



UWTSD MBA
HKBM7013 Strategic Management

The Report of H&M Company for Strategic Management

Student Name : Wu Nga Shan

Student ID Number : 2322645

Date of Submission : 04 Nov 2024

Lecturer : Dr. Terence Li

Table of Contents

Executive Summary	3
Report on H&M's Strategic Evolution	4
1. Introduction.....	4
2. Strategic Direction: Vision, Mission, and Values (VMV).....	6
2.1 The Role of Vision, Mission, and Values in Strategic Direction.....	6
2.2 H&M's Vision and Mission.....	6
2.3 H&M's Core Values and Alignment with Strategic Direction	7
2.4 Analysis of H&M's Strategic Direction Through VMV.....	8
2.5 Critical Evaluation of VMV and Strategic Direction.....	9
3. Porter's Five Forces Analysis: Casual Wear Industry in Hong Kong.....	11
3.1 Industry Overview	11
3.2 Five Forces Analysis.....	11
4. Value Chain Analysis of H&M.....	15
4.1 Primary Activities	15
4.2 Support Activities	18
5. H&M's Corporate and Business Strategies Analysis.....	22
5.1 Corporate Strategy Overview.....	22
5.3 Evaluation of Corporate and Business Strategies Using the Balanced Scorecard	23
6. Recommendations for H&M.....	28
6.1 Recommendations.....	28
6.2 Implementation	30
7. Conclusion	32
8. References.....	33

Executive Summary

H&M operates within a dynamic fashion retail environment that focuses on sustainability, digital transformation, and global market expansion. The company uses a high-volume, low-margin business model that is supported by an extensive supplier network. This enables cost-effective flexibility while addressing supply chain challenges through advanced technologies. H&M's corporate strategy involves the integration of sustainability initiatives like Conscious Collection. The company has also stood its ground on digital enhancements that improve customer engagement and operational efficiency. The use of a Balanced Scoreboard Framework enables H&M to evaluate its strategies across financial, customer, and internal business processes. Some of the key financial targets for the company include increasing return on equity and online revenue growth. H&M prioritizes customer satisfaction and retention through sustainability practices and loyalty programs. Additionally, there are internal processes that focus on optimizing supply chain efficiency and enhancing sustainability compliance among suppliers. To enhance growth, the company has implemented learning initiatives to boost employee digital literacy and promote innovation. H&M can strengthen its market position by accelerating digital transformation and investing in sustainable practices. Other strategies include expansion into second-hand fashion product lines and enhancing localization efforts. Implementing these strategies with clear KPIs and regular assessments will ensure H&M remains competitive with evolving consumer preferences.

Report on H&M's Strategic Evolution

1. Introduction

In 2024, the fast fashion industry faces a pivotal transformation as consumer expectations, regulatory demands, and technological advancements reshape market dynamics (McKinsey & Company, 2023). H&M, a leader in global fast fashion since 1947, is known for making runway-inspired clothing accessible through its expansive network of around 4,000 stores across more than 70 markets and in 60 online markets (H&M Group, n.d.2). However, intense competition from brands like Zara, Uniqlo, and Shein, coupled with rising sustainability demands, has intensified strategic challenges for H&M.

Balancing affordability with sustainability has become critical as consumers increasingly seek ethical and eco-conscious options. Over the last decade, H&M has embarked on a transformative journey, incorporating sustainable practices, digital transformation, and innovative strategies to stay competitive and relevant. Fashion production trends in the fast fashion industry are changing because the consumers become more informed regarding the ethical, environmental and social implications of such practices (Baena, 2024). Consequently, H&M pursues digitalization through the provision of “click-and-collect” schemes, online tailored shopping and changes the format of its stores to suit the regional market to meet this consumer preferences (H&M Group, 2019).

In this report, the H&M's strategic direction is critically assessed. This begins with defining the company Vision, Mission and Values (VMV) and continues with Porter's Five Forces analysis of the casual wear industry in Hong Kong with regard to H&M's position in the market. After that, it addresses H&M's value chain, then evaluate the corporate and business strategies through the Balanced Scorecard framework to measure financial, customer, internal, and growth perspectives.

In the end, concrete suggestions are made to make H&M's strategies responsive to the realities of the market and ensure the growth of the company.

2. Strategic Direction: Vision, Mission, and Values (VMV)

2.1 The Role of Vision, Mission, and Values in Strategic Direction

James Tallant in his article written in 2009 revisits the importance of Vision, Mission and Values, (VMV) as an essential point is guiding the strategy of an organization. These elements are important contributions towards the identity of the organization, its differentiation from its competitors as well as the articulation of its purpose to its stakeholders (Tallant, 2009). Having the company's VMV well-defined, enables it to navigate various complex challenges posed in the market (Tallant, 2009). Especially in the context of the fast-changing trends in the fashion business, this alignment of H&M's VMV makes it possible for the company to be able to cope with the continuous shifts in trends while keeping the essence of the brand intact.

2.2 H&M's Vision and Mission

H&M's vision is "to lead the change towards circular and climate-positive fashion while being a fair and equal company" (MSA, 2020). This vision aligns with the company's long-term strategy of making a positive environmental impact, placing sustainability and equality at the forefront of its operations. It reflects H&M's commitment to reshaping its practices in response to increasing global awareness of environmental and social issues, a crucial pivot for a fast fashion brand with a mass-consumption legacy.

The mission of H&M centers on providing "to make fashion accessible and enjoyable for all."

