

Strategic case analysis - ARKET

1. Overview

Arket is one of the eight H&M group's brands. Their first store opened in 2017 in London. Currently, Arkey has 21 stores across North-west Europe and also sells online. The head office is located in Stockholm, Sweden. (H&M Group, n.d.) Arket sells Nordic-style clothing and homeware. The product range Arket offers falls into multiple categories: clothes for women, men, children, travel, and homeware products. Arket prices range from £30 to £300. Every Arket shop has a vegetarian café incorporated inside, a warm place where customers find inspiration and have a good time.

Arket is part of the category of ethical and environmentally sustainable fashion brands, as they aspire to produce long-lasting fashion and use sustainably sourced materials that help them become climate-positive. Other brands that are part of this category include Patagonia or Adidas. Arket designs clothes that are made to be used for a long time and do not follow short-term trends. (ARKET, n.d.) At the moment, 76% of the materials Arket uses are sustainably sourced. (ARKET 2020)

Suzy Hansen argues in a case study about Zara that Americans buy on average 64 garments in one year, but she also claims that Europeans buy more than Americans, as in the US stores are located in malls located very far away from cities. Moreover, she mentions that people are impulsive buyers and fast-fashion retailers such as Zara use this to their advantage (Hansen 2012). Arket's innovative approach of producing durable fashion in a world of fast-fashion is what makes this case study particularly interesting: not only for the different production processes compared to fast-fashion but also for the psychological strategies Arket uses for shifting consumer behaviour. Therefore, the targeted audience of this case analysis is anticipated to be fashion-retailer employees from both of the aforementioned categories – fast-

fashion and durable fashion. But not only them –this is a useful read for corporate strategists that analyse consumer behaviour in any industry, or even academics researching behavioural patterns.

2. Goals

We can see that Arket's explicit goal is to use 100% sustainably sourced materials by 2030 and to become fully climate positive by 2040 in the whole supply chain. (ARKET 2020) Moreover, Arket's explicit goal to produce long-lasting fashion is a sub-ordinate goal to the previous one – Arket aims to become fully climate positive by producing long-lasting fashion – expanding the lifecycle of each product as much as possible. (ARKET 2020) (Henkel 2018) Arket is willing to sacrifice offering trendy clothes and newness to its customers to achieve this – according to Lars Axelsson (CEO), Arket produces 3 seasonal collections per year (Henkel 2018) – which is much less than the fast-fashion retailer Zara – their stock changes even within 10 days. (Hansen 2012) Furthermore, Arket gave up on using materials such as fur, exotic skins, wool from mulesed sheep, as they are not good for the environment. (ARKET 2020) The company did this despite knowing that some women are willing to pay money for these materials as they consider them elegant and luxurious.

We can deduce an important implicit goal – as Arket wants to be climate positive in the whole supply chain, they also care about the waste produced by the consumer. My analysis is based on the following argument – Arket's priority should be the consumer, not the supplier and the retailer. We can see that Arket is being sustainable by choosing suppliers that use “green” materials, or by re-using materials from old clothes (ARKET 2020). However, for durable fashion to exist, the products need to be purchased and enjoyed by the customer, otherwise, the retailer will become bankrupt. Arket's most important goal is shifting consumer behaviour – encouraging the consumer to embrace long-lasting and sustainable fashion so that the lifespan of each product is extended also on the consumer side. Another reason for this case analysis to

focus on the consumer's behaviour is the following – it is more difficult to change the habits of the consumer than it is to implement policies and decisions in a company. While implementing environmentally sustainable policies upper in the supply chain can be costly, shifting consumer behaviour requires psychological and marketing strategies, designing excellent services, a lot of creativity.

3. Situation

This section of the case analysis provides an understanding of Arket's external and internal situation, explaining both resources and constraints that affect the company's ability to achieve its goals. Therefore, this section is showcasing only information that is considered to be relevant to the company's goals and the company's strategies identified in the next sections, and not all the background information available for Arket.

