**STRATEGIC FINANCIAL ANALYSIS**

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# Introduction

Strategic financial analysis (SFA) refers to a framework that is adopted by a company in order to make a review of the company's financial environment and act accordingly in order to address companies financial shortcomings. A strategic financial analysis is done by a company in order to frame financial policies and strategies which will help the company in attaining its financial objectives.

The aim of this report is to focus on the strategic analysis of the current performance of H&M in the UK's market in fashion and retailing. The report will also help in framing a strategic financial plan for its future business development.

# Company's overview

H&M started its operation in 1947 with its first retail outlet in Hennes. The company has its headquarters in Stockholm, UK. The company is involved in catering to the demands of fashion-related products for men, women and kids. H&M Group is a large multi-national company with a presence across the globe with fashion industry-related products. H&M group is associated with people and society by providing them with quality products with an aim of creating profitable and sustainable growth. The company's products are accessible to its customers through various brands which are COS, Weekday, Arket, Found and others. The company aims at providing fashion products that are accessible to all segments of society. Scaling innovation, Promoting transparency and collaborating with industry leaders for industry-wide progress are some of the important objectives of the company (*Hmgroup.com,* 2023). H&M's vision is to circulate fashion industry products that have net zero impact on climatic conditions. The company aims at attaining financial goals along with sustainable development. Some of the important visions of the company H&M are that it aims at becoming net zero across the value chain by the year 2040. The company aims at having a positive impact on biodiversity.

# Current Performance

|  |  |  |
| --- | --- | --- |
| **Profitability Ratios** | **2021**  **(in SEK M)** | **2022**  **(in SEK M)** |
| Gross Profit margin |  |  |
| (gross profit/revenue)  \*100 | (105006/198967) \* 100 | (113277 / 223553)  \* 100 |
|  | 52.78% | 50.67% |
| Operating profit margin |  |  |
| (operating profit/revenue)\*100 | (15255/198967)\*100 | (7169/223553)\*100 |
|  | 7.67% | 3.21% |
| Net profit margin |  |  |
| (Net profit/ revenue)\*100 | (11010/198967)\*100 | (3566/223553)\*100 |
|  | 5.53% | 1.60% |

**Table 1: Profitability condition**

(Source: Created by self)

The above table shows the profitability of the company H&M. From the above table it can be seen that the gross profit ratio has decreased from 52.78% in 2021 to 50.67% in the year 2022. The operating profit of the company has decreased from 7.67% in 2021 to 3.21% in 2022. Lastly, the net profit margin has been shown in the table which depicts that the net profit margin has declined from 5.53% in 2021 to 1.60% in 2020.

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Liquidity ratios** | **2021**  **(in SEK M)** | **2022**  **(in SEK M)** |
| Current asset ratios |  |  |
| Current asset/Current liabilities | (78986/60997) | 79523/68335 |
|  | 1.294916143 | 1.163722836 |
| Quick Ratios |  |  |
| Quick Assets/Current liabilities | (78986-37306)/60997 | (79523-42495)/68335 |
|  | 0.683312294 | 0.5418599546 |

**Table 2:Liquidity conditions**

(Source: Created by self)

The above table gives us a description of the company's liquidity condition. From the above table, it can be seen that the Current asset ratio of the company is 1.29 times in 2021 in comparison to 1.64 times in 2022, which shows that the current asset ratio of the company has increased. The current asset ratio gives a positive outlook of the company in accordance with its current assets position. This shows that the company is in a solvent position to meet up its liabilities in accordance with its current assets. The quick ratio of the company has decreased in the year 2022 to 0.54 times with that of 0.68 times in the year 2021. The quick ratio provides a negative health of the company's quick assets. This shows that the company has a lesser value of quick assets in comparison to the previous year in order to meet up its liabilities.

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Solvency Ratios** | **2021**  **(in SEK M)** | **2022**  **(in SEK M)** |
| Debt Equity Ratios |  |  |
| Long-term Debt/Shareholders Fund | (58766/60018) | (62956/50757) |
|  | 0.98 | 1.24 |
| Debts to asset ratio |  |  |
| Total debts/total assets | (119763/179781) | (131291/182048) |
|  | 0.67 | 0.72 |

**Table3: Solvency conditions**

(Source: Created by self)

The above table gives us a description of the company's solvency position. From the above table, it can be seen that the debt-equity ratio has increased from 0.98 times in 2021 to 1.24 times in 2022. This gives a negative outlook regarding the company's solvency position. This depicts that the debt position of the company has increased. The investors and shareholders prefer the companies whose debt-equity ratio is lower. The debt-to-asset ratio of the company has also increased from 0.67 times in 2021 to 0.72 times in 2022 which gives a negative outlook of the company's asset position. The debt-to-asset ratio shows that the asset position of the company has decreased in comparison to its rising debt.