This mission captures the brand's promise of offering trendy, affordable, and high-quality clothing while highlighting an expanding commitment to sustainability (MSA, 2020). Compared to competitors such as Zara, which focuses on rapid design turnover, or Uniqlo's emphasis on

core products in a limited range of fabrics, H&M differentiates itself by targeting eco-conscious and budget-conscious consumers, thus positioning itself as a responsible yet accessible fashion leader (Lay, 2024; Roll, 2020, 2021).

2.3 H&M's Core Values and Alignment with Strategic Direction

H&M's core values such as teamwork, constant improvement, transparency, and cost-consciousness serve as guiding principles that inform the company's strategy. These values encourage an adaptable and customer-focused culture within the organization, fostering innovation in a challenging retail environment (MSA, 2020). By prioritizing transparency, H&M addresses growing demands for ethical business practices and supply chain accountability, both of which are increasingly important to consumers. Cost-consciousness, meanwhile, enables H&M to maintain competitive pricing, an essential component of the brand's mass-market appeal (Khurram et al., 2018).

The integration of these values within H&M's VMV framework do illustrate on how the company is aligning its strategic direction with consumer expectations (MSA, 2020). For instance, H&M's sustainability goals such as increasing the use of recycled materials and promoting circular fashion are being supported by its commitment to transparency and continuous improvement. This alignment do reflect the company's proactive approach to rebranding itself as an ethical and eco-friendly alternative in the fast fashion industry.

2.4 Analysis of H&M's Strategic Direction Through VMV

Alignment with Strategic Goals

Sustainability

The application of the slogans “lead the change to more sustainable fashion future” and “one step closer on sustainability” are illustrated with actions such as using recycled materials or collecting worn out garments from consumers, and these objectives complement each other well. H&M wants to mainstream sustainable fashion whereby affordability and quality products are at the core of its business. The company has made such commitments as using 100% sustainable or recycled materials by 2030, an ambitious goal that drives their business (H&M Group, 2024a). Sustainable circular fashion design approach combines waste and ecological sustainability concepts and promotes increased consumer confidence. But, deploying this sustainably on global level is still an enormous task and needs a lot of investments on availability of resources and restructuring of the supply chain network (Bick et al., 2018).

Digital Transformation

H&M's mission to make fashion affordable and accessible sustainably is enhanced by its omnichannel approach, which includes online and in-store experiences. The integration of online and offline shopping experiences supports H&M's mission to provide accessible, high-quality fashion. The launch of click-and-collect services, mobile checkouts, and customization stations in flagship stores exemplifies H&M's efforts to blend the convenience of digital with the tactile experience of physical shopping (H&M Group, 2019). These innovations underscore H&M's

dedication to convenience and accessibility, which are central to its mission. Yet, while digital integration is essential for competitiveness, H&M must continually invest in tech upgrades to keep pace with rivals like Zara, who have also embraced digital-first strategies (Hardcastle, 2024).

Localization and Ethical Practices

H&M's commitment to being a "fair and equal" company aligns with its values of transparency and constant improvement. Reflecting its value of inclusivity, H&M's localization strategy adapts to regional consumer preferences by tailoring store formats and offerings. For instance, in markets like Hong Kong, H&M has responded to shifting demand by closing less profitable stores and experimenting with smaller, concept stores. Initiatives like transparent supply chains and local store adjustments reflect a strategic intent to build trust among consumers by addressing regional needs and ethical expectations. These stores aim to offer more localized products and a curated shopping experience that resonates with cultural nuances, a strategic pivot that ensures market relevance. The success of this strategy highlights H&M's adaptability, though it also requires careful market research and agility to stay aligned with local consumer trends (KPMG, 2021).

2.5 Critical Evaluation of VMV and Strategic Direction

H&M's values emphasize sustainability and ethical production, responding effectively to a growing demand for responsible practices in fast fashion. This approach also differentiates H&M as a brand committed to addressing environmental concerns, all while maintaining affordability which reflects a balance that appeals to both eco-conscious and budget-minded consumers.

However, significant challenges remain in achieving H&M's sustainable vision on a large scale. Balancing low costs with environmentally friendly practices is complex, requiring investment in

green technologies and supply chain improvements. Additionally, the fast fashion model itself, which emphasizes rapid production and high volume, can contradict H&M's sustainability goals. A shift towards slower, more durable fashion production might be necessary to genuinely align with H&M's ambitions for environmental leadership.

3. Porter's Five Forces Analysis: Casual Wear Industry in Hong Kong

3.1 Industry Overview

Hong Kong's fashion market is an intersection of global and local influences, making it a highly competitive and dynamic space. With a population that values international brands, the market is home to a range of global players, including H&M, Uniqlo, and Zara, alongside a strong base of local retailers. As Hong Kong consumers grow increasingly eco-conscious, demand is shifting toward brands that emphasize sustainability and ethical production. However, fast fashion remains highly popular due to its affordability, accessibility, and rapid response to evolving trends, making Hong Kong a focal point for both established brands and emerging players.