3.1. External Situation

There is an obvious reason why increasingly more fashion brands started to produce environmentally sustainable clothes: according to McKinsey, "fashion accounts for 20 to 35 percent of microplastic flows into the ocean and outweighs the carbon footprint of international flights and shopping combined" (Amed and Berg 2020, 52). Arket represents one of these brands, as the company pursues the explicit goal of becoming fully climate positive by 2040. (ARKET 2020)

3.1.1. Consumer shift trends

The main relevant characteristics of Arket's external situation are the consumer shifts trends presented by McKinsey's 2019 and 2020 State of Fashion reports. First of all, one important external resource to consider is people's increasing willingness to purchase environmentally sustainably produced garments. According to a McKinsey US cohort survey, 66% of respondents and 75% of millennials said they consider sustainability when making a purchase.

(Amed and Berg 2020, 52) This is due to the media coverage and activists that argue on this subject. However, McKinsey also presents an external constraint: respondents may not always act accordingly. The answer to the question “Are you willing to pay more for products that have the least negative impact on the environment?” is “yes” for only 12% of boomers, 17% of Gen X, 26% of millennials, and 31% of Gen Z. (see Exhibit 1) (Amed and Berg 2020, 55) But we can see that younger generations increasingly state that they will pay more for sustainable products. Another important resource to note is people’s need for transparency. McKinsey argues in 2019 that people are concerned about what goes into products and how they are made: 52% of millennials, 45% of Gen Z, and 41% of boomers surveyed research for background information before buying. (Amed and Berg 2019, 60) McKinsey mentions Arket as a player example for this strategy, as the company is transparent about the origins of each product. The characteristics presented above about Arket’s situation are important to mention as they affect its ability to pursue the goal of shifting consumer behaviour – from fast-fashion to durable fashion users – using transparency for their products. It is clear that there is a growing interest in this behaviour as consumers want transparency and sustainability, but they are not yet willing to take action – which is why innovative approaches are needed.

Additionally, McKinsey’s 2019 State of Fashion raised some interesting points about a new business model for fashion retailers – renting. In some industries, the consumer is more interested in access versus ownership – a great example is how Netflix replaced video stores in the film industry. Data from McKinsey’s survey with industry respondents supports this claim (see Exhibit 2) – 41% of respondents said that they expect consumer appetite for rental goods to be more relevant in 2019, versus 28% that consider it less relevant. (Amed and Berg 2019, 41) The reason for the growing demand for rentals is the fact that people want newness: a British survey found that one in three women consider clothes old after wearing them once or twice and one in seven said it is a fashion mistake to be photographed in the same outfit twice.

(Barnando's 2015) The growing demand for rental and the need for newness can be seen as a resource that helps Arket achieve its goal of extending the life of products by shifting consumer demand using their children renting program. However, it can be considered a constraint when considering another strategy Arket adopts – creating a functional design for clothes to make the buyer use them for a long time.

**Younger generations increasingly
state that they will pay more
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negative impact on the environment**

% OF US CONSUMERS IN 2019 WHO WOULD PAY MORE

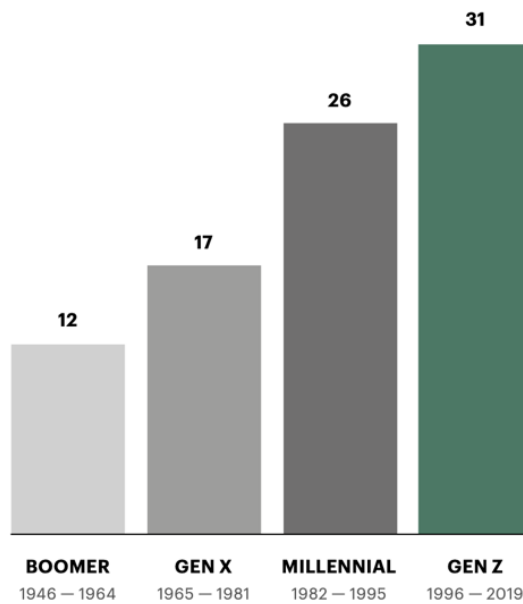


Exhibit 1 (Amed and Berg 2020, 55)

Expectations on consumer appetite for new ownership models

% of respondents

More relevant in 2019 Less relevant in 2019

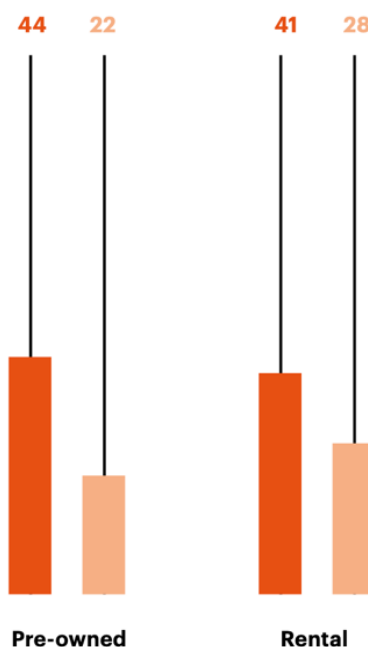


Exhibit 2 (Amed and Berg 2019, 41)

