

MBA Global

H&M Strategic Management Plan

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1. Business Background

H&M has a franchise agreement with M H Alshaya for apparel distribution in the UAE. As shown in figure 1 and 2, the apparel’s sales share for Womenswear in UAE is 31% with a 10.1% growth and 2,792 £ mn sales in 2013.

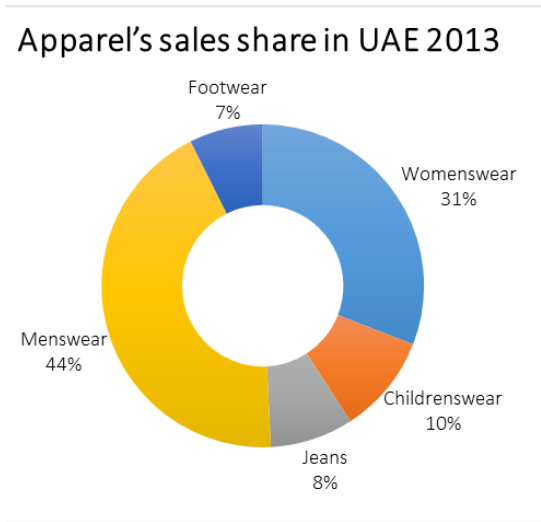


Figure 1

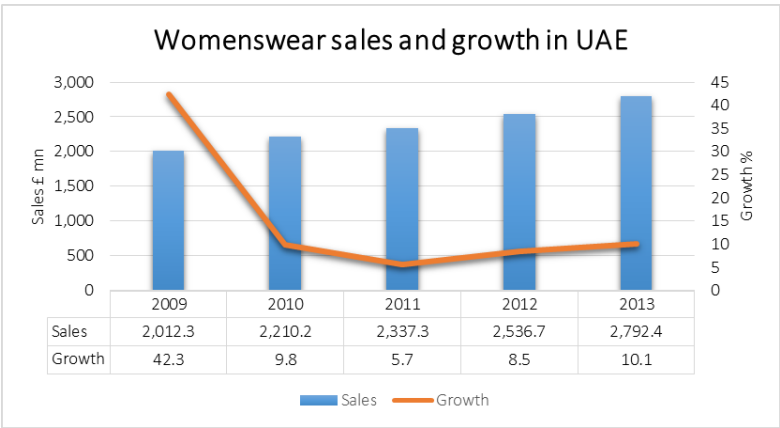


Figure 2

The company’s sales share for the Womenswear business in UAE is 44% of the total apparel sales (figure 3 and 4).

H&M categories sales share in UAE 2013

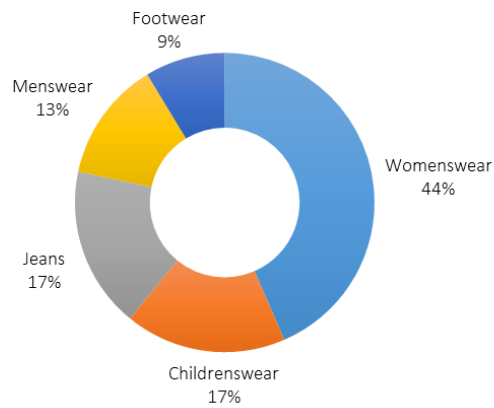


Figure 3

H&M categories sales and growth in UAE 2013

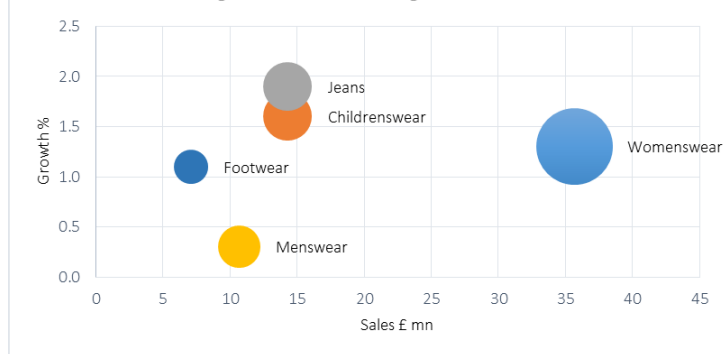


Figure 4

H&M has an overall market share of 1.3% with 35.7 £ mn of the UAE Womenswear total retail business (figure 5).

