

Marketing Fundamentals

Assessment 2

Student: Marinela Andreica

ID:2010777

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Introduction

This report is looking at the marketing process describing the concepts used in marketing. The selected organisation to be analysed for this report is H&M Group. It is a known clothing retailer and it will be realised an internal and external analysis of the organisation taking in consideration the impact of the current pandemic.

There will be used methods of analysis such as PESTLE, Porter's 5 forces, SWOT analysis. It will also be analysed the segmentation, targeting and positioning in the organisation. It will also be utilised the marketing mix and analysed the organisation activity. The H&M Group marketing activity using the 4Ps model explains their strategy. The report concludes with recommendations.

Background of the organisation

The selected organisation for this report is H&M Group. It is based in Sweden and has a long history of more than 70 years. It is nowadays a global player, present in more than 70 countries and with a large number of stores. It has a great digital presence with online shopping available in more than 30 countries. This organisation gathers several brands such as H&M, COS, Arket, Monky, Around and H&M Home. The most popular is H&M, a brand that is known for great and qualitative design clothing at affordable prices (H&M, 2021).

Analysis of the organisation

This report is focusing on the external and internal environment analysis for the selected organisation H&M, considering the effects of the current pandemic.

Marketing is defined as the sum of activities undertaken by an organisation to ensure their products or services are promoted to the customers. The processes included in marketing are advertising, selling, delivering and this can be realised within the company or some expertise can be outsourced for diverse activities (Investopedia, 2021).

Marketing is a complex process where knowledge is essential for taking decisions, knowledge on the market, on what the consumers need and want, on the best contributors as this actions will determine the organisation to achieve its goals and make profit (Davis, 2017).

Also beside the situational analysis it is very important for the organisation to have clear set of objectives and create strategies towards and implement them. In order to ensure the effectiveness and sucesss of the strategies it is important to evaluate and control.

The macro-environment refers to the external factors that exist in the economy, but which can have significant impact on the business. When creating a strategic marketing plan it is important to make an analysis of the microenvironment and the tool of analysis used is the PESTLE analysis.

The analysis of the external environment for H&M is realised using PESTLE model of analysis.

PESTLE analysis

Political - H&M is an international organisation that operates in many countries and the activity could be affected by the political tensions or unpredictable political climates from some countries. Regulatory disputes are another political factor that had impacted the organisation and H&M has started to operate under franchises (Regner, Yildiz, 2020). Brexit is another political factor that had impact on different parts of the business. Pandemic is a challenge that the organisations are still facing it around the world. The pandemic lockdowns has affected H&M as many countries had put in place such drastic measures due to pandemic. Therefore H&M stores were closed for different period of times and that affected the sales. This political decisions regarding pandemic has also affected the staff that would have been infected and had to isolate and miss work (Fortune, 2021).

Economic - The impact of the pandemic on the economy had major consequences. Majority of industries had faced and it is continuing to face unprecedented disruptions and economic falls. Some industries had stopped completely during lockdowns and other had to implement drastic changes. Pandemic is the latest major change that impacted the economy after Brexit. Pandemic has affected negatively the currency fluctuation and the inflation.

The pandemic had impacted the economic gain in H&M losing 18% of the net sales in 2020, because 80% of the store were closed and because the power of purchased has decreased as many of the people have lost jobs or did not have to buy as many clothes when working from home (H&M Corporate, 2021).

Socio-cultural

Customers had become more aware and developed great interest in the CSR activity of the organisations. The CSR has become an influential factor for the population and for gaining their loyalty. CSR has become an important factor for the employees when choosing to work for a company. Pandemic has contributed to the increase of the public awareness towards business helping communities.

H&M is an organisation that puts great effort towards CSR. They promote gender equality and fair wages. During pandemic they had set as priority the employee and customer health and had coordinated their activity accordingly. They included digitalisation in their business activity and

increased the social media activity and communication. They made their operations more transparent. The H&M foundation has donated \$500000 to the World Health Organisation during pandemic. The foundation also helped people affected by Pandemic from Bangladesh that worked for the ready-made garment sector. The Group also donated protective equipment to healthcare workers (Spain, Italy, Sweden, Indonesia) (H&M Group, 2021).

Technological

Pandemic has influenced the attitude towards technology for many business. With the stores closed, with having to work from home and social distancing many organisations had to digitalise their activity in order to survive.

H&M has tried to integrate technology in their operations in order to be more efficient. Digitalisation and high-tech development was H&M successful strategies. H&M focused on opening high-tech logistics centres and to improve and develop mobile applications such as “Wechat” in China. That helped when the Pandemic started. With stores being closed, H&M customers had to shop online and having this systems implemented had increase customer satisfaction (Regner, Yildiz, 2020).

