home line. The company could also diversify by entering different related industries, for example sportswear, hosiery etc. This would be a safe strategy. The most risky step would be to diversify into unrelated industries such as sports equipment, consumer electronics, smartphones, and so on. However, any diversification strategy can help your business grow. (H&M)

PESTLE

Political

A lot of people know that H&M is one of the major clothing brands operating in many countries. This is huge asset for the company, but it can also be a reason of political tension worldwide. In countries like Egypt, Turkey, Lebanon etc. where H&M operates, political climates are quite unstable and unpredictable. The main political factors that can affect H&M are import and export restrictions, especially in these countries.

Because of regulatory reasons, H&M must collaborate with franchising partners to operate their brands in United Arab Emirates, Kuwait, Qatar, Saudi Arabia, Egypt, Oman, Bahrain, Lebanon, Israel, Morocco, Indonesia, Jordan, and Thailand, despite franchising not being a part of the firm's general expansion strategy (H&M, 2017). Each country has its rules and requirements that multinational companies must adhere to, such as trade laws and consumer protection policies.

Brexit also triggered a difficult political scenario. The overall impact is that garment become more expensive and therefore customers can find a cheaper option for the garment.

Economic

Despite Brexit, H&M's sales increased by 7%. During Covid pandemic, around 80% H&M's stores remained closed because of lockdown in many countries. Despite that, company stood up and acted wisely, they focused on online selling during these tough times. Import regulations, tariffs, inflation, and currency fluctuations in different countries also lead to brand uncertainty. H&M must price very carefully in each country it does business in order to gain a competitive advantage.

Socio-Cultural

In a way, H&M been affected by pandemic so they can understand how important people around are and the environment. H&M foundation donated \$500,000 to WHO (World Health Organisation): "in order to counter the devastation caused by Covid-19. This foundation also helped people particularly women in Bangladesh who were one of the most affected groups by the pandemic because they work for the ready-made garment sector" (H&M, 2020).

Technological

H&M's mobile app has a rewards system where customers collect points for every purchase. The points can be used to purchase gifts or many other products.

In some countries, retailer offers instant express deliveries that guarantee order delivery within 24 hours. Their stores in Italy and Sweden use climate-friendly ways to deliver parcels to customers. In the Netherlands, some stores offer buying or returning products by people cycling.

The Swedish clothing chain H&M has opened its first virtual store in the metaverse. The clothes you buy there can only be worn in the digital world. Located in CEEK City, the H&M virtual store allows customers to wander around the store and buy clothes - just like in the normal world. However, these clothes can only be purchased with CEEK currency and can only be tried on in the digital world. Additionally, these clothes can also be purchased at a stationary store (Tweeter, Ceek).

Legal

The H&M brand was fined in Germany in the amount of over EUR 35 million for the surveillance of employees at the Nuremberg facility. After absences from work, such as holidays or sick leave, bosses carried out the so-called welcome calls. They asked not only about their holiday impressions, but also about very private issues: symptoms of a given disease, medical diagnosis, relationships, personal problems, religious beliefs, medications taken, romance at work and outside. Superiors noted who was going on vacation with whom, they even included information on the menstrual cycles of female employees in their documents (BBC, 2020) This is the highest penalty for a personal data breach imposed in Germany since GDPR came into force in 2018. It is also the second highest penalty of its kind in Europe.

In 2020, The Swedish Ombudsman launched an investigation after media reports that customers were discriminated against in H&M stores. In November of that year, the Swedish daily Aftonbladet published a hidden camera recording, which showed that a foreign customer was refused to exchange the purchased items without a receipt, while the Swede journalist was allowed to make the exchange. H&M in Sweden allows product exchanges without a receipt.

Environmental

H&M believes it is very important to communicate more and more to customers about whatever environmental activities they are taking. Sustainability is a natural part of all activities and all play an important role in communicating sustainable messages to customers. The idea from 2021 is the immediate resignation from the services of all suppliers who use coal in their factories. This is part of the strategy that by 2030, 100% of the energy used in the production process of H&M clothes is to come from renewable sources (H&M).

H&M is confronted with many problems such as global political instability that can raise concerns about the company's future profits. The pandemic has also taken its toll. Despite this, it is safe to say that thanks to the company's strategy, its customer experience, will be able to enjoy success for many years. With a few changes, it can become even more valued among customers all over the world.