H&M Womenswear sales and market share in UAE

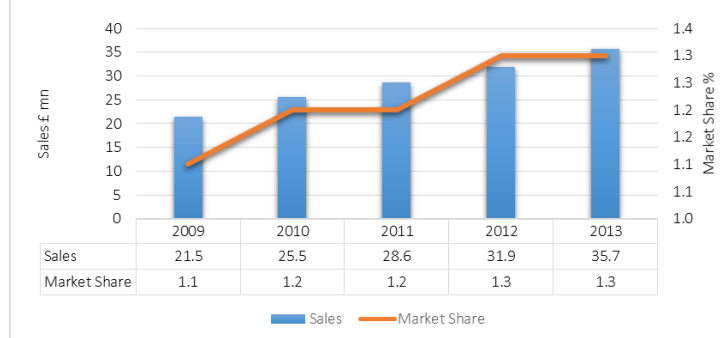


Figure 5

2. Customer Target

In UAE, shopping is considered an integral part of women's social activities. The increase in consumer confidence participated in additional expenditure from this group. Increased number of expatriates and tourism are contributing strongly in the sales growth of clothing accounting 70% of tourist shopping, and womenswear, 50% for the latter.

The women's needs can vary according to women's interest and life style. However, table 1 summarizes the most women's apparel common needs with the correspondent importance. The price sensitivity of women is an important factor that affects their purchasing decision.

Women's apparel common needs and importance	
Customer Need	Importance
Fashion	1
Brand	2
Quality	3
Selection Variety	4
Pricing Offers	5
Loyalty rewards	6
Availability / No of Stores	7
Online Shopping	8
Mobile App	9

Table 1

3. Position and Core Value

The core value of H&M is to make affordable, good quality fashion accessible to people.

In Womenswear market, H&M ranked as the 14th leading brand with a market share 1.3% (table 2).

H&M categories market share and rank

Product type	Value share	Rank
Apparel and footwear	0.8%	18
Apparel	0.8%	21
Menswear	0.3%	26
Womenswear	1.3%	14
Jeans	1.9%	9
Footwear	1.1%	15

Table 2

Figure 6 and 7 shows H&M position.

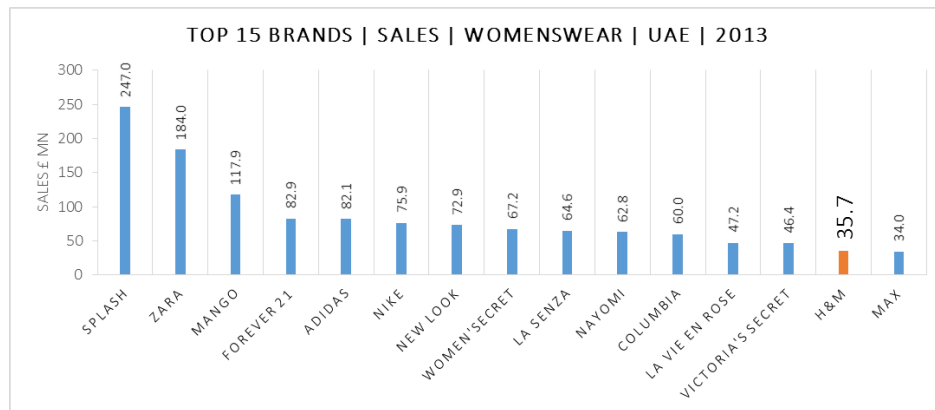


Figure 6

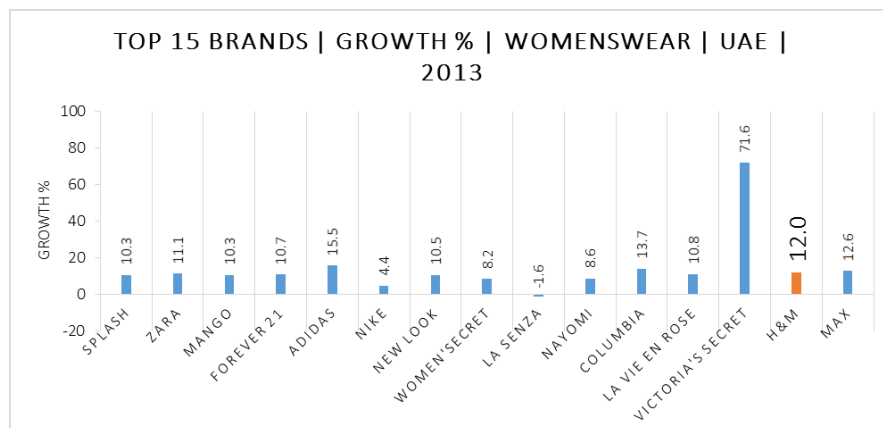


Figure 7

Figure 8 illustrates the market share of the top 15 brand across the Womenswear sector and shows H&M with 1.3% market share.

