



H&M



**SAILING THROUGH  
CHOPPY WATERS**

# 21%

A nine-month comparison between 2019 and 2020 showed sales for the period was down by **21 per cent**, but profit plummeted more than **100 per cent**.

# 3778

As of March 31, **3,778** of the group's 5,065 stores were **temporarily closed across 54 markets**, including its top markets of Germany, US and UK.

# 36%

H&M in the **second quarter** redirected the product flow to digital channels to back up its online sales. The result was a 36 per cent sale increase in SEK terms.

Rich legacy, strong financial power, determination to succeed and relentless efforts are few of the positives that make H&M ride the Corona tide, explains **Sanjay Bakshi**

**T**he coronavirus pandemic has adversely impacted the fashion world, including those who rule it, H&M being one of them. H&M is known to have shaped fashion retail throughout its evolution journey, but the pandemic phase has nudged it as well. A recap of Swedish fashion group in **Fibre2Fashion** a few months back had analysed how H&M became the second largest fashion retailer in the world and stamped its authority over fashion markets worldwide.

This successive feature takes a relook at how H&M faired in 2019—a year prior to the advent of the SARS-CoV-2 virus on the world scene, and its performance under lockdowns in 2020.

### The eve of pandemic

The year 2019 was exceptionally good for H&M, with the group generating annual revenue of SEK 232.76 billion. The group's annual growth rate of 10.6 per cent over previous fiscal was double the 2018-growth rate of 5.2 per cent. The sale growth remained comparatively better than top-ranked Zara which showed annual growth of 8.2 per cent. Overall, the H&M Group achieved a sale CAGR of 6.5 per cent for the period 2015–19. Marketwise, Europe continued to dominate the group's sale pie with 66 per cent share in 2019 against 68 per cent in 2018.

The European market share in profits saw a remarkable drop from 74 per cent in 2018 to 69 per cent in 2019 whereas Asian & Oceania markets contributed with increased share of 15 per cent in 2019 from 11 per cent in 2018. In terms of sales and profit contributions, American markets did not change much. However, the group's consistently declining operating margin percentage remained an area for concern despite growing in margin value. Operating margin percentages reported for the last five years are 57 per cent (2015), 55.2 per cent (2016), 54 per cent (2017), 52.7 per cent (2018) and 52.6 per cent (2019). EBITDA share from 14.5 per cent (SEK 29,057 million) in 2017 also dropped to 12.2 per cent (SEK 28,397 million) in 2019.



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The first quarter for H&M saw a dramatic decline in the market, forcing many difficult decisions and actions. The group hoped to sail through stormy times by banking on its customer base all over the world and sound financial standing. It began with its profit more than doubling, which was accredited to its much-appreciated assortment encompassing fashion, quality, price and sustainability.

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In 2018, the group added 229 new stores to reach a total count of 4,968 stores out of which 153 (67 per cent) were those of its flagship brand, H&M. Another 108 stores encompassing all brands of the group were added in 2019 to take its store tally to 5,076 of which 62 (57 per cent) were H&M stores. This meant that the group's store expansion rate in 2019 was at 2.2 per cent as against 4.8 per cent in 2018 and brand H&M store expansion was at 1.4 per cent and 3.6 per cent, respectively—an indication of slower store expansion in 2019 as compared to 2018.

The India business was particularly ecstatic with FY2019 sales closing at ₹1,672 crore, registering a steep 43 per cent y-o-y growth against a healthy growth of 29 per cent in 2018. The average sale per store also improved by 25 per cent while it was (-)11 per cent between 2017 and 2018. Not only that, even the KPI of sales per employee climbed to 36 per cent from downhill of (-)3.8 per cent in the previous year. This was the result of rationalising staff hiring. During FY2018, an additional 452 new employees were hired for 12 new stores launched yielding average of 38 employees per new store. In 2019, only 191 more employees were hired with an average of 24 employees per new store.