3.1.2. Competitors

An important external constraint is competitors such as Zara – the fashion retailer takes advantage of impulsive buyers (a case study mentions that Americans buy an average of 64 garments in one year) by frequently changing their stock – “within 11 days the entire stock will change” - to promote newness and monitoring customer’s reactions to clothes through employees to find short-term trends (Hansen 2012). Zara’s strategy challenges Arket’s capability of promoting durable fashion behaviour and creating functional design. Arket’s customers are tempted by fast-fashion retailers such as Zara and might forget about sustainable fashion if their need for newness and trendy surpasses their morals.

3.2. Internal Situation

3.2.1. Suppliers and Materials

The main relevant resources that Arket uses to achieve its sustainability and transparency with customers goals are its suppliers and the materials used in production. First of all, Arket managed to build strong and trusting relationships with its suppliers. Arket works with 170 suppliers in 24 different countries. This helps them offer transparency further in the supply chain – to customers. Second of all, Arket's choice of suppliers helps them achieve sustainability: they work with suppliers such as organic cotton growers in India, responsible wool farmers in Uruguay, or producers of circular materials in Slovenia and Hungary. Because of these collaborations, Arket managed to use 76% sustainably sourced materials and 11% recycled materials for their products. Some of these include organic cotton, recycled cotton, linen, recycled wool. Arket promotes the use of circular materials to increase the lifespan of textiles. Some of the recycled materials they use are collected through their Recycle with Arket program – they offer 10% vouchers for people that bring in any kind of clothes. (ARKET 2020)

The fact that Arket collects recycled clothes and collaborates with suppliers that work with recycled textiles could also be seen as a constraint to achieve its goal of encouraging the customer to embrace durable fashion. This is because upcycling is new in the industry and slows down the production process, making it difficult for Arket to produce enough supply. In a McKinsey report, Patagonia talked about how they produced 10000 garments upcycled from old clothes - it takes longer than working with normal textiles, and some products, such as small size jackets, are extremely difficult to integrate into the upcycling process. Also, it is more expensive. (see Exhibit 3) (Amed and Berg 2020, 59)



Exhibit 3: Upcycling snapshot (Amed and Berg 2020, 58)

3.2.2. The design studio and rental program

An important resource that helps Arket achieve its goal of producing functional design for clothes that will be used for a long time is the design studio located in Stockholm. Arket's CEO explains that the in-house technicians study vintage clothing and source materials to identify the archetypical qualities of a particular style or print and to custom the development of yarns and fabrics to create products that can stay the test of time. (Henkel 2018)

Furthermore, it is important to mention Arket's partnership with Circos – Arket's rental program for children will not be possible without this rental service. They take care of the clothes after they have been returned by performing professional laundry and dry-cleaning services to make sure the clothes are ready to be rented again. This partnership helps Arket pursuing its goal of making consumers' behaviour more sustainable – as consumers rent and return instead of throwing away garments. (ARKET, n.d.)

4. Strategy

This section of the case study aims to analyse 3 strategies implemented by Arket. I will look at how each strategy is relevant for accomplishing Arket's goals and how each strategy makes use of the external and internal situation presented above.

4.1. Strategy 1 – Creating an emotional bond between the customer and the product

Arket aims to create “emotional durability” between the product and the customers. They explain that building a strong relationship with our belongings makes it difficult to replace them is a psychological fact. Arket attempts to create this bond by being transparent about the craft and resources used in making a product to make the customer appreciate it more and to be more aware of the consequences of the throwaway society. (ARKET 2020)

Arket implements this strategy in their online store: for each product, they share data about which supplier made the product and on which factory, what materials were used, what ideas inspired the design, and how the product can be used (See exhibit 4). Also, care instructions are provided for each product. H&M group was named number one in the latest Fashion Transparency Index, surpassing brands such as Patagonia or Adidas. They acknowledged the merit of 2 of their brands in a LinkedIn post – H&M and Arket. (H&M Group 2020) Therefore, Arket promotes the long-term use of their product and aims to shift consumer behaviour using the afore-mentioned strategy – creating a bond between the customer and the product by offering transparency into their sustainable practices.