3.2 Five Forces Analysis

Competitive Rivalry

In Hong Kong's casual wear market, competitive rivalry is intense, largely due to the presence of international fast fashion brands like H&M, Zara, Forever 21 and Uniqlo, alongside local and niche retailers. These brands target similar consumer demographics, primarily young individuals seeking trendy, affordable clothing, which leads to fierce competition. For instance, Zara is renowned for its agile supply chain and trend-driven designs, whereas Uniqlo prioritizes quality and innovation. Forever 21 appeals to a younger audience with affordable, trendy clothing, creating direct competition for H&M's customer base. The market saturation forces brands to engage in aggressive pricing strategies and frequent promotions, compelling companies to differentiate

through brand image, sustainability efforts, and enhanced shopping experiences. The fast fashion model, which emphasizes rapid product turnover, adds pressure as brands race to introduce new collections and stay relevant. Consequently, competitive rivalry in Hong Kong is high, with brands like H&M competing on price, variety, and sustainability to maintain their distinctiveness. In such a competitive landscape, H&M needs to keep innovating, make its products stand out, and offer a clear, attractive value to draw in customers and keep them coming back (Andreadakis et al., 2023).

Threat of New Entrants

Although the casual wear market is attractive, there are considerable barriers to entry. New entrants face significant initial capital requirements to establish brand recognition, build supply chains, and secure real estate. Global brands like H&M benefit from established economies of scale and a loyal customer base, which newcomers struggle to replicate. While physical retail stores require significant capital and supply chain investments, e-commerce platforms have lowered these barriers, allowing smaller brands to enter the market without substantial brick-and-mortar expenses (Xuejie et al., 2019). This shift enables digital-native brands to cater directly to consumers at reduced costs, creating more competition for H&M, particularly online. Although established global brands like H&M benefit from economies of scale and brand loyalty, new entrants targeting niches such as eco-friendly or locally inspired designs get to pose competition, particularly among younger, eco-conscious consumers.

Bargaining Power of Suppliers

The bargaining power of suppliers is low for H&M, given its extensive global supplier network and economies of scale. Sourcing from various low-cost regions, including Bangladesh, Vietnam, and China, H&M reduces its reliance on any single supplier, which strengthens its negotiating position for favorable terms. The company's large-scale operations enable it to place significant orders, achieving lower prices and prioritizing quality supplies which is an advantage smaller brands may lack. Additionally, H&M's long-term partnerships with suppliers who align with its sustainability goals add stability but may also increase costs as it adheres to ethical sourcing standards. Nevertheless, H&M's scale and diversified supplier network minimize supplier influence and enhance cost-efficiency. For H&M, the power of suppliers is limited due to the brand's ability to switch suppliers and negotiate favorable terms, keeping supplier influence relatively low.

Bargaining Power of Buyers

Buyers in the casual wear market hold considerable bargaining power due to their high sensitivity to price and brand loyalty, which influences purchasing decisions. This is due to consumers' substantial choice and elevated expectations. With a wide array of international and local brands available, consumers can easily switch brands if their needs for quality, affordability, or sustainability aren't met. The rise of sustainability and ethical production expectations further intensifies this power, as consumers demand greater transparency and eco-friendly options from brands. Additionally, price sensitivity remains strong among fast fashion shoppers, making it challenging for brands like H&M to balance low pricing with sustainable practices without

affecting profit margins. Therefore, high buyer bargaining power compels brands to continually innovate and maintain competitive prices to meet consumer demands. Given the high level of competition and consumer expectations, buyers exert significant power over brands like H&M, especially as they demand ethical and sustainable products, which has been shown not to be a problem for H&M.

Threat of Substitutes

The threat of substitutes in Hong Kong's casual wear market is moderate, driven by rising interest in sustainable alternatives like second-hand fashion, local boutique brands, and lifestyle wear such as athleisure. Platforms like Carousell provide eco-conscious consumers access to second-hand clothing, which appeals to those seeking unique styles and affordability in Hong Kong (Choi, 2022). Local brands and DIY options cater to consumers desiring individuality and customization, challenging the homogeneity of mass-market casual wear. The athleisure trend that is favoring sports-inspired casual wear continues to grow in Hong Kong and China, with brands like Nike and Lululemon appealing to consumers prioritizing comfort and functionality (Daxue_Writing, 2024). While the accessibility and speed of fast fashion remain appealing to many, the growing popularity of sustainable and personalized options serves as a reminder for H&M to differentiate through sustainable practices and customer-centric innovation. H&M faces a moderately high threat from substitutes, especially as second-hand, sustainable, and online options become increasingly attractive to the brand's consumer base.

4. Value Chain Analysis of H&M

4.1 Primary Activities

Inbound Logistics

H&M relies on an extensive network of suppliers, mostly located in Asia, to source materials for its products. According to H&M, they do business with over 574 commercial product suppliers who manufacture products for their brands in over 1,027 tier 1 factories in Europe, Asia and North America (H&M Group, 2024). H&M products travel through numerous suppliers, from raw materials to the final product, before reaching stores. These suppliers are organized into various tiers, forming a structured supply chain where each tier collaborates directly with the one adjacent to it (H&M Group, 2024). By maintaining a diverse supplier base, the company minimizes risks of disruption while achieving cost advantages. H&M's large-scale operations grant it leverage over suppliers, enabling it to negotiate favorable terms. The company's ongoing focus on sustainability has also led to partnerships with suppliers who align with its environmental goals, enhancing brand perception and reducing long-term supply risks. Although H&M has a robust supplier base, it remains susceptible to geopolitical and environmental risks that can disrupt its supply chain. Additionally, balancing cost savings with sustainable material sourcing increases operational complexity and may affect profit margins.