**TABLE 1: THE PRE-PANDEMIC OVERVIEW: H&M**

H&M Group	2018	2019	Growth
Sale (in SEK million)	210,400	232,755	(+) 10.6%
No of stores	4,968	5,076	(+) 2.2%
No of markets (store   online)	71   47	74   51	(+) 4.2%   (+) 8.5%
EBITDA (in SEK million)	25,164	28,397	(+) 12.8%
EBITDA share	12%	12.2%	(+) 0.2 percentage points
Operating profit (in SEK million)	15,493	17,346	(+) 11.9%
Operating profit share	7.4%	7.5%	0.1 percentage points

SOURCE: Company reports | H&M fiscal is from December to November

**TABLE 2: THE PRE-PANDEMIC OVERVIEW: H&M BRAND**

H&M Group	2018	2019	Growth
No of stores	4,441	4,503	(+) 2.2%
No of markets (store presence)	71	74	(+) 4.2%
No of markets (online presence)	47	51	(+) 8.5%
H&M stores share in group's store count	89.4%	88.7%	(-) 0.7 percentage points

SOURCE: Company reports | H&M fiscal is from December to November

**TABLE 3: THE PRE-PANDEMIC OVERVIEW: H&M INDIA**

H&M Group	2018	2019	Growth
Annual sale (₹ crore)	1,108.10 <sup>a</sup>	1,671.83 <sup>b</sup>	(+) 43%
Store count	39	47	(+) 20.5%
Average annual sale/store (₹ crore)	28.41	35.57	(+) 25.2%
Average no of employees	1,781	1,972	(+) 10.7%
Share of male employees	62%	59%	(-) 3 percentage points
Average annual sale/employee (₹ crore)	0.62	0.85	(+) 36.3%

SOURCE: Company reports | H&M India follows April to March fiscal | Figures calculated at <sup>a</sup>1 SEK = ₹7.87; <sup>b</sup>1 SEK = ₹8.33

H&M store expansion in Indian market grew by 20.5 per cent compared to 44.4 per cent the previous year. In 2019 calendar year, H&M India continued to expand. If it were not for the coronavirus pandemic in 2020, the company targeted to end the year with 60 stores and was set to roll out up to 100 stores in the coming years. However, as of October 2020, it has 48 stores running across 24 cities in India.

### The pandemic effect

The first quarter for H&M saw a dramatic decline in the market, forcing many difficult decisions and actions. The group hoped to sail through stormy times by banking on its customer base all over the world and sound financial standing. It began with its profit more than doubling, which was accredited to its much-appreciated assortment encompassing fashion, quality, price and sustainability. The focus on customer offering and experience encouraged H&M to continue with full-price sales, decreased markdowns and improved inventory level.

Sales increased by 8 per cent in Swedish currency and 5 per cent in local currencies, wherein the respective online sales increase was 48 per cent and 44 per cent. In the second half of the quarter, sales reached a bump due to

the COVID-19 outbreak. By February, its sales in China had fallen by 84 per cent along with warning bells in Hong Kong, Singapore, Macau, Japan and Taiwan markets.

Declining sales brought in a range of forceful measures in areas of purchasing, investment, rents and staffing, including the reviewing of all involved costs. Senior executives took temporary pay cuts of 20 per cent. Reduced working hours and temporary lay-offs based on local legislations were implemented in various affected markets. The group also contributed to the fight against COVID-19 in its own way when it temporarily switched parts of its suppliers' production to making PPE for hospital staff. H&M Foundation also supported the COVID-19 Solidarity Response Fund of WHO.

On a half-yearly basis (December 2019-May 2020), the sales dropped by 23 per cent. At the end of the half year, 7 per cent of the group's stores were still closed and many were operating under restrictions and limited hours of operation. In fact, the group had planned more store closures than opening during 2020—around 170 stores to shut down and 130 new to come up.

As most of its stores were closed due to lockdowns, H&M notified a drop of 57 per cent in sales for the period

March 1 – May 6 compared to sales of last year. At the same time, online sales showed a growth of 32 per cent. Though some stores began opening in April-end, 60 per cent remained temporarily closed blocking inventories worth SEK 41 billion. The markdown figures during Q2, 2020 were supposed to be lower than Q2, 2019 but they were expected to have a negative effect of 2–4 percentage points on the gross margin as a result of low sales. Germany and the US, its two biggest markets, were down by 46 per cent and 71 per cent during the quarter.

The company had anticipated the second quarter to be negative and lossmaking due to COVID-19 that continued to impact people, communities and companies around the world. As of March 31, 3,778 of the group's 5,065 stores were temporarily closed across 54 markets, including its top markets of Germany, US, UK, France, Italy and Spain. While the pandemic-caused suppressed demand in other markets was pulling down the business, China market began showing recovery during the same time with reopening of stores.

