
Caroline Ng    Candice Lim    Peh Che Min    Tobias Chen

**Objective**

1. "Sustainable growth with **High Impact** strategic initiatives whilst keeping things **Simple**”
2. 10-15% growth in number of stores per year
Challenges Ahead

Key Issues

1. Prioritizing growth options
2. Maximizing shareholder’s value
3. Managing cost to support growth

- Stagnating growth in Europe
- Diverse consumer preferences
- Intense Competition
- Increase in raw material prices
- Talent attraction & retention
Criteria to evaluate growth options

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</table>

- **Degree of Complexity**
  - Simple
  - Congruent with core business & expertise
  - Cost effective

- **High Impact (x2)**
  - Sales
  - Impact on brand
  - Expertise

- **Growth Potential**
  - Future potential
  - Scalability
  - Cost-benefit analysis

- **Competition**
  - Similarity
  - Clustering effect
  - Economies of scale

*High Impact. Simple. Sustainable*
## Evaluating Growth Opportunities

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<tr>
<th>Growth Options</th>
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<th>High Impact (x2)</th>
<th>Growth Potential</th>
<th>Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve day to day performance</td>
<td>★★★★</td>
<td>★★★</td>
<td>★★★</td>
<td>☆★★☆</td>
</tr>
<tr>
<td>Expand online channels</td>
<td>★★★★</td>
<td>★★★</td>
<td>★★★</td>
<td>☆★★☆</td>
</tr>
<tr>
<td>Geographic expansion</td>
<td>★★★</td>
<td>★★★</td>
<td>★★★</td>
<td>☆★★☆</td>
</tr>
<tr>
<td>Expand product category (Home)</td>
<td>★★</td>
<td>★★</td>
<td>★★</td>
<td>★★</td>
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<tr>
<td>Brand Expansion</td>
<td>★★</td>
<td>★★</td>
<td>★★</td>
<td>★★</td>
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</tbody>
</table>

### Favorable

| Favorable | ★★★★ |

### Unfavorable

| Unfavorable | ★★★ |

*Degree of Complexity: ★★★★ - High, ★★★ - Medium, ★★ - Low, ★ - Very Low
High Impact (x2): ★★★ - High, ★★★ - Medium, ★★ - Low, ★ - Very Low
Growth Potential: ★★★★ - High, ★★★ - Medium, ★★ - Low, ★ - Very Low
Competition: ☆★★☆ - Favorable, ★★★ - Medium, ★★ - Low, ★ - Very Low
Recommendations: *Project Runway*

**Set the Stage**
1. Increase no. of customers
   - Focus on male segment
2. Increase sales per customer
   - Increase accessories segment

**Strut the Runway**
1. Geographic Expansion
   - Asia Pacific
2. Online Channel
   - Advertise on ‘taobao’
   - H&M online wardrobe

**Managing Backstage**
1. Secure new suppliers
   - South East Asia
2. H&M’s talents
   - Increase efficiency of sales people
   - Management associate programme
Recommendations: Project Runway

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Managing Backstage
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Recommendations: Project Runway

**Analysis**

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**Set the Stage**

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   - Increase efficiency of sales people
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H&M: Project Runway

Set the Stage

Strut the Runway

Managing Backstage
Grow existing segments

- Increase number of customers
- Increase sales per customer
Increase number of customers

H&M MEN

1. The Fashion Fraternity
2. Guest Designers

CAGR: 3% (2005-2010)
Market Value: 322.3Bn USD

Increase sales per customer

H&M ACCESSORIES

1. Greater Variety of Designs
2. Integration with Apparel

CAGR: 4.6% (2010 Inc.)
Setting the Stage – H&M MEN

Purchasing Behaviour Process

- **Need Recognition**
  - Look Good
- **Information Search**
  - Online
  - Self-reliant
- **Evaluation of Alternatives**
  - Creatures of Habit
  - Comfort, Price, Quality
- **Purchase Decision**
  - Brick & Mortar
  - Rationalization
- **Purchase Evaluation**
  - Less reliance on information sharing