Operations

H&M's production strategy emphasizes a mix of nearshore and offshore manufacturing, allowing it to balance speed with cost efficiency. Its ability to adapt designs quickly and execute trend-

responsive production cycles gives it an edge in offering fashionable products at scale. Unlike competitors like Zara, which handles more in-house manufacturing, H&M outsources nearly all production, allowing it to focus on design, quality control, and distribution (Bafna, 2023). H&M's manufacturing factories are either owned by or contracted through our suppliers to produce our products. Known as "cut and sew" factories or tier one suppliers, a single supplier may operate or contract multiple factories (H&M Group, 2024). Outsourcing reduces operational overhead and allows H&M to remain flexible in adjusting production volumes based on demand fluctuations. This approach also supports rapid market entry in different regions by minimizing the need for production facilities in every country. However, relying on third-party manufacturers can result in quality control challenges and may increase production lead times. H&M's focus on speed often requires a balance between rapid product availability and maintaining high standards of quality and ethical manufacturing.

Outbound Logistics

H&M has implemented an integrated distribution strategy combining physical and online channels, providing flexibility in order fulfillment. The company's advanced distribution network, with regional centers and cross-docking facilities, ensures swift global product delivery. H&M uses logistics technologies and optimization to reduce lead times, bringing trends to market quickly (DFreight, 2023). The click-and-collect service, which allows online orders to be picked up in-store, enhances convenience for customers and reduces logistical costs (H&M Group, 2019). In addition, partnerships with logistics firms help H&M expand its distribution network efficiently. This multichannel approach allows H&M to reach a broad customer base, with online sales helping

to mitigate risks associated with declining foot traffic in physical stores. Additionally, advanced logistics and a strong distribution network enable efficient inventory management and quicker restocking. However, managing inventory across multiple channels can be costly, particularly when offering free returns or next-day delivery, which can eat into profits. Also, H&M must continually refine its logistics to support rapid market demands without incurring excess costs.

Marketing and Sales

The company invests heavily in digital marketing, leveraging social media and online influencers to engage younger consumers effectively (Xie & Yang, 2023). Its sustainability messaging highlighting programs like garment recycling and eco-friendly materials hence strengthens its reputation among environmentally conscious shoppers. H&M employs a low-cost pricing model to grow its market share, sourcing from low-cost regions and avoiding factory ownership to minimize expenses. The brand's small-lot supply strategy ensures frequent new arrivals, enhancing stock turnover and creating urgency among consumers (Xie & Yang, 2023). Also, advertising spans traditional media, online platforms, and social media channels such as Instagram and WeChat, delivering real-time updates. Additionally, celebrity endorsements and collaborations, like campaigns featuring Elizabeth Olsen, boost brand visibility (Xie & Yang, 2023). While H&M's sustainability campaigns have had a positive impact, the brand has faced criticism for perceived "greenwashing" due to the fundamental nature of fast fashion (Stern, 2022). Skepticism about the brand's sustainability efforts could hinder consumer trust if not adequately addressed through transparent communication and tangible results.

Services

H&M enhances customer experience with flexible services like easy returns, personalized style recommendations, and seamless checkout options, both online and in-store. Features like HMxME and Styleboard inspire customers by integrating social shopping and custom styling tools, while smart mirrors and RFID tracking make finding and styling items easier (H&M Group, 2022). The loyalty program rewards sustainable choices, and delivery options like Click & Collect and climate-smart lockers offer speed and eco-conscious convenience, ensuring a streamlined and engaging shopping journey. By offering flexible return policies and personalized style recommendations, H&M enhances customer satisfaction, fostering loyalty and repeat purchases. However, maintaining high levels of customer service across numerous regions can be challenging, especially as H&M expands its online presence. Additionally, the costs of free returns can add up, requiring careful balancing with profitability goals.

4.2 Support Activities

Firm Infrastructure

H&M Group's management structure is a multi-brand matrix, comprising both the primary H&M brand, including H&M HOME, and its Portfolio Brands such as COS, Monki, & Other Stories, ARKET, and Singular Society. Each brand operates independently with its own managing director, while the CEO of H&M Group oversees the H&M brand and appoints a diverse executive management team responsible for central functions like communications, sustainability, and HR (H&M Group, n.d.). H&M's corporate infrastructure emphasizes agility, allowing it to make rapid

decisions in response to fashion trends and operational needs. With a dedicated focus on sustainability and ethical practices, H&M has created a robust framework for meeting consumer expectations. The company's internal structure also promotes efficient cross-functional collaboration, essential for coordinating global operations. However, decentralization can result in inconsistencies across regions, particularly in maintaining a unified brand image (Said, 2024). As H&M expands, this could create communication challenges that impact brand coherence.

Human Resources

H&M prioritizes a positive workplace culture, with values of inclusivity, teamwork, and transparency. The company's efforts to promote fair labor practices, both internally and within its supply chain, support its commitment to social responsibility (H&M Group, n.d.3). Furthermore, H&M offers skill development and training programs to improve employee performance, supporting the company's long-term growth (H&M Group, n.d.3). Strong HR practices support employee satisfaction and engagement, reducing turnover and enhancing the in-store experience. H&M's commitment to fair labor practices aligns with its sustainability goals, improving brand reputation among socially conscious consumers. However, training and development programs can be costly, particularly as H&M scales operations. Furthermore, ensuring consistent adherence to ethical labor practices across the supply chain is difficult (Wren, 2022). H&M must navigate complex labor issues in supplier countries to avoid potential damage to its reputation.