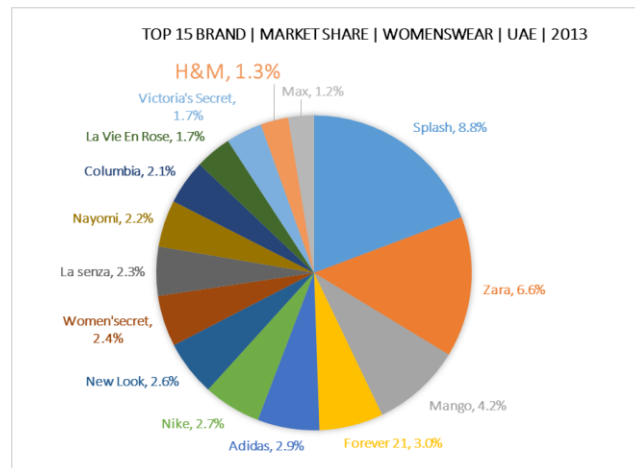


Figure 8

Figure 9 and 10 illustrates the position of H&M compared to two of its main competitors Zara and New Look in the UAE market.

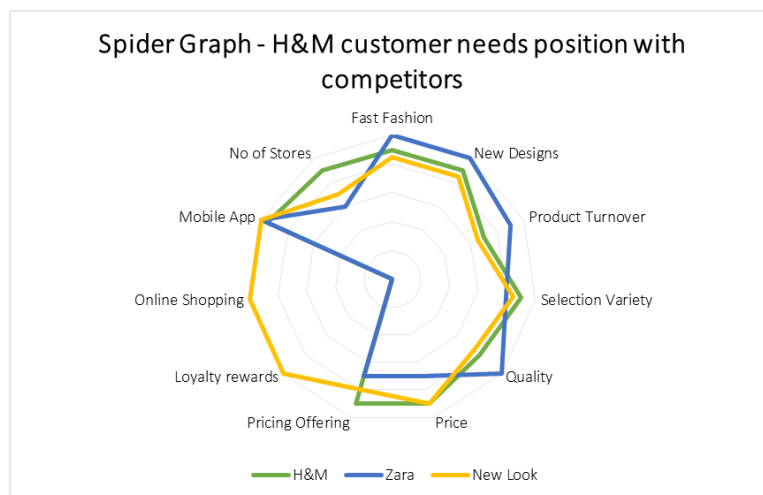


Figure 9

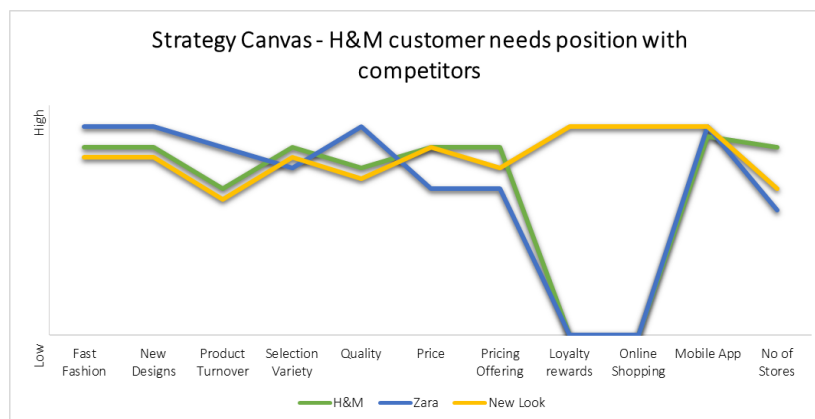


Figure 10

4. Business Audit

4.1 Operating Model

H&M has its major warehouse in Hamburg, Germany where global distribution is centralized. However, a separate distribution center was established in UAE where merchandise is shipped daily to stores from it. To increase the turnover of individual items, stores are restocked daily.