Before the pandemic hit it, H&M was performing strongly as it had invested, over the years, in creating the best offering for the customers

**TABLE 4: THE PANDEMIC ROLLS IN: Q1, 2020**

H&M Group	Q1,2020 Dec'19-Feb'20	Q1,2019 Dec'18-Feb'19	Growth
Sale (in SEK million)	54,948	51,015	(+) 7.7%
No of stores	5,053	4,958	(+) 1.9%
Margin share	51%	50%	(+) 1 percentage points
Operating profit (in SEK million)	2,690	1,005	(+) 167.7%
Operating profit share	4.9%	2%	(+) 2.9 percentage points
Average annual sale/employee (₹ crore)	0.62	0.85	(+) 36.3%

SOURCE: Company reports

**TABLE 5: THE PANDEMIC SPREADS: Q2, 2020**

H&M Group	Q2,2020 Mar'20-May20	Q2,2019 Mar'19-May19	Growth	H1,2020 Dec'19-May20	H1,2019 Dec'18-May19	Growth
Sale (in SEK million)	28,664	57,474	(-) 50.1%	83,612	108,489	(-) 22.9%
No of stores	5,058	4,979	(+) 1.6%	5,058	4,979	(+) 1.6%
Margin share	46%	55%	(-) 9 percentage points	49	53	(-) 4 percentage points
Operating profit (in SEK million)	(-) 6,188	5,935	(-) 204.3%	(-) 3,498	6,940	(-) 150.4%
Operating profit share	(-) 21.6%	10.3%	(-) 31.9 percentage points	(-) 4.2%	6.4%	(-) 10.6 percentage points

SOURCE: Company reports



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and meeting the demand for a digital shift in the industry. This was visible in its quick response in countering the negative effects of COVID-19. Still it had to close 80 per cent of its stores in affected markets to honour local lockdowns. Even where the stores were open, the demand was at its lowest. Despite reworking on its costs, it could not compensate for the 50 per cent drop in revenue and looming losses became a reality. H&M, all this while, redirected the product flow to digital channels to back up its online sales. The result was a 36 per cent sale increase in SEK terms.

The quarter also witnessed a reduction in its stock levels compared to the previous year as a result of faster adjustment to its buying plans, but that put an increased markdown liability during Q3, 2020 on the spring collection that was oversupplied

throughout the industry amid weakened demand.

In the Q3, 2020 the stores began opening gradually in accordance with the decisions by local governing bodies. The period of June 1-24 of Q3, 2020 showed a 25 per cent sales growth in local currencies compared to 2019, thanks to eased restrictions in different markets that allowed reopening of stores. The online sales too registered a 36 per cent growth in SEK terms during the quarter. But overall, a nine-month comparison between 2019 and 2020 showed that the sales for the period was down by 21 per cent, but profit plummeted even deeper by more than 100 per cent. As a natural response, the cost curtailment continued during Q3, 2020 as well. Table 7 summarises H&M's global expansion status during the nine-month period.

**TABLE 6: AS THE PANDEMIC RAGES ON: Q3, 2020**

H&M Group	Q3,2020 Jun '20-Aug '20	Q3,2019 Jun '19-Aug '19	Growth	9-month,2020 Dec '19-Aug '20	9-month,2019 Dec '18-Aug '19	Growth
Sale (in SEK million)	50,870	62,572	(-) 18.7%	134,482	171,061	(-) 21.4%
No of stores	5,043	4,972	(+) 1.4%	5,043	4,972	(+) 1.4%
Margin share	49%	51%	(-) 2 percentage points	49%	52%	(-) 3 percentage points
Operating profit (in SEK million)	2,700	5,029	(-) 46.3%	(-) 798	11,969	(-) 106.7%
Operating profit share	5.3%	8%	(-) 2.7 percentage points	(-) 0.6%	7%	(-) 7.6% percentage points