Technology Development

H&M has made significant investments in digital innovations, including mobile apps, AI-driven inventory management, and customer analytics, to boost operational efficiency and adapt to consumer demands. By leveraging big data, H&M customizes merchandise for individual stores, reducing excess inventory and improving localization. Automated warehouses support next-day delivery across Europe, while RFID technology streamlines inventory management. Additionally, partnerships like the one with Google's Ivyrevel enable the creation of custom clothing based on individual lifestyles, positioning H&M to enhance customer engagement and work toward regaining profitability (Marr, 2018). These investments help the company improve operational efficiency and customer engagement. H&M's mobile app and digital integration improve customer experience, enabling seamless shopping both online and offline. AI and data analytics help H&M predict trends, optimize inventory, and personalize marketing efforts, improving responsiveness to market demands. However, technological innovation requires ongoing investment, and rapid advancements in tech mean that H&M must continually update its systems to remain competitive. Additionally, data privacy and cybersecurity are ongoing concerns that H&M must manage as digital operations expand. This led to the company being fined by German regulators roughly \$41.5 million for gratuitously collecting personal data on its employees in 2020 (Barth, 2020).

Procurement

H&M has established long-term relationships with a diverse group of suppliers, allowing it to negotiate favorable terms and maintain consistent material quality (H&M Group, 2024). H&M's efforts in sustainable procurement are evident through initiatives aimed at sourcing organic cotton,

recycled fabrics, and other eco-friendly materials (H&M Group, n.d.1). As H&M seeks to increase its use of sustainable materials, procurement costs may rise, impacting profitability. Additionally, reliance on international suppliers exposes the brand to risks related to global supply chain disruptions, as seen during the COVID-19 pandemic (Ringstrom, 2021). Ensuring a consistent supply of sustainable materials remains a key challenge, as does securing suppliers who can meet both ethical and operational standards.

5. H&M's Corporate and Business Strategies Analysis

5.1 Corporate Strategy Overview

H&M's corporate strategy focuses on three key pillars: sustainability, digital transformation, and global market expansion. Operating on a high-volume, low-margin model, H&M leverages economies of scale by outsourcing nearly all manufacturing to a vast supplier network, allowing cost-effective flexibility while addressing supply chain issues through advanced forecasting and distribution technologies (Xuejie et al., 2019). Price competitiveness remains central, attracting trend-driven, price-sensitive consumers, while initiatives like the Conscious Collection cater to eco-conscious shoppers, though balancing affordability with sustainability is a constant challenge. Long-standing partnerships with suppliers, particularly in Asia, help meet extensive production needs, with programs to promote eco-friendly practices, though global regulatory differences complicate transparency goals. In competitive markets like Hong Kong, H&M emphasizes cost leadership and trend accessibility, using customer engagement tactics like influencer marketing to stand out against rivals like Zara and Uniqlo (Xie & Yang, 2023). Additionally, H&M integrates technology through AI, data analytics, and RFID for inventory management, enhancing online channels with click-and-collect options and virtual styling tools to improve both operational efficiency and customer experience.

5.2 Business Strategy Overview

H&M's business strategy supports its corporate focus on sustainability, customer engagement, and operational flexibility by enhancing internal processes, stakeholder relationships, and innovation. Operationally, H&M prioritizes rapid trend response and cost control through small-lot production

and AI-driven forecasting, while a strong logistics network and partnerships streamline global distribution (Marr, 2018). Stakeholders including customers, employees, suppliers, investors, and regulatory bodies which are central, with customer preferences shaping the fast-fashion model, employees enhancing brand experience, and ESG-conscious investors increasingly valuing H&M's sustainable practices (H&M Group, 2024). Supplier partnerships also support cost-effective, sustainably sourced materials. Additionally, H&M invests in learning and growth by advancing customer engagement through app-based features, improving supply chain efficiency with automated warehouses and RFID, and training employees in digital skills, all of which strengthen H&M's resilience and competitive edge (H&M Group, n.d.3).

5.3 Evaluation of Corporate and Business Strategies Using the Balanced Scorecard Framework

Applying the Balanced Scorecard (BSC) framework to H&M allows for an in-depth evaluation of how well its strategies align with the goals of market adaptability, sustainability, and customer engagement. Each perspective below includes objectives, measures, targets, and strategic initiatives tailored to H&M's corporate and business strategy.

Financial Perspective

The objective in this case is to enhance profitability while expanding market share through sustainability and digital transformation.

Return on Equity (ROE)

Target: Achieve a 150% increase in ROE by the next fiscal year. This is considering last year's increase from 2022 in ROE was 176.56% (H&M Group, 2024a).

Initiatives: Increase sales and improve cost efficiencies through sustainable sourcing and automation, which includes scaling back surplus inventories and refining forecasting tools.

Sales per Employee

Target: Increase by 10% by 2025.

Initiatives: Strengthen workforce productivity through digital training programs, thereby increasing sales per employee both online and in-store.

Online Revenue Growth

Target: Grow e-commerce revenue by 25% over the next two years. H&M Group is currently aiming for an annual sales growth of 10–15 percent while maintaining strong profitability (H&M Group, 2024a).

Initiatives: Invest in digital marketing, enhance user experience on H&M's app, and expand click-and-collect and delivery options in new markets.

Customer Perspective

The objective is to enhance customer satisfaction and brand loyalty through sustainability, price competitiveness, and convenience.

Customer Satisfaction Index

Target: Achieve a satisfaction score above 85%. ((Statista, n.d.))