In UAE, H&M local franchisee M H Alshaya Co does not operate any production facilities. All brands are imported from production centres elsewhere for UAE retail distribution. As of the moment, internet retailing is not offered by H&M for any of its brands in UAE.

Figure 11 illustrates the H&M operating model in UAE with the associated core activities that are currently handled by its local franchise M H Alshaya Co as well as activities need improvement or new activities that allow H&M achieves its core value and improve its market position.

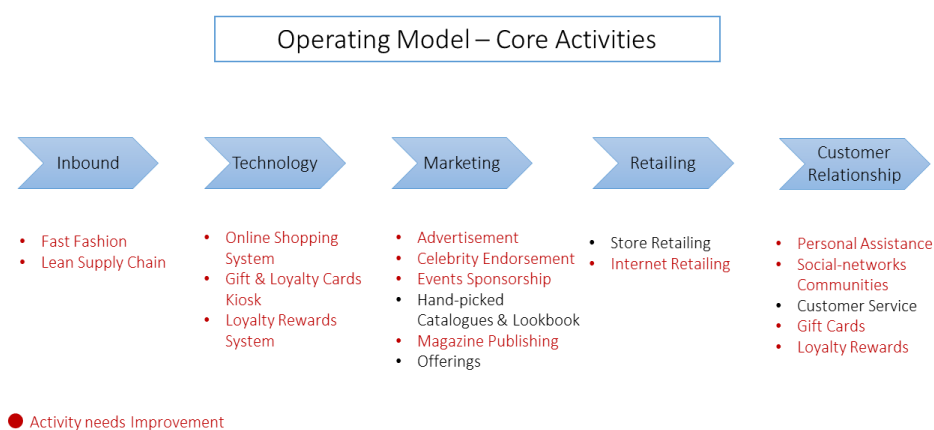


Figure 11

H&M operating model consists of:

- **Inbound** operations that handle the supply lags and delays
- **Technology** section that concerns of all technological related areas including the internet retailing, Gift & Loyalty cards Kiosk and loyalty rewarding system

- **Marketing** section is responsible of advertisements, celebrity endorsement, events sponsorship, catalogues, magazines and price offerings.
- **Retailing** section that handles both store and online retail operations
- **Customer Relationship** section that handles customer service, customer personal assistance, customer's communication through social-networks, issuing Gift Cards, and issuing Loyalty Cards for rewards.

4.2 Activity System Map

Figure 12 illustrates the activity system map for H&M in UAE. The proposed activities, which are currently not implemented by H&M, are colored with gray. The core activities are dotted filled.

To achieve the core value, the activity map is subdivided into five main objectives:

- **Affordable Price** can be achieved by provide customers with different pricing options as
 - Loyalty rewards
 - Price offerings (e.g. Ramadan & Feast, Dubai Shopping Festival, Season End and Weekend Bonanza)

Reducing costs can be achieved by improving the supply chain and by applying lean supply chain.

- **Endorsed Branding** can be achieved by increasing the marketing investment in different areas as
 - Celebrity endorsement
 - Different advertisement channels (e.g. TV, internet, sport games, streets and malls)
 - Fashion events sponsoring
 - Issuing Gift and Loyalty Cards
- **High Availability** can be achieved by
 - Store expansion

- Online stores with purchasing capability
- **Productive & Loyal Staff** can be achieved by
 - High Incentives
 - Training (e.g. Lean Thinking, Customer Service and Sales)
- **Fashionable & High Quality Product** can be achieved by
 - Decrease the supply delays (i.e. Fast Fashion)
 - Increase selection variety (e.g. Maternity Variety)
 - Select High Quality Items