H&M’s Men
Accessories
Setting the Stage – H&M MEN

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1. H&M’s Men
2. Accessories

1. Male consumer preferences
2. Increase advertising to men
3. Cater personal space for men

Financial risks
Market Size
Acceptance

Pilot Testing: Flagship stores in Beijing & Shanghai
Setting the Stage – H&M MEN

Analysis | Stage | Runway | Backstage | Implementation | Conclusion

1. H&M’s Men | Accessories

Shanghai & Beijing

The Fashion Fraternity
‘时尚一族’

Internet/Mobile: Chinese forums

Information Search

Personal Space
Setting the Stage – H&M MEN

Analysis | Stage | Runway | Backstage | Implementation | Conclusion

1. H&M’s Men | Accessories

Shanghai & Beijing

Information Search

Personal Space

The Fashion Fraternity

‘时尚一族’

Newly Affluent middle class

Trendy males seeking fashion tips

Internet/Mobile: Chinese forums
Setting the Stage – H&M MEN

Analysis | Stage | Runway | Backstage | Implementation | Conclusion

1. H&M’s Men | Accessories

Shanghai & Beijing

The Fashion Fraternity
‘时尚一族’

Internet/Mobile: Chinese forums

Baidu: Year 2010
• China: 64.02 billion queries
• WAP and PDA based mobile search
• Exclusive forums for males – ‘男人吧’
Setting the Stage – H&M MEN

Key Takeaways

1. Pilot market in Shanghai & Beijing – 12 months
2. International roll-out of improved H&M man in year 2012
3. Target 60 stores by Year 2013
Setting the Stage – H&M MEN

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1. H&M’s Men
2. Accessories

H&M ACCESSORIES

HELPING YOU FIND...

THE PERFECT MATCH

GET INSPIRED.
Setting the Stage – H&M MEN

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<td>1</td>
<td>H&amp;M's Men</td>
<td>Accessories</td>
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H&M ACCESSORIES

- Sales/sqm
- 0.5% to Grp revenues
Setting the Stage – H&M MEN

Analysis | Stage | Runway | Backstage | Implementation | Conclusion

1. H&M’s Men
2. Accessories

Integrating accessories with apparel

Do it your way

H&M’s Men

Integrating accessories with apparel
Setting the Stage – H&M MEN

Analysis | Runway | Backstage | Implementation | Conclusion
---|---|---|---|---

1. H&M’s Men
2. Accessories

Integrating accessories with apparel

- Trend, Modern, Classic, Everyday
- Mamma, Divided, & denim, L.U.G.G
H&M: Project Runway

Set the Stage

Strut the Runway

Managing Backstage
Strengthen existing forts while expanding new markets

250 new stores in 2011

- Aggressive pursuit of Asia-Pacific
- Increase dominance in W Europe and N America
# Identifying KEY new markets

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<tr>
<th>Untapped markets</th>
<th>Market Size</th>
<th>Ease of Entry</th>
<th>Growth Potential</th>
<th>Competition</th>
<th>Positive Spillovers</th>
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<td><strong>South America</strong></td>
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- **Favorable**
- **Unfavorable**
### Where to expand in 2011

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<tbody>
<tr>
<td>Emerging markets</td>
<td>Market Size</td>
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#### Asia-Pacific

- **High sales**
  - Ranked 3rd in value sales behind North America and Europe
- **High CAGR**
  - CAGR of 13% from 2010-2013E
- **Dominant Chinese market**
  - 71% of total Asiapac sales

Source: Euromonitor
<table>
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<tr>
<td><strong>Asia-Pacific</strong></td>
<td>Aggressive greenfield expansion – large potential, large growth</td>
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<td><strong>Middle East &amp; Africa</strong></td>
<td>Franchise mode – cultural and legal constraints</td>
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<tr>
<td><strong>Eastern Europe</strong></td>
<td>Sizeable market near H&amp;M stronghold</td>
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<td><strong>South America</strong></td>
<td>Lucrative market to enter in the future</td>
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Favorable