Initiatives: Conduct regular customer feedback surveys, expand the Conscious Collection, and reinforce sustainable practices through transparent communication. H&M should further invest in its supply chain to streamline product flow, prioritizing customer satisfaction. Key elements for success here include speed, product availability, cost efficiency, and precision (H&M Group, 2024a).

Customer Retention Rate

Target: Increase retention by 15%.

Initiatives: Strengthen the loyalty program by offering exclusive sustainable product lines and personalized shopping recommendations, and promote recycling programs to build brand loyalty among eco-conscious customers (H&M Group, 2024; Safaya, 2023). According to report, H&M Group annual sustainability report (2023), being transparent and openly communicating about sustainability efforts and the exact processes taken to achieve it can also strengthen customer loyalty.

Internal Business Processes Perspective

The objective is to optimize internal processes to improve efficiency, reduce lead times, and maintain sustainability.

Inventory Turnover Rate

Target: Increase turnover rate by 20%.

Initiatives: Adopt small-lot production strategies to respond quickly to trends, implement AI-driven forecasting, and increase inventory accuracy through RFID.

Sustainability Compliance Rate among Suppliers

Target: Achieve 100% compliance with H&M's sustainability standards. The company currently has science-based targets that include a 56 % reduction in greenhouse gas emissions by 2030 (H&M Group, 2024a).

Initiatives: Partner with suppliers committed to sustainable practices, provide training on sustainable sourcing, and audit suppliers regularly to ensure compliance.

Lead Time for New Product Launches

Target: Reduce lead time by 25%.

Initiatives: Improve supply chain agility with digital tracking tools, such as AI and RFID, and leverage partnerships with logistics firms to shorten delivery times. The group aimed to finish renovations on 250 stores this year and plans to launch a series of pop-ups and events in key markets (Chen, 2024).

Learning and Growth Perspective

The objective is to foster a culture of continuous improvement and innovation to support digital transformation and sustainability.

Employee Digital Literacy Rate

Target: Achieve a 90% digital literacy rate across the workforce in the next two years.

Initiatives: Offer regular training sessions on digital skills, provide online resources for upskilling, and incentivize employees to complete certifications in relevant tech areas.

R&D Investment in Sustainable Practices

Target: Allocate 20% of R&D funds toward sustainable technology.

Initiatives: Invest in eco-friendly materials, develop digital tools to optimize energy use in operations, and explore blockchain for supply chain transparency.

Innovation Index

Target: Increase the Innovation Index by 15% over two years.

Initiatives: Conduct annual innovation workshops, launch an internal digital lab for new ideas, and incentivize cross-functional collaboration to stimulate innovation.

6. Recommendations for H&M

6.1 Recommendations

Accelerate Digital Transformation

H&M should advance its digital transformation by investing in artificial intelligence (AI) for demand forecasting, personalized shopping experiences, and enhanced e-commerce infrastructure. This focus on technology will boost customer convenience and streamline operations across the company. To facilitate this transition, H&M can establish a digital transformation team dedicated to overseeing AI integration and e-commerce advancements, aiming for a phased rollout in key markets within six months. To support these initiatives, H&M should allocate 15% of its annual revenue towards technology upgrades and employee training in digital tools (H&M Group, n.d.3). The impact of these efforts can be measured through KPIs such as online sales growth, digital platform engagement, and improved efficiency in stock management.

Invest Heavily in Sustainable Practices

The management of H&M can also seek to allow greater transparency in the supply chain and incorporating the principles of circular fashion. This could involve the use of recycled or responsibly sourced materials promotes low carbon emissions and eco-friendly packaging (Rose, 2024). Within three months, H&M should introduce a 'Sustainability Roadmap' that details action plans and timelines for goals regarding sourcing, packaging and emissions. More than 5% of the production costs should be spent on eco-friendly materials in the next years. Indicators necessary for measuring performance should include product proportion made from sustainable materials, carbon emissions levels and customer response on how successful H&M's initiatives were.

Expand into Second-Hand Fashion

To capture the rising demand for pre-owned fashion, H&M should also consider to expand more into the second-hand and rental fashion markets, more than its already exploring. By establishing a resale platform and collaborating with existing second-hand marketplaces, H&M can be able to achieve this. This initiative could begin with pilot second-hand sections in major cities within six months, integrated with H&M's online platform to maximize reach. A dedicated fund should be allocated to set up stores, manage logistics and marketing of these fashion options. KPIs for success include sales growth in the second-hand segment, user engagement rates, and environmental metrics, such as reductions in garment waste.

Enhance Localization Efforts

In order to respond to regional diversity in H&M better, there is need for the Group to make further localization of the stores and the product ranges so that they conform to local cultures and expectations of the consumers. Considering doing collaborations with regional designers and customizing store atmospheres, will foster local connection among the people (PYMNTS, 2024). As a first step, H&M could initiate more in-depth market research for those regions and start working together with indigenous designers within the next year. After that, perhaps after a period of two years, the stores could have brand-marketing customized product ranges and designs. Finally, customers' feedback, and higher sales in the regional markets can be used to measure success of these initiatives.

Expand Eco-Friendly Product Lines

The increasing trend in consumer behavior towards buying clothing designed for sustainability requires H&M to diversify its range of eco-friendly products. This has been able to be supported through emphasis on the employment of sustainable materials and processes, eco-friendly designs, as well as product transparency in their adverts. By the end of the year, H&M should be able to introduce these sustainable solutions within all stores, providing new collection with help of eco-friendly materials and actively advertising them for better visibility. The company should also consider to invest 20% of production resources into sustainable materials collections, and with better terms of agreements with suppliers, costs on sustainable materials can be reduced. Key performance indicators to measure achievement of the objectives include eco-friendly sales volume, satisfaction with the sustainable products sold, and the share of products that can be classified as sustainable.

