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**H&M’s Digital Transformation**

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**Abstract:**

This term paper is about one of the most well-known fashion labels in the world,

"H & M," which is based in Sweden. The fashion industry has evolved significantly in recent years, with various inventions and methods to keep up with the competitive market. Materials are recycled and reused to reduce waste, which is good for the environment. Going digital is one of the most significant adjustments a company can make. While converting to online, there is a significant IT function to be performed, and numerous applications have been developed for consumer contentment to make their shopping experience easier. The article begins with a review of the company's history and progression, then moves on to its digital transformation, which includes a description of the company's strategies, before concluding with what can be done to ensure its long-term viability. The main idea of this paper is to study the brand’s success story.

**Sources:**

Secondary data was employed in this paper, which was gathered from a variety of web sources such as case studies, journals, and reports. The references used in this paper are listed at the end.

**1. Who is it about?**

**1.1 Introduction and Overview:**

H&M in short, which is Hennes & Mauritz is an apparel manufacturer which is in Stockholm, Sweden, and founded in 1947. Erling Persson launched the company, with the first store opening in Västers, Sweden. In the 1990s, the brand exploded in popularity by selling runway-ready designs at low prices, changing the way people bought clothes. Its main concentration is on fast-fashion clothing for all age groups.

Initially, the name of the brand was “Hennes”. It means “hers” in the Swedish language, initially the apparel brand sold only clothing for women. In 1968, Persson captured the chain “Mauritz Widforss” which added the menswear collections, and hence the name has been changed to “Hennes & Mauritz”. The brand has finally cropped the name as H&M and hence continued its expansion.

H&M is a fast-fashion retailer with 2206 stores in 43 countries and 94000 employees. Zara and H&M revolutionized the fashion sector three decades ago with a rapid supply of products to the customer by re-stocking their items from time to time.

The brand meets all the age group's requirements with high quality and all the accessories required for everyone irrespective of age. Their prices are also affordable and trendy and have customers all over the world.

**1.2 Evolvement and Development:**

There was a new store opened in New York, the first one out of Europe country. This was a breakthrough achieved by H&M. This store was in a well-known shopping street where many other affluence brands were located. This strategy helps the brand to evolve by giving good competition to other fashion chains.

In 2004, the brand has started an association with a designer Karl from Germany who designed for high-end labels. Later in 2007, the fashion company saw its rise in Asia. Then, it has developed its way online and overseas.

Later, the brand leveraged several IT technologies and developed different applications to make the customer experience satisfactory. Now, it has transformed into a digital model where customers can sit at their homes and do the shopping through their application or website.

**1.3 Apparel Industry and Sustainable Fashion:**

Daily, new fashion outlets join the business world to serve the textile industry. The fashion business is booming and has a great influence on the globe today, which is fantastic as they can be heard and influence change that benefits the entire globe. Looking ahead, we anticipate significant material advancements as well as improvements in the recycling and textile manufacturing sector.

The oil industry is the world’s first polluter and then comes the fashion industry which is a major pollutant. As this industry is growing rapidly, there would be a significant difference in the environment. The fashion company has a Canopy principle to reduce the desertification of the forests.

The fashion line started a new program in 2013 which has collected the clothes to protect the environment. As part of this plan, coupons were given to the customers who will contribute the clothes that were used. These materials are then recycled and used again for manufacturing new ones; in this way, they can obtain no waste.

This company’s Conscious Exclusive collections are a series of periodic fashion collections that are at the forefront of H&M's sustainability efforts. “Take Care” by H&M, is presently available in retailers in the United Kingdom and a few other countries. Customers may get tips to repair and re-use the products.

These selections have a clear goal to make the company go ahead towards continuous and sustainable development and lots of creativity. The cloth used in this category of items is giving the designers a new challenge towards the sustainable trend. This collection is influenced by the artists based in Sweden from their beautiful homes.

**2. What happened, When and where did it take place?**

**2.1 Strategy and Success:**

**a. Going digital:**

Nowadays, every business is going digital to make it accessible to its customers. This strategy has been implemented by this fast-growing fashion brand as well. After going digital, the company has got a lot more profits and earnings.

The company announced a 30 percent rise in online sales in October 2019 because of combining online and in-store sales. There were more than 180K staff and the earning of $25B in the year 2019. The brand today has a net value of $12.38 billion, making it one of the top 100 wealthiest brands in the world, thanks to Erling's son's leadership. The fashion brand’s online sales currently account for a considerable share of overall sales in several markets, and online sales of 14.5% of sales.

