



STOCKHOLM'S SYNDROME

Within four years of entry, H&M has emerged as the fastest expanding international brand on India's retail scene, setting example for followers and challenging predecessors. **Sanjay Bakshi** takes stock.



H&M

Sweden's H&M is the world's second largest fashion group after Zara. The SEK 210 billion (€19.98 billion) group began its journey in late 1940s as a small garment store for women. Since then, it has shown a steady growth. With an employee count of more than 123,000 in 2018, the fashion group runs over 4,500 physical stores in 71 markets and has an online presence in 47. The group, dominantly driven by flagship brand H&M, offers a portfolio of eight other distinct brands: COS, Monki, Weekday, Cheap Monday, & Other Stories, H&M Home, Arket and Afound. The group is also among the few ones committed to achieving the sustainability goal it has set. The other interesting fact of the group's culture is that three-fourth of its employees are women.

1947-60



1947: First Hennes (meaning "Hers" in Swedish language) store opened by Swedish entrepreneur Erling Persson in Västerås, Sweden.
1952: First Hennes store opened in Stockholm.
1954: Second Hennes store opened in Stockholm.
1959: Flagship store opened in first of five skyscrapers built in Hötorget area of central Stockholm.

1961-70



1968: Hennes & Mauritz incorporated posts acquisition of Stockholm-based hunting apparel & fishing equipment retailer Mauritz Widforss; becomes family store after adding men's & children's clothing.
1969: Becomes 42 stores-chain; international growth began, Norway is its first foreign market, followed by Denmark, UK and Switzerland.

The Global Level

H&M's global sale for 2018 was SEK 210,400 million (₹1,580.10 billion). The sale has grown at a CAGR of 9.7 per cent between 2011 and 2018, but its operating profit in percentage terms has more than halved from 18.5 per cent in 2011 to 7.4 per cent in 2018. In value terms too, its profit has reduced to SEK 15,493 million in 2018 from being SEK 20,379 million in 2011. Operating with an average trade margin of 55 per cent, the group has expanded its global store count from 2,776 to 4,968 at a CAGR of 10.5 per cent during the same period.

In terms of markets, close to 70 per cent of the group's business comes from Europe and Africa. The European market is very strong and oldest in its portfolio. The sales contribution of Asia and Oceania region are the least, comprising developing markets such as India and China which are at various stages of H&M penetration. The fashion group considers India, China and Mexico its major growing markets.

While global retail is growing at a 5-7 per cent rate, the digital revolution has deeply influenced how customers shop these days. H&M Group, therefore, is investing heavily in improving its digital space to provide better experience to customers. The growing demand for digital space has pushed the group to close down stores in those markets where store growth came to a saturation point or virtual halt.

The H&M model

H&M became a successful household name in Europe with its affordable apparel offering and efficiency for constantly refreshing the stocks. It is known to stock fast fashion items which are created in-house. Additionally, starting in 2004, another line of merchandise, a one-time collection, comes up whenever a designer is teamed up with,



H&M / MERT AND MARCUS

TABLE 1: THE GLOBAL OVERVIEW

In SEK* Million	2011	2012	2013	2014	2015	2016	2017	2018
Global sales**	109,999	120,799	128,562	151,419	180,861	192,267	200,004	210,400
Operating profits	20,379	21,754	22,090	25,583	26,942	23,823	20,569	15,493
Global store count	2,472	2,776	3,132	3,511	3,924	4,351	4,739	4,968

SOURCE: H&M; *1 SEK = INR 7.51; **excluding VAT

1971–80



1973: Hennes & Mauritz begins selling underwear; at an average 5–6 new stores begin opening every year.
1974: Hennes & Mauritz listed on the Stockholm Stock Exchange; stores rebranded as “H&M”; modern teenagers get their own version of H&M with launch of Impuls concept inspired by US denim stores
1980: H&M stores debut in Germany and the Netherlands.

1981–90

1982: Stefan Persson, son of Erling Persson, succeeds his father as CEO of the company.
1990: Famous annual Christmas underwear campaigns launched featuring super model Elle Macpherson; city billboards advertising replace traditional newspaper advertising with super-models, transforming H&M into a truly international brand .



as happened with designers like Karl Lagerfeld, Versace, Roberto Cavalli among others. H&M maintains a large inventory of basic, everyday items sourced from places—including India and Bangladesh—that carry a lower price tag than most of its rivals.