As described in the Internal Situation section, Arket's long-term collaboration with suppliers allows them to pursue this strategy – they collaborate with suppliers that use sustainably sourced materials. At the same time, as Patagonia mentioned in McKinsey's State of Fashion, producing clothes from recycled materials is more costly in both time and money (Amed and Berg 2020, 59). This may be a constraint for Arket. However, the external environment

provides an opportunity – it is argued in 2 McKinsey reports that people are increasingly considering the environmental footprint in products and need transparency to trust a brand, even though only 31% of Gen Z will pay more for these “green” products (Amed and Berg 2020, 55) (Amed and Berg 2019, 60). The main point here is that there is a disruption in the consumer’s behaviour – there is not enough demand for sustainable fashion yet, but the future sounds promising.

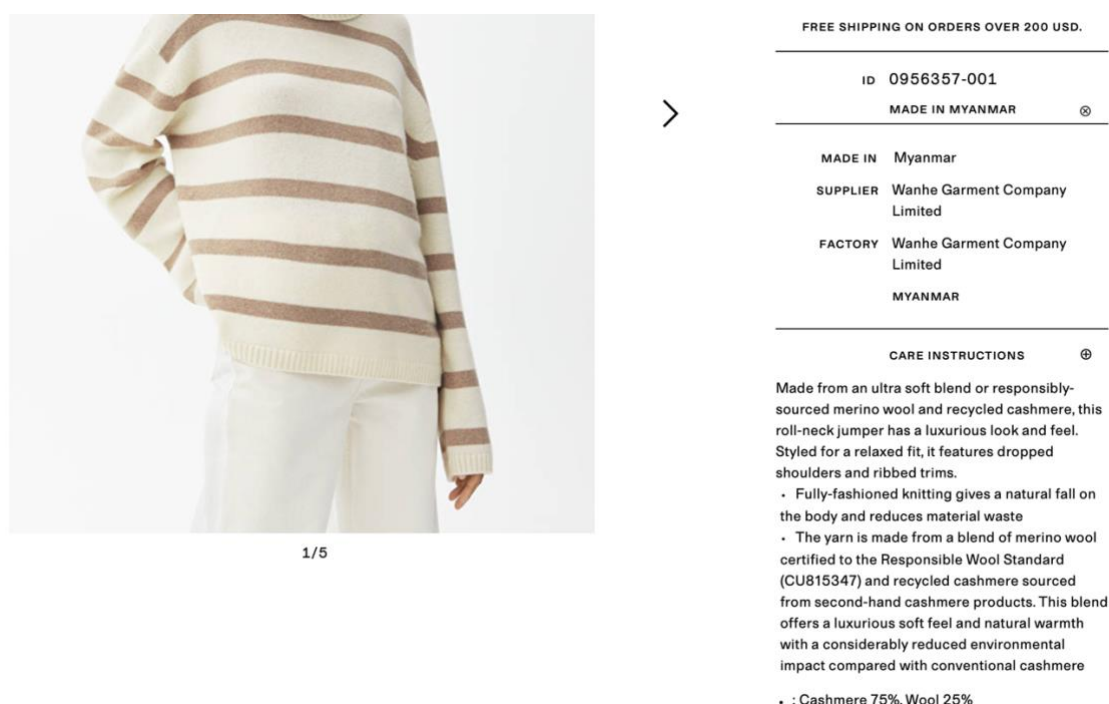


Exhibit 4: How Arket displays products in their online store (ARKET, n.d.)