**Since many of the works are being completed by just scrolling through the mobiles these days, this strategy has paid off well. The brand has also done a lot of improvements in its user interface and managing its inventory up to date.**

**b.** **Leveraging IT:**

They have developed an IT staff having data engineers and other technical people to examine the trends in the data and make improvements in its business. Information technology plays a significant role in growing the business digitally. Technology has evolved so much that human efforts can be reduced in as many areas as possible and replaced with different applications. It has made evolvement through creating different applications which made great progress in the company’s income. The technologies like artificial intelligence and machine learning added growth to the brand’s applications which are online and offline.

The IT sector is growing drastically as businesses depend upon the IT teams for various applications and automation. Data is playing a significant role in this. By checking the insights of the data in a timely manner, a business can know where it is lacking and hence can focus more on the points where it is down. Mainly, the e-commerce industry works by data. By using different tools, one can analyze the graphical data and know where the company is gaining profits. The brand can focus more on the categories where it’s getting more sales and make the production low for the categories that are having low sales.

**c. Low-cost strategy:**

H&M is a fashion retailer with a low-cost strategy and a focus on high fashion. Following this, H&M responded with a clear reflection of lower prices and higher margins in all countries worldwide (Fraser Strategy 2015). Outsourcing their bulk manufacturing to low-cost countries with skilled and low-wage workers resulted in large profit margins.

**d. Fast fashion:**

They are the pioneers of rapid fashion,' and their clothes adapt to new trends swiftly. H&M tested its rapid fashion strategy in a store in Östermalm, Stockholm. The company used to carry essentials for everyone later after analyzing purchase history with machine learning, they discovered that the majority are women consumers. They had cut its inventory by 40%, and then they removed the menswear line.

With Machine learning technologies, the brand was able to understand the insights of its sales data and discovered that many of its customers were women. Along with this, they had adapted to rapid fashion according to the new trends.

**e. Collaborations:**

Its fateful first collaboration with Lagerfeld, the company has made different collaborations on their accessories and clothing with famous designers. This fashion retailer has used strategic collaborations which will maximize its reach around the globe.

Collaborations are taking a high place nowadays in the marketing of any business. People get to know more about the details of the brand, like the materials used and the fit levels.

**2.2 Artificial Intelligence and Machine learning Implementation:**

H&M can also provide more exact supply and demand forecasts by using AI to analyze data from RFID tags and other data sources.

According to the H&M AI head, the clothing store employs an AI-driven demand forecast to optimize the supply chain. Another technology, big data, has also been utilized by the company to know the most useful needs of the customers. One-day delivery is also one of the biggest migrations it has done to make one-day delivery happen in implementation in Europe.

The below are the examples where the Artificial Intelligence technology has been implemented.

**RFID customised suggestions**:

If a customer has seen any product in their website or application, then they can check if it is available in the store as well. They can scan by using the RFID technology and see where the product which they want to purchase is available in stock. It has also implemented the online suggestions individually even in the stores by the help of this technology.

**Maintaining the inventory for the bestselling products**:

The brand has developed various algorithms so that they can check on the sales data and figure out which products are the bestselling. The fashion retailer will understand which products they should maintain more inventory of with respect to the branches. This will help the brand to always stay on top and maintain its success.

**Warehouses that are robotic:**

The e-commerce business's success runs on its delivery speed and shipping time. Hence, the brand has implemented robotic warehouses so that the orders can be sorted immediately and shipped to their destinations with fast delivery. With this technology, the brand has offered immediate day delivery in Europe. It has also included free shipping for some of its special customers who are frequent buyers of this brand. All this has been implemented by algorithms and different data.

**Demand Predictions:**

Fashion brands need to know which products are in high demand so that they will not waste their profit by reducing their prices in the name of discounts and clearance sales. The items that are in high demand will be kept at the same price or more according to the location. For this, the brand needs to know which products are in high demand. They have used the data from its sales to predict the trends.

**Personalized Designs according to customer needs:**

By associating with an Artificial Intelligence platform, this brand has checked the customers' designs according to their requirements and hence made their products accordingly. In this way, the brand will be able to be in line with the local interests of the products or accessories.

**2.3 Digital Innovations/Transformation of H&M:**

First and foremost, transforming to digital means integrating the technology overall in the system. Automation is the first thing that will be implemented end to end on the whole system. H&M, the world's largest clothing retailer, is an excellent example of a company that has achieved more success by incorporating digitization into its business plans. The statement by fashion retailer H&M of its ambitions to transform its multiple stores digitally shows a definitive shift in focus from traditional retail to digital growth.

**a. E-Commerce:**

H&M's e-commerce sales have climbed by about a third after they went digital H&M, which Top 500, is adding services such as in-store pickup and returns, as well as many payment options, improved search, and faster delivery.