SOURCE: Company reports

**TABLE 7: H&M'S GLOBAL STATUS IN 2020**

Brand	No. of markets as on 31-Aug 2020	Expansion status	Total no. of stores			
	Store+online		New markets	As on 29-Feb 2020	As on 31-May 2020	As on 31-Aug 2020
H&M	74+51	Online: Australia Store: New Zealand*		4,473	4,471	4,455
COS	45+32	Online: Bulgaria*, Cyprus*, Estonia*, Greece*, Croatia*, Latvia*, Lithuania*, Luxembourg*, Romania*, Japan*, Switzerland, Russia Store: Philippines**		290	294	294
Monki	19+29	Online: Bulgaria*, Cyprus*, Estonia*, Greece*, Croatia*, Latvia*, Lithuania*, Luxembourg*, Romania*, Switzerland, Russia Store: Russia*, Spain		128	127	124
Weekday	15+28	Online: Bulgaria*, Cyprus*, Estonia*, Greece*, Croatia*, Latvia*, Lithuania*, Luxembourg*, Romania*, Switzerland, Russia Store: Norway*, Russia		53	54	55
& Other Stories	21+31	Online: Bulgaria*, Cyprus*, Estonia*, Greece*, Croatia*, Latvia*, Lithuania*, Luxembourg*, Romania*, Switzerland, Russia Store: Netherlands* Online: Germany*, Austria*		70	72	72
ARKET	7+29	Online: Bulgaria*, Cyprus*, Estonia*, Greece*, Croatia*, Latvia*, Lithuania*, Luxembourg*, Romania*, Switzerland, T-mall (China)*		20	20	21
Afound	2+4	Store: Netherlands* Online: Germany*, Austria*		8	7	6
H&M HOME	51+42			11	13	16
<b>Total store count</b>				<b>5,053</b>	<b>5,058</b>	<b>5,043</b>

\*Opened until August 31, 2020 \*\*Opened in September 2020



Before the pandemic hit it, H&M was performing strongly as it had invested, over the years, in creating the best offering for the customers and meeting the demand for a digital shift in the industry. This was visible in its quick response in countering the negative effects of covid-19 still it had to close 80 per cent of its stores in affected markets to honour local lockdowns.

**TABLE 8: THE INDIAN SCENARIO: H&M**

H&M Group	H1,2020 Dec'19-May20	H1,2019 Dec'18-May19	Growth	9-month,2020 Dec'19-Aug'20	9-month,2019 Dec'18-Aug'19	Growth
Annual sale (SEK million)	742	917	(-) 19%	966	1,445	(-) 33%

**SOURCE:** Company reports | H&M fiscal is from December to November

## Talking about India

In 2019, the company crossed ₹1,500 crore sales, registering a 43 per cent growth in Indian business when many fashion retailers reported slow growth due to declined footfalls. It is to be noted that the last two months of H&M's Q1, 2020 (December-February) coincide with H&M India's Q4, 2020 (January-March). Unlike rival Zara India, H&M India has been mostly targeting non-metro cities for its retail expansion. The company wishes to be a sought-after fashion choice for the average Indian that caused it to expand faster on a pan-India basis.

When the pandemic had not yet hit India in February, the company was reportedly planning to bring its other fashion brands, including CoS and H&M Home, to the Indian market inspired by the strong quarter-to-quarter sales. Though a company spokesperson quashed these reports as rumours, country head Janne Einola<sup>1</sup> had hinted last year that the company would be looking at the home segment (H&M Home) through furnishing and decoration products, if not furniture, looking at the gap in the category and long shelf life of such products. The

range was to be introduced at one of its premium stores in NCR before coming up with a standalone outlet. [As this feature goes to print, Einola announced his exit from his role for personal reasons. He will be replaced by someone from the company's global team.]

In India, the half-yearly sales of H&M registered a negative growth of 19 per cent when it ended with a figure of SEK 742 million as against SEK 917 million in H1, 2019, the group reported. As for the performance during the entire nine-month period, the Indian sales were short by 33 per cent against the previous year's figure of SEK 1,445 million. The company admitted to having initial supply chain issues in Bangladesh and India which were resolved by the end of the third quarter.

**Celebrating five years of entry:** As H&M completed five years of its India entry in October 2020, it launched its global loyalty programme 'H&M Member' for Indian customers. The programme, open to offline and online customers above 18 years of age, is designed to building relationship with customers while focusing on the need for personalisation which is going to be the future of fashion shopping.