According to market reports, the lower pricing aspect of the H&M model in India prompted Zara to slash prices up to 15 per cent for some of its merchandise. The H&M Group works with the philosophy of having an increased share of full-price sales and reduced share of markdowns in overall business. This discipline ensures customers appreciate the collections on offer and the improvements made in product assortment produce delightful shopping experience. In today’s changing world and its social needs, H&M provides quality fashion at the best prices and that too in a sustainable way. Rightly so, H&M has defined its sustainability goals and is working towards accomplishing them.

Responsible Fashion Leader

The fashion industry is known to be the second most polluting industry in the world. One UN report indicated that it is responsible for 10 per cent of global greenhouse gas (GHG) emissions and consumes more energy than aviation and shipping industries combined. Blame is more pointed on fast fashion players for using cheap textile dyes, faster production cycles leading to an increasing risk in labour health issues, waste accumulation due to garments being disposed of by consumers more frequently—all leaving a negative impact on the planet. To address the issue, H&M has been stressing on sustainability as an intrinsic part of its value chain and ethos. Clear actionable goals have been set to be climate positive across its value chain by 2040.



1991–2004



1998: H&M introduces online shopping in Sweden; expansion in Europe continues.
2000: H&M flagship store opens on Fifth Avenue in New York—first in the US, initiating expansion outside Europe; Spain debut; Rolf Eriksen appointed CEO.
2004: H&M teams up with designer Karl Lagerfeld initiating more such future partnerships with fashion giants like Versace, Roberto Cavalli, and Stella McCartney.

2007–10



2007: H&M enters Far East with stores in Shanghai, Tokyo and Hong Kong; COS is born with first store in London; Weekday, Monki, and Cheap Monday joined H&M via acquisition of FaBric Scandinavien AB.
2009: H&M Home launched; Karl-Johan Persson takes over as CEO.
2010: 2000th store opened in Osaka, Japan.; a full fashion collection made from sustainable materials launched.

H&M also recently announced testing of garment renting service at its flagship store in Stockholm. The rental service is one of many initiatives taken by the group to address environment concerns. The service would involve renting a collection of 50 garments at \$37 each for a week to members of its loyalty programme. It will be a three-month trial, the results of which will direct its expansion.

The India Story

Five years after Spanish rival Zara entered the Indian market and few months later in 2015 when US' Gap entered India, H&M chose October 2 the same year—a national holiday—to launch its first store. The store launch came after two years of officially filing for India entry. The delay was attributed to many factors, including a market slowdown back home. The 25,000 sq ft two-floored store launch at the premium Select Citywalk mall in Delhi, marked with gala musical performance and a special preview for select celebrity guests, was soon followed by second store at the Ambience mall in Vasant Kunj area.

Unlike Zara and Gap, H&M arrived as a single-brand retailer with no local partner. According to prevalent FDI law on single-brand retail, up to 100 per cent FDI was allowed but only 49 per cent could come through the automatic route. For FDI above that, a company needed to take approval and was bound to source locally, up to 30 per cent of the value of goods purchased preferably from MSME (micro, small & medium enterprises), village & cottage industries, artisans and craftsmen. Asian countries, at that time, already accounted for about 80 per cent of H&M's global sourcing.

An initial investment of €100 million (about ₹730 crore) was earmarked for opening 50 stores by 2020 and H&M kept the required pace with 47 stores running by 2019 itself and balance slated to open soon. Hennes and Mauritz Retail Pvt Ltd, a subsidiary of the H&M Group, operates the India business. The group's other brands, including Monki, COS and Cheap Monday, are reportedly eyeing Indian market but will arrive at an opportune time.

Retail Penetration

At the world stage, H&M store expansion reached 4,968 stores in 2018 from 2,472 stores in 2011—a CAGR of 10.5 per cent. Between 2015 and 2018, the CAGR reduced to 8.2 per cent whereas H&M India expanded stores aggressively in a new

TABLE 2: H&M'S SUSTAINABILITY SCORECARD

Key Performance Indicator	2016	2017	2018	GOAL
Recycled or other sustainably sourced materials in total material use (commercial goods and packaging)	26%	35%	57%	100% BY 2030
Cotton from more sustainable resources (certified organic, recycled or Better Cotton)	43%	59%	95%	100% BY 2020
Tonnes of garments collected through garment collecting initiative	15,888	17,771	20,649	25,000 TONNES PER YEAR BY 2020
Share of renewable electricity in own operations	96%	95%	96%	100%
Change in CO2 emissions from own operations	(-)47%	(-)21%	(-)11%	CLIMATE POSITIVE VALUE CHAIN BY 2040

SOURCE: H&M

2011–13



2011: 3000th store in Chengdu, China; first H&M stores in southern hemisphere in Chile and Indonesia; H&M incentive programme for all employees launched.