4.2. Strategy 2 – Providing functional clothing design

Arket aims to extend the lifespan of a product by the way it was designed – the strategy is to provide functionality so customers can use and love the clothes for a long time. The design does not follow short-term trends. The company has 3 seasonal collections each year. The longevity is conferred by the fact that the clothes are designed to be used in different seasons, different occasions and are versatile such that they can be combined in many ways. They are qualitative and simple. (Henkel 2018) Therefore, Arket’s approach in design is suitable for achieving their

goal – reducing the waste produced by the consumer by convincing the consumer to use clothes for a long time. See Exhibit 5 for examples of Arket’s approach to design showcased in some of their products. To what extent is this strategy useful? There are some constraints faced by Arket here. First of all, as explained in Situation (Consumer shift trends), people crave newness – women consider clothes old after only wearing them twice and they do not want to be photographed in the same outfit more than once. (Barnando’s 2015) Competitors such as Zara know this and monitor customer reactions to change their stock and promote new trends every week. (Hansen 2012) However, Arket has an opportunity to win the market – customers know that Zara’s business model is not sustainable as they are responsible for producing a lot of waste – and as McKinsey argues, people are increasingly concerned about the environment when they consider making a purchase. Moreover, Arket’s simple yet qualitative and versatile design provides a good reason for customers to shift their behaviour and embrace durable fashion.

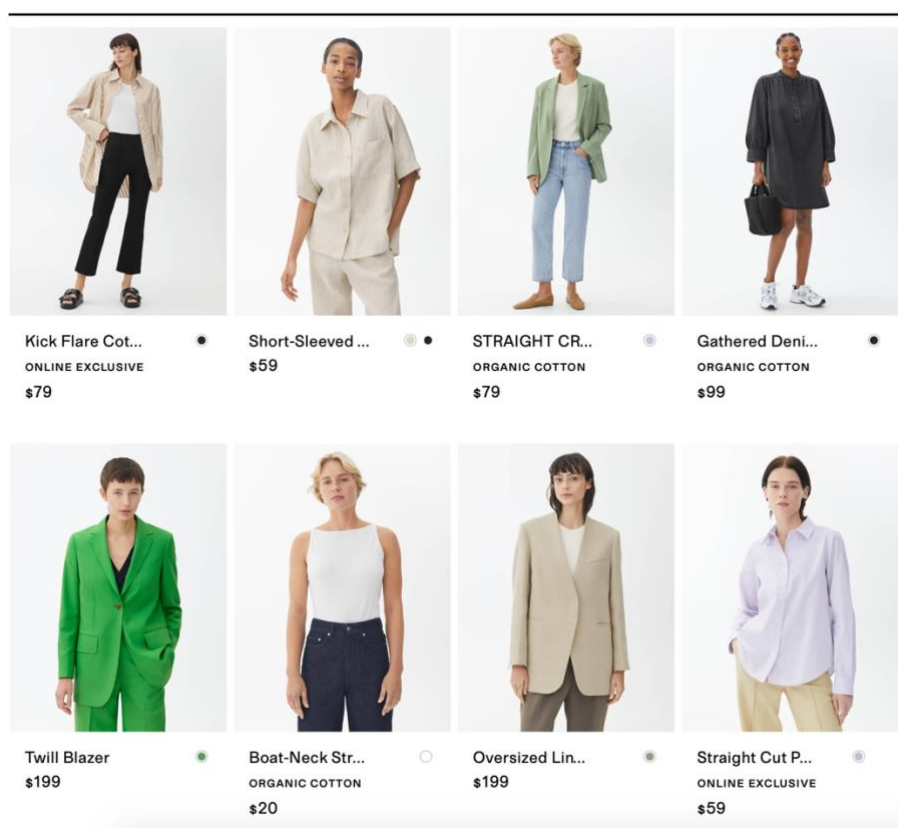


Exhibit 5: Arket simple and qualitative products designed to last (ARKET, n.d.)

4.3. Strategy 3 – Exploring a new business approach for children

Arket identified children as the main cause for consumer waste – this is because a typical child grows through eight sizes in the first two years of its life and on average parents buy around 280 pieces of clothing during this time. These are used for a few months or less. (ARKET, n.d.) The first strategic action Arket pursued to address this problem is designing children clothes that are made to be shared. They design unisex clothes, which makes it easier for the parents to give them away to other families after they are outgrown. Also, the design corresponds to the previously mentioned principle – a classic design that transcends short-lived trends. (ARKET, n.d.) One can argue that this strategy is more effective for children than for adults (strategy 2). This is because the previous constraints (the fact that costumers want newness and fast-fashion retailers offer that) do not apply to children. Children do not care about fashion trends as their clothes are purchased by parents. Of course, parents care about the appearance of their children, but they will buy them qualitative clothes and will not follow fashion trends. Therefore, this action is strategic – it has great potential in achieving Arket's goal of making customers use clothes for a long time. Children would use the clothes until they are outgrown and then give them away to other families.