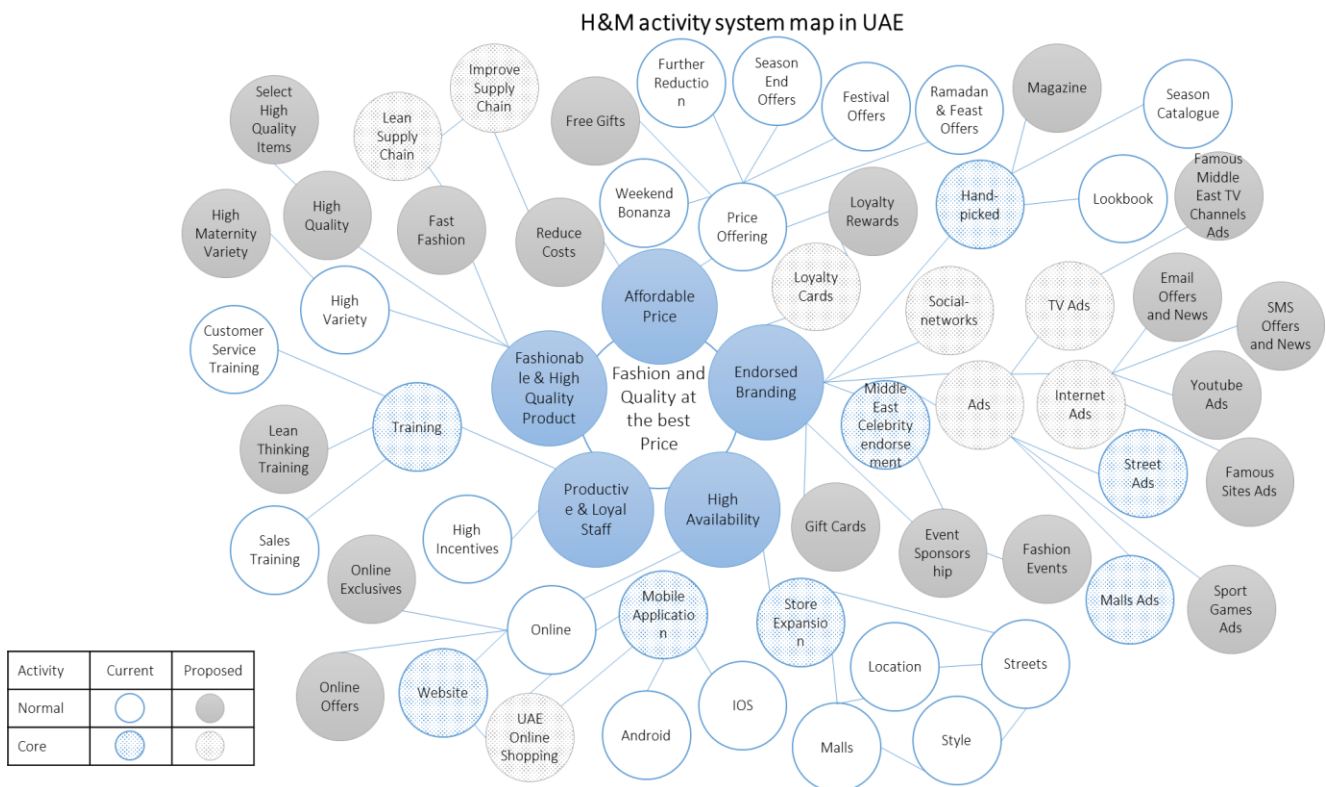


Figure 12

4.3 Core activities, Costs and Resources

Table 3 summarizes the core activities associated with direct costs and resources.

Core Activity	Direct Cost *	Resources
Technology		
Online Shopping System	£170,000	<ul style="list-style-type: none"> Outsourced physical and human resources Financial resources
Gift & Loyalty Cards Kiosk	£260,000	<ul style="list-style-type: none"> Outsourced physical and human resources Financial resources
Loyalty Rewards System	£260,000	<ul style="list-style-type: none"> Outsourced physical and human resources Financial resources
Marketing		
Advertisement	UAE TV Channel Ads Rate: £2,000 per show Youtube homepage takeover: £250,000	<ul style="list-style-type: none"> Marketing team Financial resources
Celebrity Endorsement and Collaboration	£32 mn per annum	<ul style="list-style-type: none"> Marketing team Financial resources
Events Sponsorship	£59,000 UAE Shopping Festival	<ul style="list-style-type: none"> Marketing team Financial resources
Hand-picked Catalogues & Lookbook	£3.4 mn per annum	<ul style="list-style-type: none"> Marketing team Financial resources
Magazine Publishing	£6.8 mn per annum	<ul style="list-style-type: none"> Marketing team Financial resources
Stores Investment		
Store Expansion	Rent: £71 per square foot per annum Setup: £500,000	<ul style="list-style-type: none"> Financial resources
Retailing		
Store Retailing	Operating Cost: £21 mn per annum	<ul style="list-style-type: none"> Retailing team Physical Store
Online Retailing	Operating Cost: £470,000 per annum	<ul style="list-style-type: none"> Retailing team Online store
Customer Relationship		
Personal Assistance	Included in operating costs for store retailing	<ul style="list-style-type: none"> Customer services team Helpdesk infrastructure
Social-networks Communities	Included in operating costs for store retailing	<ul style="list-style-type: none"> Customer services team Helpdesk infrastructure
Customer Service	Included in operating costs for store retailing	<ul style="list-style-type: none"> Customer services team Helpdesk infrastructure
Gift Cards	Included in operating costs for store retailing	<ul style="list-style-type: none"> Customer services team Helpdesk infrastructure Self-service Kiosk machines
Loyalty Rewards	Included in operating costs for store retailing	<ul style="list-style-type: none"> Customer services team Helpdesk infrastructure Self-service Kiosk machines