Unfavorable
Strengthen existing forts while expanding new markets

Analysis | Stage | Runway | Backstage | Implementation | Conclusion

Western Europe: 45%
Eastern Europe: 10%
Asia-Pacific: 25%
MENA: 10%
N America: 15%
S America

250 new stores in 2011
## Asiapac: Focus on China

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### North Asia
- China, Japan, South Korea, Taiwan

### Southeast Asia
- Singapore, Indonesia, Malaysia

Source: Euromonitor
Much potential for growth in China

SALES PER MARKET
FULL-YEAR 2009

CF Market Share (USD billions) in 2009

Germany: 71.252
China: 169

Large potential for growth in Chinese market

Source: Euromonitor, H&M
Dominating the Chinese stage

Analysis | Stage | Runway | Backstage | Implementation | Conclusion

42 stores, concentrated in Eastern China

Source: H&M
Dominating the Chinese stage

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Source: Ogilvy
Opportunities for growth in 2\textsuperscript{nd} and 3\textsuperscript{rd} tier cities

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Rapidly emerging middle class in 2\textsuperscript{nd} and 3\textsuperscript{rd} tier cities

42 stores, concentrated in Eastern China

Source: Ogilvy
**Effective way to reach out to Chinese masses**

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*Source: Ogilvy*
Leveraging on the Chinese e-commerce trend

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![Taobao.com](https://via.placeholder.com/150)

![Image of people](https://via.placeholder.com/150)

![Image of people](https://via.placeholder.com/150)
Efficient expansion via Taobao.com

- Critical mass
  - 370 million users
  - 50 million unique visitors daily

- Efficient expansion
  - Low capital investment
  - Aggregated distribution centers
Efficient expansion via Taobao.com

UNIQLO SUCCESS STORY
- 2 million RMB sales daily
- Exceeded retail store sales in just 4 days

Critical mass
Efficient expansion
H&M on Taobao Mall

Analysis
Stage
Runway
Backstage
Implementation
Conclusion

Style Guide
潮流指标
Maximising the m-commerce platform

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The current H&M application

- Basic features
- Limited geographic reach

The potential in m-commerce

- Smartphone penetration
- M-shopping takeup
- Potential in mobile

Source: Forrester Research, ABI Research, Modus Associates
Maximising the m-commerce platform

The current H&M application
- Basic features
- Limited geographic reach

The potential inm-commerce

Runway

Analysis | Stage | Backstage | Implementation | Conclusion
H&M: cheap chic, 24/7, everywhere

Analysis  Stage  Runway  Backstage  Implementation  Conclusion

Brand Saliency  Network Effect  New Retail Channel

My H&M Wardrobe
Increasing visibility 24/7, on-the-go

- Brand Saliency
- Network Effect
- New Retail Channel

- Create your outfit using H&M Catalogue items
- May also use your personal items

My H&M Wardrobe
Increasing visibility 24/7, on-the-go

- Brand Saliency
- Network Effect
- New Retail Channel

- Create your outfit using H&M Catalogue items
- May also use your personal items

My H&M Wardrobe

Buy it. Keep it.

155 people like this.
# 02 out of 107 outfits
Increasing visibility 24/7, on-the-go

Brand Saliency

Network Effect

New Retail Channel

Analysis | Stage | Runway | Backstage | Implementation | Conclusion

My Wardrobe

# 02 out of 107 outfits

Buy it.
Keep it.
Leveraging on network effects

My Wardrobe

• 02 out of 107 outfits

Buy it.
Keep it.