Customer Experience during pandemic

The economic crisis caused by the pandemic has changed some consumer behaviour so far. That is why today customers shop more consciously, many of them have increased their sensitivity to prices, and they are critical of companies trying to unethically enrich themselves in a pandemic.

Personalization is one of the most important trends in Customer Experience. As it turns out, in the new reality it additionally gained importance. According to KPMG analyses, it is currently the strongest pillar of building customer loyalty in 19 markets out of 27 analysed. At the same time, in the current situation, almost all surveyed consumers (98%) are worried about their personal data and what may happen with them. However, they themselves want the communication addressed to them to be personalized, which is confirmed by the second of the above-mentioned reports.

> When doing business with a company during the COVID-19 pandemic, is it important to you to receive personalized communication (e.g., customized recommendations, etc.) over email, chat, etc.?

Answers	Percent
Yes	52.55%
No	38.50%
I don't know	8.95%

(Sitel Group, 2020)

It shows that for more than half of consumers (52.55%), when shopping at this time, it is important to receive personalized messages. On the one hand, companies should therefore ensure greater security of the information they receive, but on the other hand, focus on even better personalization.

Internal and external factors

In development processes, an enterprise may use various factors, which constitute the reasons or a condition for the organization to enter a higher level of functioning. When analysing the variety of enterprise development stimulators, attention is drawn to the presence of two basic groups of these elements: internal factors resulting from the resource conditions of enterprises and external elements related to the environment of entrepreneurs' operation.

Determinants of enterprise development can be divided into two basic groups - factors influencing enterprises from the external environment and internal determinants usually created by the enterprise itself. The external factors include:

- globalization of the economy,
- economic situation,
- the situation on the foreign and domestic market,
- innovations,
- state fiscal policy and legal regulations,
- the level of economic growth,
- free movement of goods and services

The above-mentioned external factors, such as globalization, strongly influence the company's development. Free access to foreign markets forces to introduce changes, most often innovations, the implementation of which carries high costs. The economic strength of the enterprise is its financial management. Having high level of equity and foreign capital provides the company with the opportunity to develop.

The company's development potential also depends on internal factors such as:

- a) processes taking place in the enterprise,
- b) possessed material resources,
- c) management efficiency,
- d) business partnerships:
 - goal and strategy,
 - human capital,
 - quality,
 - competitiveness of products and services

All the above-mentioned internal and external factors can be reduced to the company's market competitiveness. Development, innovations, owned capital, material and intangible resources, management, the level of prices of products and services and others can be defined as a competitive advantage. Competition is a constant feature of the market economy. Market analysis allows to determine the factors influencing the company's competitiveness. The attractiveness of the company is influenced by the competitiveness of the sectors in which it operates and the competitiveness of the economy as a set of sectors. It is worth assuming that a product competitive on market A may not be competitive on market B. Therefore, it is important to determine the competitiveness of a product in terms of availability on a given market or seasonality. The competitiveness of enterprises is influenced by the assessment of the recipients of the product or service, consisting in the selection of the most valuable and financially advantageous offer.

Internal development factors	External development factors
- the ability to manage the company's resources, - knowledge, experience, and entrepreneurship of management, - employees' competences and skills, - the nature of the market and its knowledge, - ability to implement technical progress, - the amount of capital, - production capacity, - the quality of the products and / or services offered, - cooperative links, - ability to act flexibly, - the level of profitability of sales.	- legal conditions for starting and running a business, - country's economic growth rate, - shaping the forces of demand and supply on the market, - market competition, - access to external financing, - customs policy, - regulations of the financial and tax system, - the scope of financial and non-financial support for the state, - entrepreneurship culture - pandemic.

Barriers that effectively inhibit development:

- lack of funds,
- barriers related to demand in the local or regional market,
- high taxes,
- organizational and legal conditions,
- difficult access to innovation and technology,
- limited flow of economic information,
- competition from shadow economy enterprises or business units benefiting from tax exemptions,
- complicated and inflexible labour law, tax, and administrative procedures,
- lack of qualified staff on the labour market
- pandemic

Many of the above-mentioned barriers may make it difficult for an enterprise to operate in a specific area of the economy.