6.2 Implementation

In order to effectively apply the suggested strategies, H&M should establish an orderly plan with clear deadlines, allocated resources, assigned responsibility, and a way of measuring progress. Each strategy should develop its own KPIs which are appropriate to its respect sustainability and the digital focus and are reported in quarterly reviews through both quantitative and qualitative means. It will also be necessary for phased rollout and pilot testing in key markets first to obtain feedback, especially for initiatives like second-hand fashion and localized products. Technology resources and sustainability resources should be among the top priority, with appropriate cross-functional teams managing digitalization, sustainability, market localization, and related aspects.

Quarterly appraisals of performance as it does will also help in amending of the strategies and make sure the strategies used are fitting the target markets at any given time.

7. Conclusion

In conclusion, H&M best fits the description of a retailer that functions in a dynamic changing environment that dictates the need for the company to adjust and be more tactical. Within the evaluation of this report, brand loyalty and customer engagement, and commitments to sustainability framework, has been amongst the strong areas for H&M, there are opportunities however, to improve on the firm's digital integration and expand the variety of its products with second-hand fashion and domestic and localization of products. The market focused balance scorecard approach on its part states that the recent Max Play strategies have been appropriate to in aligning with the market demands but operational improvements and more focus on sustainability initiatives are required to enable the company to penetrate further into the growth opportunities.

In the future, the ability of the company to be able to implement the recommended strategies and recommendations, will determine its capacity to be able to retain its competitive edge and meet the changing needs of consumers. By enhancing their digital and green approaches and making their products more locally relevant, H&M will be able to deal with the challenges that come with the fashion industry's fast change which will lead to enhanced brand equity and customer retention.

8. References

- Andreadakis, S., Owusu-Wiredu, P., Andreadakis, S., & Owusu-Wiredu, P. (2023). Fashion Footprint: How Clothes Are Destroying Our Planet and the Growing Impacts of Fast Fashion. In *Global Warming—A Concerning Component of Climate Change*. IntechOpen. <https://doi.org/10.5772/intechopen.1002000>
- Baena, V. (2024). The shift from fast fashion to socially and sustainable fast fashion: The pivotal role of ethical consideration of consumer intentions to purchase Zara. *Corporate Social Responsibility and Environmental Management*, 31(5), 4315–4328. <https://doi.org/10.1002/csr.2803>
- Bafna, A. (2023). *From Design to Distribution, Supply Chain Insights from Fast Fashion Brands H&M, Benetton, and Zara*. <https://doi.org/10.13140/RG.2.2.31712.49928>
- Barth, B. (2020, October 7). *H&M not alone: Companies often fall short in privacy protections for employees*. SC Media. <https://www.scworld.com/news/hm-not-alone-companies-often-fall-short-in-privacy-protections-to-employees>
- Bick, R., Halsey, E., & Ekenga, C. C. (2018). The global environmental injustice of fast fashion. *Environmental Health*, 17(1), 92. <https://doi.org/10.1186/s12940-018-0433-7>
- Chen, C. (2024, August 22). *H&M's Big Bet on Fashion's Elusive Middle*. The Business of Fashion. <https://www.businessoffashion.com/articles/retail/hms-big-bet-on-fashions-elusive-middle/>
- Choi, M. (2022, June 30). *Carousell to make buying, selling of second-hand items 'as frictionless as possible.'* South China Morning Post. <https://www.scmp.com/business/article/3183521/carousell-rides-sustainability-trend-hong-kong-aims-make-buying-and>
- Daxue_Writing. (2024, March 15). *The Athleisure Market in China: Opportunities in an Increasingly Active Country*. Daxue Consulting - Market Research and Consulting China. <https://daxueconsulting.com/athleisure-market-in-china/>

- DFreight. (2023, July 13). *An Insight Into H&M Supply Chain Strategy: A Comprehensive Guide - 2023*. <https://dfreight.org/blog/an-insight-into-h-and-m-supply-chain-strategy/>
- Hardcastle, K. (2024, September 11). *Fashion, Efficiency, And Competition: How Inditex Is Staying Ahead In A Crowded Market*. <https://www.forbes.com/sites/katehardcastle/2024/09/11/fashion-efficiency-and-competition-how-inditex-is-staying-ahead-in-a-crowded-market/>
- H&M Group. (n.d.-a). Company management. *H&M Group*. Retrieved October 30, 2024, from <https://hmgroup-prd-app.azurewebsites.net/about-us/corporate-governance/company-management/>
- H&M Group. (n.d.-b). Markets and expansion. *H&M Group*. Retrieved October 31, 2024, from <https://hmgroup-prd-app.azurewebsites.net/about-us/markets-and-expansion/>
- H&M Group. (n.d.-c). *Materials—H&M Group*. Retrieved October 30, 2024, from <https://hmgroup.com/sustainability/circularity-and-climate/materials/>
- H&M Group. (n.d.-d). Working conditions. *H&M Group*. Retrieved October 30, 2024, from <https://hmgroup-prd-app.azurewebsites.net/sustainability/fair-and-equal/working-conditions/>
- H&M Group. (2019, January 10). H&M Wraps Up a Year of Store Tests and Digital Developments. *H&M Group*. <https://hmgroup.com/news/hm-wraps-up-a-year-of-store-tests-and-digital-developments/>
- H&M Group. (2022, October 7). H&M Group: Taking steps to grow the customer experience through tech. *H&M Group*. <https://hmgroup-prd-app.azurewebsites.net/our-stories/hm-group-taking-steps-to-grow-the-customer-experience-through-tech/>
- H&M Group. (2024a). *HM-Group-Annual-and-Sustainability-Report-2023*. <https://hmgroup.com/wp-content/uploads/2024/03/HM-Group-Annual-and-Sustainability-Report-2023.pdf>