Legal

The legal factors relate to various legislation that affects the industry. New legislation on data protection, employment, regulations regarding pollution, new legislation on pandemic can influence the business activity and create disruptions. Business have to change and adapt their activities and that requires planning. In 2020 H&M was fined for leaking data related to their employees in Germany (Reuters, 2020). H&M also has to comply with environmental taxes for the industry. H&M respects all the legal requirements from each country it operates. On the H&M Group report the organisation declares that due to pandemic many stores due to be opened in 2020 were delayed or cancelled and existing stores had to be refitted.

Environmental

During pandemic has been observed that the short lockdowns had influenced positively the environment, the level of emissions and air quality, but that was a temporary situation. It has been observed an increase of plastic usage during pandemic which is a negative factor for the environment. H&M is adhering to all regulations related to environment. In the United Kingdom it uses paper packaging for online shopping, paper bags or cardboard boxes. In 2019 was in top 16 companies that use sustainable raw materials (Material Change Index) and in 2020 scored a third place for cotton sustainability. Also in 2020 H&M has intensified their efforts towards fabric

recycling technology, but the organisation states that it has been registered a pause in sustainability related activities (H&M Group, 2021).

Porter's 5 Forces



Threat of New Entrants

The clothing industry is very competitive and in order to offer affordable prices and maintain quality it should be realised economy of scale. For that purpose there are required certain resources and the large players from the industry have this advantage of producing in large capacities. The new entrants to the industry can incur high costs if they do not have the resources to realise economy of scale. From this point new entrants can be considered a weak force. Also to be able to create product differentiation requires skilled and knowledgeable and many times experienced designers and manufacturers which are other complex resources to have as a new entrant. If it is intended to be an international clothing retailer like H&M that imply even more resources such as infrastructure, logistics, human resources. Building a brand such as H&M can be challenging as H&M is a brand with long history. H&M capabilities to realise economy of scale, to produce in-trend design in very short time and to offer it at affordable prices is the work of complex teams and involves great resources. Also the legislation and Governmental regulations can be very demanding (Capell, Khermouch, 2002).

Bargaining power of suppliers

The bargaining power of suppliers is low for H&M because the organisation collaborates with a high number of suppliers, outsourcing manufacturing in low cost countries. Being able to produce high volume gives H&M a negotiation advantage towards the suppliers. The number of suppliers is higher than the number of fashion retailers and that gives H&M the option of changing suppliers if

needed making suppliers a weaker force. The suppliers need contracts with large companies because that means more work for them. Being an international organisation means that H&M is not tied to a single market and has good infrastructure organised.

Bargaining power of buyers

H&M has a priority in keeping their customers satisfied. A large number of customers would impact the business activity as seen during pandemic when the shops were closed and H&M registered a decrease in the sale. Otherwise the bargaining power of buyers would be weak as H&M is a known and trusted brand and it operates in many countries around the world. Customers appreciate the affordable qualitative designs that are in-trend with latest fashion and that makes them price sensitive. H&M could tackle the bargaining power by offering differentiation and that would be attractive to the customers.

Threat of substitutes

There are other competitors that offer similar products, but not many of them can offer fashionable designs that fast, whilst maintaining quality and affordable prices. It can be considered that the threat of substitutes is weak as H&M has a strong business model “cheap and chic”.

Intensity of Competitive rivalry

The industry where H&M operates is very competitive. The fashion industry is also influenced by latest competitors that retail online. The fast fashion industry has several players, but it is not very large because it requires complex resources. The number of rivals in the fast fashion industry is not very high and when one of the players is making a move, that is easily noticed by the others. The growing industry makes the force strong because if demand is reduced and the prices have to be reduced or have overproduction. If there is product differentiation that makes the force weaker. There are also high exit barriers because of the great investment towards the brand. H&M is working towards building its position in the market by digitalisation and opening more stores. The organisation should ensure it understands the supply and demand process in order to avoid overproduction and to continue with expansion and gaining new customers.

SWOT analysis

<u>Strengths</u>	<u>Weaknesses</u>
Wide variety of products Individual Brand identity Performing organisation Global player Strong online presence Good pricing strategies CSR	Lack of originality Management controversies
<u>Opportunities</u>	<u>Threats</u>
Product innovation Product diversification E-commerce Mergers	Pandemic Recession Increasing competition Increasing operation costs Changes in trading and clothing production regulations

Strengths

H&M is a strong competitor in the fast fashion industry with great capabilities to produce a variety of products from clothing, make up to home items. The Group has been able to build strong brand names such as H&M, COS, Monki, Weekday, & Other Stories, Cheap Monday, H&M Home, ARKET. It is a global player that operates world wide online and numerous stores opened in accessible locations. The ability to produce qualitative clothing at affordable prices is a strength that gives competitive advantage. H&M is able to deliver products to market within a month. Another strength is the focus on CSR with numerous programs to be more sustainable and to help the community (Capell, Khermouch, 2002).