Customer Satisfaction

Currently, companies that stand out from the crowd with customer care are looking for an answer to the question of what causes the consumer to choose and recommend a given brand and its products. Customers evaluate brands through the prism of the entire spectrum of experiences, starting from the moment when the consumer gets to know the brand and its products, through the purchase and service, until the end of the relationship with a given company. Therefore, the most important thing in winning the battle for the customer is the ability to effectively manage the customer experience. This requires understanding the factors shaping the client's motivation and decision-making, as well as skilful implementation of solutions that effectively improve his experience.

- ❖ The collection and processing of customer data is the only effective solution for understanding a single customer and effective personalization of the offer and the relevant experiences offered to him.
- ❖ The significant increase in the importance of personalization is since customers are becoming more and more mature consumers and use digital solutions more and more, and the digital world teaches them that products and interactions with brands can not only be simpler, faster, and more convenient, but also better suited to their individual needs. Those who have experienced the advanced personalization offered by digital service providers also expect brands operating in other industries to offer them similar amenities as well.
- ❖ Brand credibility and personalization are perhaps the most likely to influence consumers' willingness to endorse the brand or to stay with it. Consumers require the brand to be trustworthy and also work for their benefit, as well as the brand's products, services and customer service to be more personalized to suit their individual needs and expectations.

In an increasingly competitive and global market, where the consumer has more and more options to choose a product or service provider, effective customer experience management plays a key role in the fight for him. A priority for enterprises is to find an answer to the question of what to do so that the customer not only chooses a given brand, but also is willing to stay with it for longer and recommend its products or services to other people. An additional challenge is the increasing digitization of the relationship of each brand with customers: in the digital world, the exchange of information has practically no limitations and occurs faster and faster, and communication between consumers within virtual communities allows for continuous evaluation and comparison of the products or services provided, as well as the manner of service customers.

For a better understanding of customers' approach to assessing brands that provide them with products / services, KPMG has proposed a special method based on the Six PillarsTM Customer Experience. The pillars help to better understand what aspects are particularly important for the customer throughout the cycle of the consumer's relationship with the brand and its products.

Description of the key assumptions of each of the Six Pillars of Customer Experience

1. “Credibility and integrity”

Credibility results from the consistent implementation of the promises made to the consumer by brands, in this case, H&M. It is important that the company's activities in relation to customers are consistent with the declared mission and values, and that the interests of customers and the brand are put on an equal footing, so that consumers can fully trust their supplier.

2. “Expectations”

Clients have specific expectations as to how their needs will be satisfied. A brand should build a positive experience by understanding potential consumer expectations (which are also often shaped by their experiences with other brands), effectively managing these expectations, and going beyond the standard customer expectations.

3. “Personalisation”

Customers increasingly demand products and services best suited to their individual needs, also expecting personalized service. Personalization is the brand's ability to understand the individual needs of the client and provide him with a product or service that meets specific expectations.

4. “Resolution”

When unexpected events arise in a customer relationship, restoring customer satisfaction and providing assistance is required by all consumers. An important element of this pillar is not only the effectiveness of actions taken by the company, but also their speed and the ability to admit a mistake.

5. “Time and effort”

Customers expect to be able to purchase a given product or use a service in the most convenient way possible. The goal of brands is to remove unnecessary obstacles, impediments, and unnecessary bureaucracy, which will enable the consumer to use the offer of a given brand in the most efficient and simple manner.

6. “Empathy”

Empathy is the ability to understand others. In the case of the customer-brand relationship, it is more and more important to build a relationship based on positive emotions between the consumer and the brand, which gives the consumer a feeling that the company understands and responds to his specific situation.

One of the key challenges in managing customer experiences is understanding what influences the way customers perceive a given brand, its products, and the experiences of customer-company interactions. Understanding the essence of the individual Six PillarsTM Customer Experience is the basis for using this method in the effective management of positive customer experiences.

A company cannot build positive customer experiences without genuine employee commitment. The so-called employee experience should be developed in the workplace in the same way as positive customer experiences are taken care of. This will motivate teams to get involved in designing and implementing a customer experience management program. They can also involve all employees (not only those dealing directly with the customer) in the creative design of customer experiences.

Conclusion

So, what should H&M do? First of all, focus on people, because it turns out that contact with other people in these times is particularly important for consumers. Brands should also focus on ensuring the security of customer data as well as even greater personalization. Above all, however, they must be ready to face adverse events such as the Covid pandemic. The company should already be working on implementing comprehensive solutions that will transfer the real customer experience into the virtual world. Everything with attention to the best Customer Experience.

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