

CASE STUDY: HENNES & MAURITZ¹

Abstract

H&M is a very successful and expansive Swedish fashion group. H&M's strategy has been developing along:

- *expansion, through the set up of a proprietary distribution network of centrally controlled stores*
- *price-competitiveness and profitability, through very efficient management of production and logistics*
- *very short lead times which ensure quick response to market trends and reduction of stocks*

H&M was a pioneer in pursuing a strategy of vertical integration with the distribution network. This strategy has allowed the company to directly collect and fully exploit information about sales and consumers in order to improve and accelerate response to the market

Case characteristics	
• Sector focus	Clothing
• Business focus	Large company
• Geographical focus	Worldwide
Case objectives	
• Supply chain integration	****
• Integration of internal processes	***
• Integration of extended enterprise	****

* = some relevance for case; **** = high relevance

Background and objectives

H&M is well known for being a successful and expansive company, both in terms of market and of financial performance. The company's strategy is carried out along the lines of continuous expansion and search for most promising markets, cost-efficient production of goods, and reduction of lead times. H&M is also an example of competitive advantages brought by integrated e-business solutions. Procurement and logistics can track sales and stock status as, owning the stores, they share a common

¹ This case study was conducted by Databank Consulting, Corso Italia 8, 20122 Milan, Italy.

IT platform. This allows the company both to react quickly whenever new trends are identified and to avoid procurement of goods which are not appreciated by the market.

H&M also relies on efficient and integrated systems for inventory management which have been able to reduce lead times while ensuring adequate stock management.

Activities

H&M sells clothes and cosmetics in about 950 stores in 19 countries. The group has more than 40,000 employees and the turnover was SEK 56,550 million (6.1 Million Euro) in 2003. Central functions are based in Sweden, but there is a national office in most of the sales countries.

Buying and production

H&M does not have any factories of its own, relying on a network of external suppliers managed through two departments: Buying and Production. The buying function focuses on customers, fashion and composition of the range. The company's clothing collections are created in Sweden by around 100 internal designers, 50 pattern designers and around 100 buyers. H&M's method of production is customer-driven. The company puts a lot effort into research and prediction of emerging trends, both through traditional research means and innovative ones such as street trends. This activity is carried out by central staff and by national offices which are responsible for detecting new trends.

The production function consists of 21 production offices. H&M purchases garments from around 750 suppliers: 60% of production takes place in Asia and the remainder mainly in Europe. The production offices have a mediating function between the internal buying department and external suppliers, ensuring that:

- buyers' orders are placed with the right supplier,
- the goods are produced at the right price and quality
- the suppliers conform to the company's code of conduct as for working conditions.

Production offices also deal with sample garments and other checking and testing, which is a major factor in reducing lead times. The decision of which supplier is the right one, is not only a matter of cost-efficiency but also depends on other factors such as transport times, import quotas and quality aspects. To minimise risk, buying is carried out on an ongoing basis throughout the year.

In recent years, H&M has reduced the average lead time by 15-20% through developments in the buying process. Flexibility and short lead times diminish the risk of buying the wrong items and allow stores to restock quickly with the best selling products.

In technical terms, H&M operates with two main collections per year, one in spring and one in autumn. Within each season, however, there are a number of sub-collections so that customers can always find new goods in stores. The aim of the company is to find the optimal time (and supplier) to order each item. In this context, quick is not always the best – while trendier garments require very short lead times, many fashion basics or children's wear may be ordered well in advance. For goods which are selling well, the company is able, on average, to get supplementary orders in a few weeks.

Logistics

Every stage in the logistic chain is controlled by H&M, acting as importer and wholesaler, as well as a retailer. Continuous IT development provides support to H&M logistics. While the stock management is primarily handled within the H&M organisation, transport is contracted to third parties. A large part of the flow of goods is routed from production sites via a transit terminal in Germany. In every country there is a distribution centre. Upon arrival, goods are inspected and allocated either in a store or in the centralised stock room, referred to as “Call off warehouse” The role of the warehouse is to replenish item levels in stores according to selling trends.

Distribution

Proprietary stores (948 in June 2004) are the main distribution channel. In Nordic countries, H&M has been selling by mail order. In 1998, H&M began its “shopping online” service which has since been continuously improved. Stores continue, however, to be the main distribution channel. The strategy behind the owning of a proprietary network is that H&M can maintain control of the expansion strategy and of business locations.

IT

IT is a crucial tool along the entire value chain. Individual stores are connected with the logistics and procurement departments and the central warehouse. From central departments, it is possible to follow sales of individual items, thus feeding an intelligent procuring system. The company relies on IT integration between the central office and the production offices. Communication between departments takes place electronically, including design and product development.

Lessons learned

Reasons behind the success of H&M are:

- organisation of production and integration of the supply chain;
- vertical integration with the distribution network allowing direct control of market and customers;
- continuous and efficient collection of information on demand which allows cost-efficiency and shortening of lead times.

Sources and references

- Articles and Annual Reports from H&M
- Company's website: www.hm.com

Contact

- *e-Business Watch*, c/o empirica GmbH, Oxfordstr. 2, 53111 Bonn, Germany
info@ebusiness-watch.org
 - European Commission, Enterprise & Industry Directorate General,
entr-ict-e-commerce@cec.eu.int
-
-