The previous strategic action is based on an assumption – the fact that parents will give away clothes to other families because it is easy for them as clothes are unisex. However, people are lazy, and it is much easier to throw them away. It is all about user convenience. Arket noticed this – and came up with another strategic action. They partnered with Circos to provide a Rental program for children aged between newborn and 4 years. Buyers pay a monthly fee for renting the clothes and then return them. (see Exhibit 6) Arket estimates that between 8-10 families will share and enjoy the same piece of clothing until it wears out. This action helps Arket achieve its subordinate goal of becoming fully climate positive by 2040 – Circos estimates that their customers help save 242 liters of water and 6 kilos of CO₂ emissions per month compared

to parents who buy all of their children's clothes. (ARKET, n.d.) Other brands that collaborate with Circos to rent for children include Patagonia and Adidas.

The action is also appropriate given the external situation presented by McKinsey – the rental industry is growing as the majority of retailers surveyed expect that customers' preferences for rental are becoming increasingly relevant. Furthermore, they explain that people are more interested in access rather than ownership. McKinsey predicts that renting is the future of fashion and makes an analogy to the film industry – how Netflix replaced buying DVDs. (Amed and Berg 2019, 41) Given these facts presented by McKinsey, this action is strategic in achieving Arket's goal of shifting consumer behaviour to embrace durable fashion.

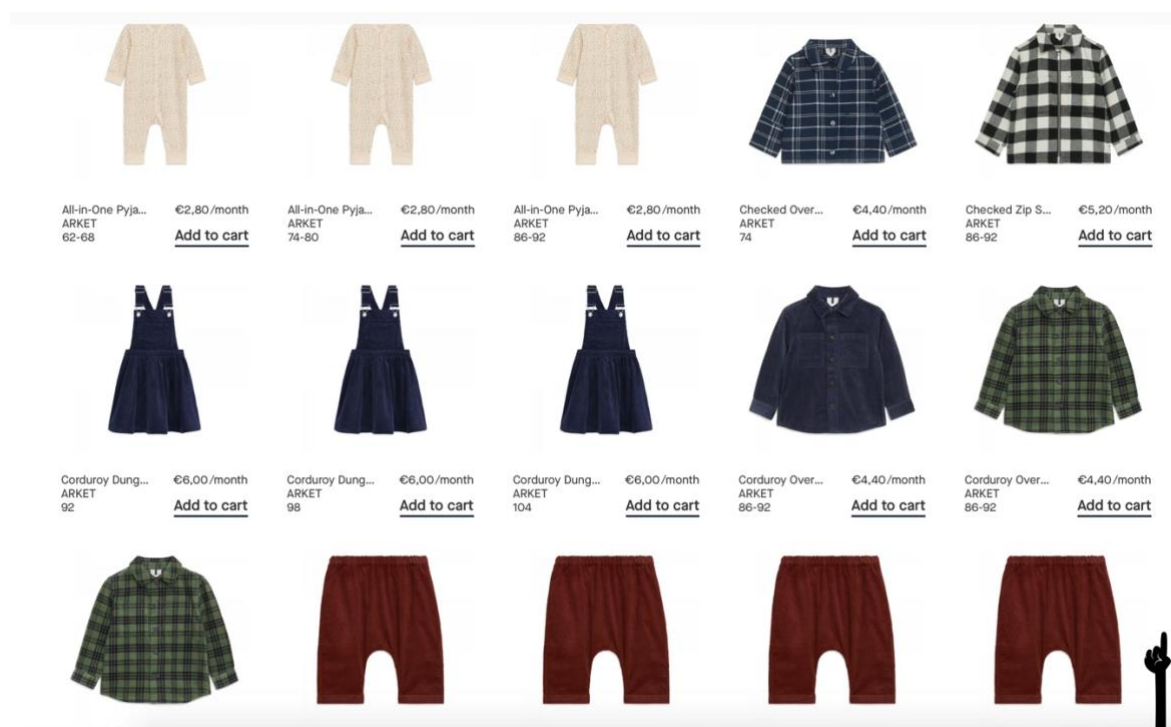


Exhibit 6: Arket rental program for children unisex clothes (Circos, n.d.)