* Costs are estimated based on market research

Table 3

4.4 Strength/weakness vs Strategic Importance

The strengths and weakness of H&M in the Womenswear retailing business in UAE are illustrated versus the strategic importance in figure 13.

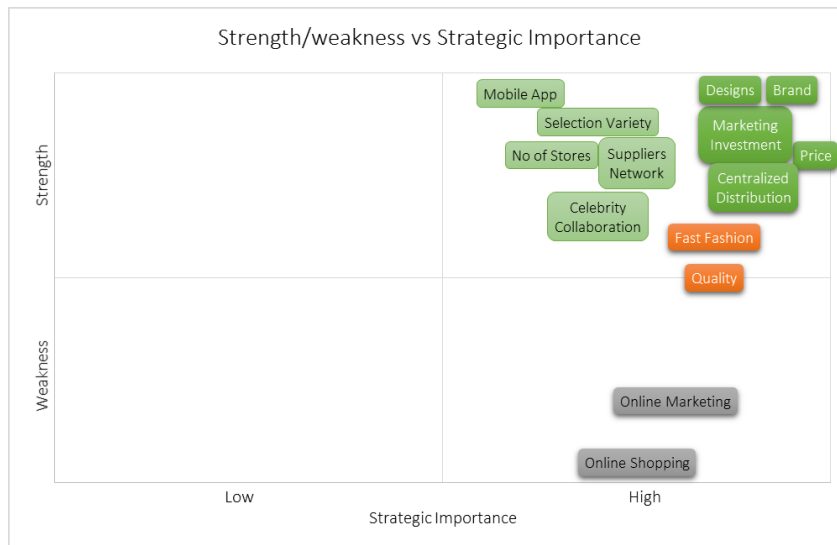


Figure 13

5. Internal and External Linkages

5.1 Internal Linkage

In UAE, H&M does not provide Gift Cards nor Loyalty Cards services for its customers. However, Today's technologies can provide customized and personalized gift and loyalty cards, which offer a fast and efficient transaction for customers. Gift cards can become a key revenue driver for H&M and a convenient purchase option for its customers.

H&M technology area can provide the marketing area with Custom Gift and Loyalty Card Kiosk solution.

The internal linkage between the two areas within the company in producing customized gift and loyalty cards will lead in increasing in the gift card sales, efficiency and customer satisfaction.

5.2 External Link

As more of the population than ever online, access to the internet is imperative for the development of shopping online. UAE internet apparel retailing saw 66% growth in 2012 which exceeding growth in all other distribution channels.

As social networking is becoming an integral part of day-to-day life, consumers in the UAE are rapidly becoming familiar with the online shopping functionalities.

H&M currently does not offer internet retailing in the UAE. However, the linkage with the global e-commerce and mobile commerce trend has to be strengthen within UAE. As more players, as Landmark Group, invest in internet retailing, growth of the channel is certain which gives advantage to those players.

6. Management Agenda

The objective of the management agenda is to improve the company performance in the Womenswear retailing business. The agenda is 6 quarters (18 months) action plan that is concerned with the core activities in the operating model.

In Quarter 1, operations, marketing and information technology teams start the process of establishing an online shopping system and issuing the hand-picked catalogues and Lookbook.

Quarter 2, operations, marketing and information technology teams start the process of purchasing Gift & Loyalty Cards Kiosks to be distributed to the company's stores. Moreover, the mentioned sections setup the Loyalty Rewarding System to be up and running starting from Quarter 3.