Weaknesses

The fast fashion industry can be considered to be lacking originality as their inspiration relies too much on current trends, instead of coming with something new. H&M business model to produce fast fashion can be perceived as unoriginal, but many customers appreciate that can wear latest

trends without having to pay premium price. Another weakness is that it does not own factories and it needs to find suppliers for diverse requirements.

Opportunities

H&M has the resources to diversify their products and develop new products. It can make available online shopping in more countries and focus on e-commerce. With pandemic many business had struggled and closed. The group can take advantage and make divers acquisition or mergers like for example a professional sports equipment.

Threats

The pandemic is the latest and most disruptive threat for the business. E-commerce has registered growth and that lead to increase in competition for the organisation. Another threat is the rise of operating costs and changes in trade tariffs (Statista, 2022).

Segmentation, Targeting, Positioning

Segmentation is defined as the division of the marketplace into segments that are "definable, accessible, actionable, and profitable and have a growth potential" (The Economic Times, 2021).

Targeting is the selection of "a group of people with some shared characteristics that a company has identified as potential customers for its products" (Investopedia, 2021). Positioning is defined as the position of the "product (item or service) stands in relation to others offering similar products and services in the marketplace as well as the mind of the consumer" (The Economic Times, 2021).

The STP model involves three steps segmentation, targeting and positioning. Segmentation can be realised in different ways: demographic, geographic, psychographic, behavioural. When the desired segment is selected targeting the best customers is the next step. It involves a more complex analysis where PESTLE can be used to determine what can influence the selected segment. Positioning is the sum of the decisions that relate to how the product will be marketed best to the selected segment. Using the marketing mix it can be decided what strategy is the most effective.

Organisations have learned the importance of marketing and how to use the concepts for growth. Marketing mix the 4Ps is one of the marketing concepts that organisation need to use to market their products. The 4Ps are Product, Price, Place and Promotion. The Product refers to what the organisation offers to the customers, product or service. The product should be in connection with the customer demand, should fill a gap or should carry outstanding qualities over the competition. The Price refers to the actions related to the selling price of the product that includes the total cost of the product, unit cost, marketing cost, distribution cost and other costs involved in marketing it. The place refers to the product distribution and the decisions made for the way of selling, through

intermediaries, online, in stores. The Promotion refers to the marketing communication campaign to present the product to the customers such as, advertising, selling, direct marketing, sales promotions, public relations etc.

The marketing strategy of H&M is positioning the organisation as very competitive player in the fast fashion industry. The product strategy of H&M is to offer fast fashion clothing within individual brands that sells various clothing styles. Some of the brands focus on clothing for young and young adults, some focus on more classic styles, whilst other focus on accessories and shoes.

The pricing strategy of the organisation is to offer in trend qualitative products that can be bought at affordable prices. Their strategy is also to offer lower prices than competition (Zara, Gap).

The place in H&M and how the organisation distributes their products is very effective as they have many stores opened worldwide, franchising and selling online also. The products are manufactured at low cost in cheap labour countries and it has created a supply chain that is helping the organisation to thrive.

The promotion in H&M is very creative using different channels of communication online, such as youtube, social media, but also in magazines and TV advertisements. It has incorporated digitalisation in many of their operations and also it has adopted digital marketing. It works with celebrities which is a positive boost for the PR and it also collaborates with famous style icons and designers. The organisation practices discounting and promote codes for online and in store in the season sale. The organisation is promoted for its CSR activity for the sustainability programs that they have put in place and that are continuing to develop on.

Conclusion

The marketing process in H&M is well constructed and that can be seen in the results of their positive activity. They had been able to grow the business worldwide and they had been able to build individual brand names that address different segments. By targeting the specific elements and by analysing the market they have been able to be a successful producer of fast fashion.

This report has highlighted H&M capabilities and competences by using different tools of analysis and had evaluated the impact of Covid 19 on the industry and on the selected organisation. It has been observed that the group has also suffered from the pandemic as many business, but it has adapted to the markets needs and it has increased digitalisation and e-commerce activity. The Group statements regarding Covid-19 impact on the business operations recognises the delay on some of their initiative, but it plans for future actions that would continue their approach to sustainability and their aims and objectives.

The opportunities identified for H&M are recommendations that the group should take advantage of and should attempt to expand the business even more. It should diversify their products and one opportunity could be to produce professional sport equipment through mergers or acquisition.

Other recommendations include a development of their capability to offer online shopping in more countries. The organisation should develop their logistics and infrastructure in the countries where they do not offer online shopping at the moment, because it will benefit the business considering the changes generated by the pandemic.

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