Network Effect

Brand Saliency

New Retail Channel

• Average of 220 friends
• Photo album
• Newsfeed (and notifications)
• Wall post
Complementary revenue stream

Source: BCG
Increasing visibility 24/7, on-the-go

- **Brand Saliency**
- **Network Effect**
- **New Retail Channel**
- **Increased purchase frequency**
- **Larger purchase sizes**

Case study: wet seal, Inc.

Source: InformationWeek
H&M: Project Runway

Set the Stage

Strut the Runway

Managing Backstage
Limiting Agents

1. Cost of Production
2. Speed to Market
3. Human Resources
(1) Soaring Cotton Prices

Source: International Monetary Fund
(2) Rising Cost of Production in China

- Labor Cost
- Rental Cost
- Other Fixed Cost

Affordable Fashion?
NhonTrach Industrial Park, Dong Nai Province

- Established Textile Cluster
- Heavy FDI Investments
- Developed infrastructure
- Proximity to Saigon
- Proximity to Ports
Backstage – Increasing Speed to Market

NhonTrach as production base for Asia Pacific

- Centralised Production
- Shipping cost offset by production cost savings
- Boosts speed to market
Backstage – Increasing Speed to Market

- Centralised Production
- Shipping cost offset by production cost savings
- Boosts speed to market

Reduce Lead Time by up to 3 weeks
### Backstage – Overcoming Manpower Constraints

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#### Salespersons
- Need to keep up with rapid expansion of physical stores

1. ↑ Number of Salespersons
2. ↑ Revenue / Salesperson

#### Managers

**Management Associate Programs**
- Targets Business students
- Accelerated program, job rotations, international experience
Assumptions

- WACC of 11.2%
- Base growth rate of Sales Revenue (without Runway) at 12% per annum
- COGS at 30% of Sales Revenue in 2011, decreases by 0.5% per annum until 2016, constant thereafter
- Selling expenses at 34% of Sales Revenue in 2011, 35% in 2012~14, decrease by 0.5% per annum until 33%, constant thereafter
- Aggregated Group tax rate of 25.3%
- Straight-line depreciation of capital expenditures over 5 years
Incremental Profit After Tax (SEK m)

SEK 23.5 Billion Incremental Profit in 2021

Break-even in 5 Years
**Financials**

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**Worst Case**

- SEK 28.4 Billion

**Base Case**

- **SEK 35.4 Billion**

**Best Case**

- SEK 44.3 Billion

---

**Incremental Free Cash Flow (m SEK)**

- 2011: (703.1)
- 2012: (1,328.7)
- 2013: (702.6)
- 2014: 145.8
- 2015: 2,634.5
- 2016: 5,854.6
- 2017: 8,771.5
- 2018: 12,440.4
- 2019: 15,442.1
- 2020: 19,089.2
- 2021: 23,512.3

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**SEK**

- 2011: 28.4 Billion
- 2012: 35.4 Billion
- 2013: 44.3 Billion
## Implementation Timeline

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### Project Runway

<table>
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<tr>
<th>Set. Stage</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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</thead>
<tbody>
<tr>
<td>1. Pilot H&amp;M Man project in Shanghai and Beijing</td>
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<tr>
<td>2. Increase accessories market</td>
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1. **Pilot**
2. **International roll out**
### Project Runway

#### Set. Stage
1. Pilot H&M Man project in Shanghai and Beijing
2. Increase accessories market

#### Strut. Runway
1. Geographic expansion
2. H&M application

<table>
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<tr>
<th>Year</th>
<th>Description</th>
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<tbody>
<tr>
<td>2011</td>
<td>International roll out</td>
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<tr>
<td>2012</td>
<td>Strut. Runway</td>
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<td>2013</td>
<td>International expansion with a focus in Asia Pacific</td>
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<td>2014</td>
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### Project Runway

#### Set. Stage
1. Pilot H&M Man project in Shanghai and Beijing
2. Increase accessories market

#### Strut. Runway
1. Geographic expansion
2. H&M application

#### Manage. Backstage
1. Suppliers
2. Strengthen HR

### Implementation Timeline

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<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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- 1: International roll out
- 2: International expansion with a focus in Asia Pacific
- 3: Develop