**b. Unique Image Search and recommendation engine:**

What H&M had introduced was a better way of finding clothes that went beyond the usual method by allowing customers to reproduce their favorite influencers' ensembles using a unique image search they introduced, which allows them to input an image and have the results show a highly personalized filter. Another new feature was the recommendation engine, which can alert customers to available alternatives if the ones they want are sold out.

**c. Voice Application:**

In collaboration with Google, they have developed an application. Customers can use the voice application to make a purchase fully.

**d. RFID:**

From 12 markets in 2018, RFID (Radio Frequency Identification) will extend to many markets. The products having digital price tags can be instantly spotted using RFID technology.

**e. 3D Studio:**

Allowing for a more efficient procedure and the usage of less material, the brand has implemented 3D technology. An actual 3D studio, as well as new technology and training, have been installed.

**f. Take Care Online initiative:**

The Take Maintenance campaign also has an internet presence that offers clothes care guidance and information, such as how to remove stains and reattach buttons. H&M held a series of free workshops in conjunction with the launch, in collaboration with several local influencers, to build awareness of the project. If the initial experiment in Germany goes well, the project could be expanded to other countries.

**g. Perfect Fit App with Artificial Intelligence and Augmented Reality (AR):**

The concept was developed in the H&M Group's innovation lab, the customers can try the clothes on themselves virtually and can select the products.

Their work with Artificial Intelligence to stay up with needs according to demand is exemplified by Perfect Fit.

**h. Sorted by H&M App using Machine Learning:**

H&M has introduced a new personal styling app for men that uses machine learning to provide customers with personalized curated recommendations from the retailer's complete collection. ‘Sorted by H&M' is now available for download on iOS devices exclusively, and it employs both human stylists and artificial intelligence to provide users with a variety of styling suggestions tailored to their body shape and eye color.

By interacting with the app and providing it with information about your preferences and concerns, such as broad shoulders or long legs, it will create a highly tailored profile for you and make "ideal" recommendations.

**2.4 Success rate with Digital Innovations:**

H&M's new strategy of integrating online and in-store sales resulted in a 30 percent boost in online sales. A fantastic start for a company that wasn't hesitant to embrace the digital revolution. H&M completed the global shift to a new web platform in January 2019. For the customer better shopping experiences, the fashion retailer is into online now having all their products in their applications online.

**3. Why did it happen?**

**3.1 Challenges Faced:**

Firstly, the fashion market competition has increased. Consumer buying habits have changed. Shipping charges, return concerns, and the cost of establishing a new digital technology infrastructure might all add up to be prohibitively expensive.

The brand manufactured more inventory without understanding the needs of the customer, and hence they faced huge losses from its items being unsold. This is because the fashion retailer was not able to predict the demand for the items which are the bestselling and hence produced the items which are the least selling.

One other reason was that the fashion brand was not able to predict what the customer interests were according to the location. It initially followed the same strategy for all the locations. Later, when they realized the losses incurred due to this, they changed their plan of action by leveraging different data tools to analyze the data.

**H&M's stock has dropped:**

In 2018, their stock price came to below 10 years after they announced profits that were lower than 20% when compared to the previous year. There are two major reasons for the down of the company. For starters, the brand has a history of failing to predict. H&M now has over $4 billion in unsold inventory because of its unwillingness to respond quickly. Second, H&M did not understand key market consumer preferences. Despite the terrible news, there are some encouraging signs, there is a 22% increase in online sales, because of which the online income has 30billion SEK.

Persson claims that H&M's "challenges" in the change in 2018 generated learnings that will help the company avoid repeating the mistakes in 2019 and beyond. Inditex, the parent company of Zara, surpassed H&M as the world's largest apparel store in 2013.

**4. how can it be sustained and continue to remain successful?**

**4.1 Success Factors:**

Balancing fashion and price are the biggest tasks of any clothing retailer. This brand has done it by following a strategy of low costs and new fashion trends in the market. With its strategies of marketing and fast production of the materials and short life cycle of its products, this company has become one of the most famous brands on the globe.

The company has developed various mobile applications to improve the customer’s virtual experience of shopping, where the customer can try on their clothes virtually before purchasing them. The term "fast fashion" has been heard in recent times because of the drastic profits obtained by fashion companies. As a result, proponents of sustainable and ethical shopping have reacted negatively.

The following are the success factors:

1. A clear goal

2. Fast Fashion

3. Remarkable Collaborations

4. Product life cycle is short.

5. Reducing the number of products on sale

6. increasing client traffic

7. store locations

8. Sustainability

**4.2 Improvements made:**

H&M's omnichannel sluggishness isn't due to a lack of funds; Improvements are briefly listed below,

• Image search, allowing buyers to go straight from inspiration to purchase.