Quarter 3, operations and marketing teams review and contracting with famous celebrity profile for annual endorsement contracting.

Quarter 4, operations and marketing teams establish a marketing campaign through a marketing agency over 5 famous TV channels in UAE for one year as well as marketing over Youtube for 30 days distributed over the year. Moreover, the teams start a sponsorship agreement for the next Shopping Festival in Dubai.

Quarter 5, operations and marketing teams establish a quarterly fashion magazine that contains fashion news and events globally as well as locally in UAE.

Quarter 6, operations open new store in Dubai Festival City Mall (DFC Mall). DFC Mall is considered as one of the famous malls in Dubai, which is over two million square feet of leasable space and has 400 world-class retailers, 75 restaurants, cafes and bistros with indoor and outdoor seating.

Table 4 illustrates details on each action item including the associated costs, resource allocation, millstones, and responsibilities.

After executing the proposed agenda, H&M is expected to be within the top 10 brands in market share % in UAE for the Womenswear retailing.

Action	Associated Cost **	Resource Allocation	Milestones	Responsibilities
Quarter 1				
<ul style="list-style-type: none"> Issue request for proposal for the online shopping system Review submitted proposals Select a vendor for system implementation 	£170,000	<ul style="list-style-type: none"> Outsourced physical and human resources Financial resources 		<ul style="list-style-type: none"> Information Technology Operations
<ul style="list-style-type: none"> Issue hand-picked Catalogues & Lookbook 	£3.4 mn per annum	<ul style="list-style-type: none"> Marketing team Financial resources 		<ul style="list-style-type: none"> Marketing
Quarter 2				
<ul style="list-style-type: none"> Issue request for proposal for the Gift & Loyalty Cards Kiosk Review submitted proposals Select a vendor for system implementation 	£260,000	<ul style="list-style-type: none"> Outsourced physical and human resources Financial resources 	<ul style="list-style-type: none"> Establish the UAE online shopping store 	<ul style="list-style-type: none"> Information Technology Operations Marketing
<ul style="list-style-type: none"> Issue request for proposal for the Loyalty Rewards System Review submitted proposals Select a vendor for system implementation 	£260,000	<ul style="list-style-type: none"> Outsourced physical and human resources Financial resources 	<ul style="list-style-type: none"> Distribute the hand-picked Catalogues & Lookbook 	<ul style="list-style-type: none"> Information Technology Operations Marketing
Quarter 3				
<ul style="list-style-type: none"> Review famous celebrity profiles for endorsement contracting Communicate and negotiate with the short listed celebrities Contracting celebrity for endorsement and collaboration 	£32 mn per annum	<ul style="list-style-type: none"> Marketing team Financial resources 	<ul style="list-style-type: none"> Distribute the Gift & Loyalty Cards Kiosk to the stores Operate the loyalty rewarding system 	<ul style="list-style-type: none"> Operations Marketing
Quarter 4				
<ul style="list-style-type: none"> Contracting marketing agency for new marketing campaign for one year Start the advertisement campaign on UAE TV famous channels and on famous internet sites as youtube 	Agency contract: £2 mn UAE 5 TV Channels Ads, 3 shows per day: £10 mn Youtube homepage takeover for 30 days: £45 mn	<ul style="list-style-type: none"> Marketing team Financial resources 	<ul style="list-style-type: none"> Celebrity endorsement contract 	<ul style="list-style-type: none"> Operations Marketing
<ul style="list-style-type: none"> Contract for UAE Shopping Festival Sponsorship 	£59,000 UAE Shopping Festival sponsorship	<ul style="list-style-type: none"> Marketing team Financial resources 		<ul style="list-style-type: none"> Operations Marketing
Quarter 5				
<ul style="list-style-type: none"> Publish H&M fashion magazine in UAE 	£6.8 mn per annum	<ul style="list-style-type: none"> Marketing team Financial resources 	<ul style="list-style-type: none"> Start the marketing campaign 	<ul style="list-style-type: none"> Operations Marketing
Quarter 6				
<ul style="list-style-type: none"> Open new store 	Rent: £71 per square foot per annum Setup: £500,000	<ul style="list-style-type: none"> Financial resources 	<ul style="list-style-type: none"> Distribute the H&M fashion magazine in UAE 	<ul style="list-style-type: none"> Operations Marketing

** Costs are estimated based on market research

Table 4

7. References

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