2013: Garment collecting initiative introduced worldwide—over 50,000 tonnes of old textiles collected for reuse and recycling; & Other Stories launched; stores now in Europe, North America, Asia, Middle East, Africa, South America and Australia.

2014–15

2014: H&M Sport family range launched; H&M's shoe concept extended and updated; launch of first denim garment made using recycled fibres; Australia and Philippines added as new markets.

2015: H&M adds 60th market with India entry; H&M beauty range launched; Global Change Award launched by H&M Foundation, aimed at protecting the planet and living conditions.



market. H&M India opened, on an average, a store every month, taking the total tally to 47 stores by November 2019. At the same pace, H&M is poised to achieve its target of 50 stores by February 2020—nine months before closing its financial year in November.

As of today, the north and west regions of India have a higher retail presence of H&M stores hosting 62 per cent of them. Out of the 47 operational stores, 32 are located in Maharashtra (13), Karnataka (6), Punjab (5), Delhi and Tamil Nadu (4 each). The entire H&M store network is spread across 24 cities of India with five metro cities of Mumbai, Bengaluru, Delhi, Chennai and Pune together running almost 50 per cent of the stores. Mumbai and Bengaluru, combined, contribute the highest store tally with 13. H&M began its India journey with stores in Delhi, though it seems to have found more affinity with the retail environment of Mumbai and Bengaluru given their high store numbers.

In 2015, H&M's first year in India, ended with two stores generating ₹57.45 crore sales, and 2018 with 39 stores earned ₹1,108.20 crore at a CAGR of 168.2 per cent against the global CAGR of 5.2 per cent. In fact, H&M turned profitable by the end of March 2016 when it reported sales of ₹194 crore with a net profit of ₹1.40 cr. It stepped up its performance during 2016–17 to about ₹640 crore in sales and ₹15 crore as net profit.

By surpassing the ₹1,000 crore mark in India, H&M became the fastest growing lifestyle brand in the country. The steep CAGR between 2015 and 2018 was the result of fast store expansion across Indian cities towards achieving the target of 50 stores with the offering of full-priced merchandise for sale.

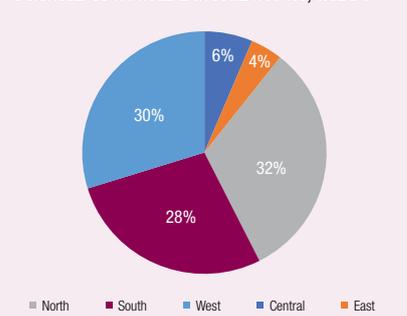
While considering the more realistic performance indicator of average sale per store, the outcome reveals a different picture. From an average annual sale of ₹28.73 crore per store in 2015, H&M India closed 2018 with ₹28.41 crore per store delivering a negative CAGR of 0.4 per cent. During the same period, H&M's global average sale per store declined at a negative CAGR of 2.8 per cent—from SEK 46.10 million (₹34.61 crore) to SEK 42.40 million (₹31.81 crore). H&M India performed better than H&M at the world stage as far as growth in sale per store is concerned, but in value terms Indian stores averaged below the company average. According to H&M management, online sale contribution in India to the company's total sale averages higher than global average of 15 per cent. Incidentally, the H&M financial year is from December to November.

TABLE 3: H&M STORE SPREAD; CITYWISE

City	Store count	City	Store count	City	Store count
Mumbai	8	Indore	2	Jalandhar	1
Bengaluru	5	Noida	2	Kochi	1
New Delhi	4	Ahmedabad	1	Kolkata	1
Chennai	3	Aurangabad	1	Ludhiana	1
Pune	3	Bhopal	1	Mohali	1
Amritsar	2	Coimbatore	1	Mysore	1
Gurugram	2	Dehradun	1	Nagpur	1
Hyderabad	2	Ghaziabad	1	Raipur	1

SOURCE: H&M website

FIGURE 1: STORE DISTRIBUTION; INDIA



SOURCE: H&M; JORSS analysis

2017



2017: New brand Arket launched for men, women & children with smaller assortment for home; 8 new online markets added; first stores in Kazakhstan, Colombia, Iceland, Vietnam and Georgia; online arket.com goes live in 18 European markets; first store opened on Regent Street, London; sustainability goals set.