• hm.com is being upgraded.

• The Next day Delivery.

• With virtual reality, there is an application called Perfect Fit has been implemented in Sweden.

• Find in the Store option created.

• Click-and-Collect feature.

• By associating with Google, the brand has developed an application based on voice which is called “Home Gift Guide”.

• In-Store mode.

• By using 3D technology, fashion retailers are now using applications to design their outfits to save money and time, as well as consume less material.

• Scan & Buy

• Online returns in-store.

**4.3 How can it continue to remain successful?**

**a) Making the brand notable by Influencers Digitally:**

In general, 58 percent of garment purchasers think that they must know what materials are being used in the garments and the other details of the product, but only 38 percent often inspect the label for information. This is when the influencers enter the picture. Even though 53% of respondents believe it is critical to purchase from companies with great ethical working conditions, only 23% have done so. Even though 60% of consumers believe openness is important, just 20% actively seek information during the purchasing process. Consumers value the opinion of an influencer more than the opinion of your marketing staff, according to a recent survey conducted by an organization, so let influencers spread the word about your sustainable initiatives. According to a Zalando survey, consumers want someone else to show them how to be more sustainable, and influencers can fill that gap, but only if they first win your audience's trust.

Clothing that didn't fit, didn't look well or was the wrong size accounted for 46 percent of returns, according to Narvar, and this is where influencers come into play. By participating in live shopping, customers may see how products fit real bodies, which are likely to resemble those of the influencer's followers.

Influencers play an important part in the sales of products in today's digital age. The available items. They use multiple social media platforms to represent the brand in their unique manner, resulting in a greater reach to consumers who are unfamiliar with the brand.

**b) With easy Orders Tracking and Exchanges through Mobile Application:**

Everyone is going digital these days for their online shopping, and they can trace their items from packing through delivery. The brand may keep its mobile application up to date with the latest trends to make it more customer centric.

By making exchanges simple for customers who do not like the product or have fitting concerns or defects, sales will continue to grow because the client will not have to worry about the product until it is checked upon arrival. They can reveal the tracking of both the swapped and new orders once an item is exchanged.

**c) Returns tracking/Refunds policy:**

When products are returned, each firm has its refund policy. The return policy can be made user-friendly and customer-friendly so that customers do not have to worry about their spending if they must return a product for any reason.

Return orders must be collected as quickly as possible so that customers will be interested in shopping from the same clothes retailer again. If the return process takes too long, the consumer will become irritated, and the business will lose an online customer. Customers can also be given access to return status tracking so that they can estimate when they will receive their refund money.

**d) Re-using materials:**

Client returns can account for up to 40 percent of the overall sales which have been done digitally, which will result in waste materials that are discarded and more than 25 percent of the items which are returned are demolished. In this situation, the materials from the discarded things can be recycled and repurposed to create new products. This will save the brand money on materials and waste will be reduced.

**e) Website/Mobile Application improvements every season:**

Customers will examine their internet page before ordering any product to learn more about the items, designs, and materials used. The user interface must constantly be user-friendly so that customers may navigate the entire site with ease. From time to time, the listings must be classified. The stock of the items can be displayed to the consumer, allowing for an increase in sales percentage as the stock decreases. Restocked items must be made available on the internet as soon as possible.

Seasonal upgrades to the website and mobile app are required. There could be logos and films connected to the season that entice the customer to explore the site further.

There may be videos of models wearing the products so that the client can see how it looks before buying them. Videos can also help with size accuracy, lowering the number of returns and discarded items.

**f) Make your Design using custom Applications:**

Because each customer's needs may differ, a bespoke mobile application can be developed in which customers can design their outfits and prints from the brand's collection. This could boost sales since many individuals will realize that by tweaking a few design elements, they can obtain apparel that meets their wants and is like what they already have. Because it is a tailored choice that the manufacturer must do just for their order, the expenses of these custom designs can be quite costly.

**Summary:**

H&M has become one of the most well-known clothing chains, and it has consistently placed top in the fashion competition by providing long-lasting apparel for all age groups as well as a variety of accessories. Its various IT efforts aimed at improving the customer experience have paid off several times when measured by growth and earnings. The brand has seen digital growth thanks to artificial intelligence and machine learning technology. By implementing the above modifications and working on them regularly in response to its issues, H&M hopes to demonstrate sustainable growth in its business plan. To summarize, to continue to remain successful, H&M must continue to be transparent about its sustainability plan, avoid becoming a consumerist, and remain customer centric.

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