From the above tables, it can be seen that the financial position of the company has declined in the year 2022. The causes of the decline in financial results of the company H&M have been attributed due to a spiraling increase in input costs and a decrease in the sales volume of the company. The operating profit margins of the company have declined sharply in the year 2022 in comparison to 2021. Another major factor which had contributed to the decline in its profit margin was the closure of its operation in Russia due to an increase in the cost of raw materials, freight, energy costs, currency translation costs and restructuring charges valued at around 5 million crowns to the company. The closure of the company's operation in Russia had a negative impact on the company's financial results. The company had a negative impact on its balance sheet due to the Russia-Ukraine war situation which created a disruption in the company's supply chain process (Cnbc, 2023). The company had to face the heatwave of supply chain disruptions because consumers have started shifting to other companies products.

# Strategic Plan for future business development

Strategic plans refer to the process or course of action which can be adopted by a company in order to survive in versatile business conditions. In order to survive in this competitive business environment companies can formulate policies and strategies in order to retain their market position. In order to increase the business volume and retain a company's market share it is important for a company to adopt a strategic plan and work accordingly in order to achieve its desired goals and objectives (Mannes and Ringstrom, 2023). The strategic planning process requires undertaking certain steps which are chalking out a plan, identifying a strategy to implement the plan, formulating policies to implement the plan and controlling. The controlling function is undertaken in order to analyse whether the plans are being properly implemented or not. Strategic plans are important factors that can be adopted by a company in order to undertake future business development programmes. The plans which can be adopted by H&M for future business development are described below:

Segmenting Target Customers:

Segmenting target customers is an important strategic planning function that can be adopted by companions in order to develop its business. H&M can segment its customers according to their age group, genders, social status income and others in order to improve its product presence and variance (Pradana and Ha, 2021). Segmenting its market according to the needs of customers will help the company in achieving its growth objectives. The company can attract its younger generation customers through its online presence. The company can identify the trending demands of its customers and design products accordingly. This will help the company in improving its brand image and sales (Brotspies and Weinstein, 2019).

Adopting an effective marketing strategy

Pricing strategy:

Adopting a robust pricing strategy provides a company with a competitive edge over other companies operating in the industry. H&M can adopt a lenient and effective pricing strategy that can provide quality products to the customer. An effective strategy refers to a strategy that aims at making the company's product accessible to all sections of society (Nagle and Muller, 2018). H&M can adopt an effective pricing strategy in order to make its product accessible to all sections of people in society. This will help the company to improve its business. Providing quality products at an affordable rate will help the company in improving its brand and market position, which will ultimately boost the profitability of the company (Gibbs *et al*, 2018).

Promotional strategy:

Promotional strategies refer to strategies that are framed by a company to make its products identifiable by the customers. Promotional strategies are an important factor that helps in achieving the growth and development objectives of the company. H&M can adopt an effective promotional strategy for the future development of its business (Paul, 2018).

Advertising:

The company can market its products through various means which will help the company in improving its sales. H&M can publish advertisements in newspapers, and magazines, and provide ads on television and radio. The company can market its products through social media platforms which are Facebook, Twitter and Instagram which are accessible to almost all segments of customers. The company can appoint a legendary personality as its brand ambassador who will deliver advertisements for the product.

Distribution Strategy:

Distribution strategy refers to a process that is adopted by a company in order to make its products and services accessible to all sections of society. H&M can adopt AI-based supply chain management processes which will help the company in improving its market penetration. Companies can use AI-based tools to identify their products' presence and accessibility by customers in different areas of a country. By getting a report on the company's product accessibility and availability, the company can adopt strategies and policies to increase its market share. The management of H&M can use AI-based tools to monitor the supply chain process and avoid disruption in this process. H&M can tie up shopping mall giants in order to set up its stores in their malls which may have a positive impact on its sales.

Positioning Statement:

It is one important strategy which can be adopted by any company for its future business development process. The company can use AI locators in order to identify market areas and set up its stores accordingly. The company can adopt an online process in order to make its products accessible to consumers. The company can use online platforms in order to resolve customer queries and issues. The above discussions may help the company in attaining future business development objectives.

# Conclusion

The above report helps in concluding about the company H&M which is one of the major multinational companies dealing in fashion industry products. The report aims at discussing strategic financial analysis policies which can be adopted by the company. The report helps in providing an insight into the financial position of the firm using various ratios helps in getting a view of the profitability, liquidity and solvency position of the firm. It also discusses the various factors which have led to a decline in profitability. The last part of the report helps in analysing the strategic plans which can be adopted by H&M for future business development.

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