2018–19

2018: Afound launched with first store in Sweden; Afound marketplace began selling discounted fashion & lifestyle products for women and men.

2019: H&M becomes world's first big fashion brand providing detailed information about the factory and material used for individual garments, in-store as well online.



Human Capital

Employees are an important asset in the retail business. Their contribution helps in business growth, retaining old customers while acquiring new ones, building brand image and developing desired organisational culture. The H&M culture showcases women's empowerment in true sense. At the global level, it has more women employees—averaging 75 per cent in the total count—than male employees.

The gender balance tilting towards the fairer sex does not bring down productivity either. On the contrary it has brought the business to a stage where each employee is generating average sale worth ₹1.27 crore annually. In comparison, the employee culture at H&M India trends differently. With the average male employee share being 59 per cent in India, the operation annual sale per employee averages at ₹0.47 crore—almost one-third of H&M's global benchmark.

The India Strategy

H&M has purposefully deployed a strict and controlled inventory strategy in India adhering to the group's objective of reduced markdown tenure. This is the reason it has not been running any big mid-season sales here. H&M is aware that India is a price-sensitive market which also compelled early birds like Zara, Mango and Marks & Spencer to lower their prices.

Besides, local sourcing helps international brands achieve the desired price offering for their customers. The H&M Group has been sourcing from India for more than 30 years because of the good craftsmanship available in the country. Everywhere in the world consumers keep evolving and developing, but H&M finds the evolution much faster in India thanks to its large competitive retail market.

H&M also sees a substantial base of fashion-interested customers in India—a market where technology has also developed very fast. Thus, India comes as an apt environment supporting the brand's digital plans. H&M availed of this opportunity and partnered with leading online fashion platforms Myntra and Jabong in August 2019 to expand its reach. This teaming up let millions of customers from all over

TABLE 4: THE INDIA BUSINESS

H&M India	FY2015	FY2016	FY2017	FY2018
Sale (₹ crore)	57.45	451.74	859.40	1,108.20
Store count	2	12	27	39

SOURCE: H&M

TABLE 5: H&M'S HUMAN RESOURCES

Global v/s India	2015	2016	2017	2018
Global sale/employee (₹ crore)	1.30	1.26	1.25	1.28
India sale/employee (₹ crore)	0.14	0.46	0.65	0.62
No. of employees (Global)	104,634	114,586	120,191	123,283
No. of employees (India)	398	989	1,329	1,781
Share of male employees (Global)	24%	25%	26%	26%
Share of male employees (India)	55%	59%	60%	62%

SOURCE: H&M; JORSS analysis

the country to gain access to H&M products and get them delivered directly to their homes. H&M's online stores on these platforms offer over 15,000 styles of fashion items for women, men, teens and children.

The Localisation Challenge

Many international giants infuse local taste to their offering in foreign markets to engage native consumer. H&M too produces country-specific collections like it does in China where it sells a new collection during the Chinese New Year festivities. It applied same strategy when it localised the India offering for the first time by launching its festive collection in the third quarter of FY 2019–20.

The designs developed by H&M's global designers with help from local team in India were an outcome of local market research and included a combination of locally-inspired paisley prints along with bright sequined jackets for women and shirts for men. The offering was limited to the westernwear category which is the forte of H&M. It was an intentional decision to avoid any risk of indulging in the hugely competitive traditional ethnicwear or indutva category. However, the brand prefers its team of global designers based in Stockholm over local designers even for the country-specific collections.

And, New Challenges

H&M expanded with an accelerated pace setting example and posing a threat for rival brands in equal measure. Since its India entry, H&M has seen transformation in market dynamics, government policies, structural changes and related market forces impacting fashion retail business.

Initially, H&M had voiced its concern about challenges in getting quality space in India and that too for its large stores which, if not realised as planned, could impact its store opening target adversely. Four years later, H&M has different concerns. Factors such as registrations, trade licences, packaging, e-way bills and GST are found to be hindrances to the brand's expansion aspirations. With hindrances in tow, H&M India continues to be optimistic about the Indian retail market owing to its offline and digital growth amidst nation's economic slowdown.

It will be interesting to see what would be H&M's next move in India after it accomplishes its first phase of India entry by opening 50 stores by 2020.**FF**