4.4. Strategy – conclusion

To wrap up, the most strategic and appropriate action presented here is the rental program for children. This offers a convenient and easy way for customers to contribute to extending the lifespan of a product. One can argue that an alternative interpretation of Arket's strategy for

providing long-lasting fashion is taking actions such as producing clothes from upcycled materials to extend the life of textiles and then analyse the production process with recycled materials. However, this action is related to the retailer and supplier and I believe that shifting consumer behaviour is more difficult and important than implementing decisions and policies in a company.

A plausible alternative aspect of Arket's strategy is how they created a warm and modern place in each store by incorporating a vegetarian café. It can be argued that this café is also shifting consumer behaviour and contributes to creating an emotional bond between the consumer and the products and thus making the customer use the clothes for a longer time. Arket's CEO claims that the café is a place where customers find inspiration and it is exactly what they were missing from the user experience. (Henkel 2018) I decided to not focus on this strategy as the physical stores are currently closed due to Covid restrictions. This makes it extremely difficult to assess the effectiveness of the café – without going into the store.

5. Evaluation

A SWOT analysis will be conducted to evaluate Arket's strategy. This framework analysis Arket's strengths, weaknesses, opportunities, and threats in relation to its goals and situation.

Among the strengths, Arket's long-term collaboration with suppliers that use sustainably sourced materials represents the biggest competitive advantage. This allows them to offer transparency to consumers about the environmentally sustainable production process for each product – therefore creating a connection between the consumer and the product and making the customer use the product for a long time. It is important to add that Arket's in-house technicians allow them to produce durable designs both for children and adults.

Arket's biggest strength could also represent a weakness. Instead of manufacturing in-house, Arket outsources most of its production to 170 independent suppliers. The downside of this is

that Arket is dependent on its suppliers – they could, for example, be late in the production process or provide poor quality textiles. Another weakness we can identify is the fact that Arket uses recycled materials in the production process. Patagonia explains how costly it is to do this compared to using normal textiles– both in time and money. (Amed and Berg 2020, 59)

The most important opportunity for Arket, which they already identified, is the fact that children grow through 8 sizes in the first 2 years of their life, so parents buy over 200 garments for them during this time. At the same time, there is this growing trend for the rental business identified by McKinsey. The majority of fashion-retailers surveyed recognised the increasing importance of rental. Rental allows people to enjoy new products while not producing waste. (Amed and Berg 2019, 41) These opportunities help Arket make customers extend the lifespan of products by participating in their rental program for children.

There are other opportunities for Arket given by emerging trends in consumer behaviour. First of all, McKinsey identified an increasing willingness to buy environmentally sustainable products. Second of all, McKinsey recognises the fact that people nowadays need transparency to trust a brand – this is supported by data from surveys. (Amed and Berg 2020, 55) (Amed and Berg 2019, 60) These trends offer Arket the opportunity to pursue its strategy of creating an emotional connection between the customer and the product by providing transparency – and therefore achieving its goal – making buyers embrace durable fashion.

The most important threat Arket faces is competition. First of all, fast-fashion retailers such as Zara are dangerous because they offer customers trendy and new clothes all the time. This provides a constraint for Arket in pursuing its strategy of making durable design that allows customers to enjoy their products for a long time. Competitors that use environmentally sustainable practices and have similar values with Arket also pose a threat in the market. Competitors such as Vigga or Paula Janz collaborate with Circus to offer rental programs for pregnant mothers. This customer category could be potentially equally relevant to children in

terms of waste, as during the pregnancy time of 9 months the mothers buy a large number of clothes due to the changes their body experiences. This may represent an opportunity Arket did not use, while its competitors did. One can argue that this is not an interesting opportunity as pregnant women could just buy clothes a few sizes larger for their pregnancy period. Nonetheless, these competitors allow pregnant ladies to feel good by enjoying new clothes every month while also reducing waste.

Because Arket has 170 suppliers from 24 different countries, some threats include trade tariffs and the global pandemic. As a Swedish company, Arket can be targeted by the UK due to Brexit. Also, the success of Arket lies upon the uninterrupted flow of raw materials, which can be endangered by lockdowns and quarantine.

We can conclude by saying that Arket's strategy has the potential of being successful if they manage to use their strengths to overcome the threats. Arket is fighting to win the market and promote long-lasting fashion using an innovative approach – taking advantage of the emerging opportunities related to the shift in consumer behaviour by pursuing psychological strategies.

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