The two-tiered programme offers 'Member' and 'Member Plus' statuses. On accumulating 800 points, 'Member' customers get upgraded to 'Member Plus' that unlocks benefits like free shipping, unique events and rewards. The launch was complimented with a one-time introductory offer of 15 per cent discount on the purchase for those who signed up between October 8 and 18. October was chosen for the launch as that is when the Indian festive season begins. Along with India, South Korea and Australia have been identified for its global loyalty programme. The programme was also introduced in the Chinese marketplace Tmall. Prior to this, the stores in India remained closed for almost three months.

### Limited edition collection:

Continuing with its tradition of tying up with leading fashion designers for one-time collections, H&M has partnered with Indian designer Sabyasachi Mukherjee for a limited-edition collection to celebrate its fifth anniversary. The partnership is aimed to provide the designer's collection at affordable prices in H&M stores which otherwise costs in lakhs at the designer's own stores. This served as a

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surprise element for Indian customers.

**Omnichannel route:** H&M India is awake to local competition offered by home-grown fashion retailers especially in tier-2 and 3 cities. It sees omnichannel as the way forward to deal with such competition as it allows H&M to reach its customers through all channels. This is why today it offers fashion merchandise through its stores, H&M.com and fashion marketplace Myntra.com giving customers options to shop from the place of their choice.

**Pricing is the key:** H&M India has remained strict about its affordable pricing strategy which has worked well for it in the Indian market. There has been no increase in prices even during inflation times. Instead, it focuses on customer experience irrespective of whether the customer ends up transacting with H&M or not. H&M India has expressed the idea of personalised solutions for willing customers which would call for a certain amount of technology intervention. The brand is aware that not all customers would ask for personalisation; so, the offering, whenever available, will be highly focused on specific segments.

### H&M's outlook

H&M has realised that the pandemic caused a major change in customer behaviour. The future lies in a speedy digitalisation of fashion retail. Keeping this in mind, the company is working to adapt and improve its way of working, becoming more flexible, fast and efficient. This will be achieved by

accelerating digital development in its operation, optimising store portfolio and more integration among its existing sales channels. Sensing the need, H&M has undertaken some major initiatives to meet new consumer expectations and offer improved customer experience.

**Customer engagement through technology:** Customers in China can now benefit from H&M's membership programme not only in H&M stores and hm.com, but in the communication app Wechat as well. Member customers have the privilege to buy now and pay later across channels through its payment solution 'Pay Later'. It was also launched in Spain and is available in 12 other markets with plans to roll out in more markets. The H&M app is a customer-friendly application that ably generates digital receipts for customers in most of its markets. H&M offers visual search technology to help customers in shopping. Image recognition helps customers by giving recommendations and suggested buys based on the pictures that they have taken or been inspired by. This is currently available in more than 30 markets.

**Customer service initiatives:** 'Next day' and 'Express' deliveries are offered in 14 of its markets. Various kinds of climate-smart deliveries are also offered in Italy, while Sweden offers climate-smart deliveries to Instabox using fossil-free transport. H&M customers in 30 cities of the Netherlands can opt to receive and return items by a bicycle delivery service. Additionally, 'Find-in-store' option, available in 22 markets, allows H&M customers to easily find

on their mobile phones if an item of their choice is available in a store or online. Furthermore, 'In-store Mode' in 13 markets enable customers to see on their smartphones which items are in the store they are currently in, as well as online; the 'Click & Collect' service is available in 14 markets. H&M customers can also locate and buy products online by scanning a QR code. The option of returning online purchases in physical store is now live in 16 markets. RFID tech, highly favoured by rival Zara as well, is currently in use in 20 markets and was recently launched in China and Serbia with Germany, the Netherlands, Austria and Slovenia marked as next markets for its rollout. In the US, customers can directly shop from images and videos on Instagram and get notifications for H&M's new collections.

**Product transparency:** H&M has joined forces with the Sustainable Apparel Coalition (SAC) and other companies to develop the Higg Index tool, which measures sustainability at the product level. For the first time, customers in select markets were able to see environmental scores of over 7,000 product pages at hm.com. This resulted in more than 7 million views. The score reflects the environmental performance of the factory where the product was made. The average scores for the industry were also given to enable customers to compare. Customers showed great interest in the sustainability information for the products. More tests will take place in the near future.**FF**