- H&M Group. (2024b). Supply chain. *H&M Group*. <https://hmgroup-prd-app.azurewebsites.net/sustainability/leading-the-change/transparency/supply-chain/>
- Kaplan, R. S., & Norton, D. P. (1992). *The Balanced Scorecard—Measures that Drive Performance*. <https://hbr.org/1992/01/the-balanced-scorecard-measures-that-drive-performance-2>
- Khurram, M., Qadeer, F., & Sheeraz, M. (2018). *The Role of Brand Recall, Brand Recognition and Price Consciousness in Understanding Actual Purchase*. 6, 2305–6533.
- KPMG. (2021). *Front row: Seeing the fashions of the future*.
- Lay, S. (2024). The Impact Of Green Marketing Campaign Towards H&M Indonesia Customers' Purchase Decision: A Case Study On H&M Conscious Collection. *Jurnal Indonesia Sosial Sains*, 5, 623–643. <https://doi.org/10.59141/jiss.v5i03.1054>
- Marr, B. (2018, August 10). *How Fashion Retailer H&M Is Betting On Artificial Intelligence And Big Data To Regain Profitability*. Forbes. <https://www.forbes.com/sites/bernardmarr/2018/08/10/how-fashion-retailer-hm-is-betting-on-artificial-intelligence-and-big-data-to-regain-profitability/>
- McKinsey & Company. (2023, November 29). *The State of Fashion 2024 report | McKinsey*. <https://www.mckinsey.com/industries/retail/our-insights/state-of-fashion>
- MSA. (2020, February 8). *H&M (Hennes & Mauritz) Mission and Vision Statements Analysis* -. <https://mission-statement.com/hm/>
- PYMNTS. (2024, January 10). H&M Embraces Localization Strategy Through Small Concept Stores. *PYMNTS.Com*. <https://www.pymnts.com/news/retail/2024/hm-embraces-localization-strategy-through-small-concept-stores/>

- Ringstrom, A. (2021, September 30). *H&M's Sept sales hit by supply delays after profit tops pre-pandemic level* | Reuters. <https://www.reuters.com/business/retail-consumer/hms-june-august-profit-rises-more-than-expected-2021-09-30/>
- Roll, M. (2020, December 31). Uniqlo—The Strategy Behind The Japanese Fast Fashion Retail Brand. *Martin Roll*. <https://martinroll.com/resources/articles/strategy/uniqlo-the-strategy-behind-the-global-japanese-fast-fashion-retail-brand/>
- Roll, M. (2021, November 7). The Secret of Zara's Success: A Culture of Customer Co-creation. *Martin Roll*. <https://martinroll.com/resources/articles/strategy/the-secret-of-zaras-success-a-culture-of-customer-co-creation/>
- Rose, A. (2024, June 21). *Sustainable Packaging: Eco-Friendly Solutions for a Greener Future* - LytHouse | Empowering Sustainability. <https://www.lythouse.com/blog/sustainable-packaging>
- Safaya, S. (2023, September 20). H&M returns charge rollout could boost customer loyalty. *Just Style*. <https://www.just-style.com/news/hm-returns-charge-rollout-could-boost-customer-loyalty/>
- Said, H. (2024, March 26). Managing decentralized marketing for international SEO. *Oncrawl - Technical SEO Data*. <https://www.oncrawl.com/technical-seo/managing-decentralized-marketing-international-seo/>
- Statista. (n.d.). *H&M brand profile U.S. 2023*. Statista. Retrieved October 31, 2024, from <https://www.statista.com/forecasts/1335741/handm-fashion-stores-brand-profile-in-the-united-states>
- Stern, M. (2022, July 13). *H&M Case Shows How Greenwashing Breaks Brand Promise*. Forbes. <https://www.forbes.com/sites/retailwire/2022/07/13/hm-case-shows-how-greenwashing-breaks-brand-promise/>

- Tallant, J. (2009). *Importance of Vision, Mission, and Values in Strategic Direction*.
<https://www.grin.com/document/167258>
- Wren, B. (2022). Sustainable supply chain management in the fast fashion Industry: A comparative study of current efforts and best practices to address the climate crisis. *Cleaner Logistics and Supply Chain*, 4, 100032. <https://doi.org/10.1016/j.clscn.2022.100032>
- Xie, Y., & Yang, Q. (2023). Comparative Analysis of Marketing Strategies of Fast Fashion Brands ZARA and H&M. *BCP Business & Management*, 39, 318–324.
<https://doi.org/10.54691/bcpbm.v39i.4162>
- Xuejie, C., Chang, Q., & GuangHao, Z. (2019, January 1). *Research on Innovation supply chain Management in Fast Fashion Industry—A comparative analysis of ZARA and H&M*.
<https://doi.org/10.2991/icecsd-19.2019.2>