Support functions ongoing through fiscal years
Conclusion

Objective

Sustainable growth with High Impact strategic initiatives whilst keeping things Simple

Critical Issues

Prioritizing growth options  
Managing costs  
Recruiting and retaining talents

Recommendation

Set. Stage  
Strut. Runway  
Backstage

Benefits

Sustainable growth  
High Impact  
Simple
Conclusion

Objective: Sustainable growth with High Impact strategic initiatives whilst keeping things Simple

Critical Issues:
- Prioritizing growth options
- Managing costs
- Recruiting and retaining talents

Recommendation:
- Set. Stage
- Strut. Runway
- Backstage

Benefits: NPV: 35.4bn SEK over 10 years

Caroline Ng  Candice Lim  Peh Che Min  Tobias Chen

Complementary Slides

Caroline Ng
Candice Lim
Peh Che Min
Tobias Chen

## H&M Group Pro-forma Income Statement 2011-2020 (With Project Runway)

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<td></td>
</tr>
<tr>
<td><strong>Sales incl. VAT</strong></td>
<td>125,966</td>
<td>144,264</td>
<td>164,505</td>
<td>187,979</td>
<td>214,860</td>
<td>245,800</td>
<td>281,441</td>
<td>322,531</td>
<td>369,943</td>
<td>424,694</td>
<td>487,974</td>
<td>561,170</td>
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<tr>
<td><strong>Net sales (excl. VAT)</strong></td>
<td>108,463</td>
<td>119,739</td>
<td>136,622</td>
<td>156,022</td>
<td>178,334</td>
<td>204,014</td>
<td>233,596</td>
<td>267,701</td>
<td>307,053</td>
<td>352,496</td>
<td>405,018</td>
<td>465,771</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>68,269</td>
<td>76,460</td>
<td>88,064</td>
<td>110,509</td>
<td>137,099</td>
<td>168,976</td>
<td>156,200</td>
<td>179,005</td>
<td>205,318</td>
<td>235,705</td>
<td>270,826</td>
<td>311,449</td>
</tr>
<tr>
<td><strong>Gross margin, %</strong></td>
<td>62.9%</td>
<td>63.9%</td>
<td>64.5%</td>
<td>65.1%</td>
<td>65.7%</td>
<td>66.3%</td>
<td>66.9%</td>
<td>66.9%</td>
<td>66.9%</td>
<td>66.9%</td>
<td>66.9%</td>
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</tr>
<tr>
<td><strong>Selling expenses</strong></td>
<td>-40,751</td>
<td>-49,050</td>
<td>-57,612</td>
<td>-65,793</td>
<td>-75,201</td>
<td>-84,801</td>
<td>-95,590</td>
<td>-108,048</td>
<td>-122,081</td>
<td>-140,149</td>
<td>-161,031</td>
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<tr>
<td><strong>Administrative expenses</strong></td>
<td>-2,859</td>
<td>-3,246</td>
<td>-4,115</td>
<td>-5,169</td>
<td>-6,446</td>
<td>-7,374</td>
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<td>-11,098</td>
<td>-12,741</td>
<td>-14,639</td>
<td>-16,825</td>
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<tr>
<td><strong>Operating profit</strong></td>
<td>24,660</td>
<td>24,214</td>
<td>25,135</td>
<td>30,337</td>
<td>35,421</td>
<td>43,315</td>
<td>52,678</td>
<td>61,781</td>
<td>72,139</td>
<td>82,815</td>
<td>95,155</td>
<td>105,428</td>
</tr>
<tr>
<td><strong>Operating margin, %</strong></td>
<td>22.7%</td>
<td>20.2%</td>
<td>19.3%</td>
<td>19.6%</td>
<td>19.8%</td>
<td>21.1%</td>
<td>22.3%</td>
<td>22.9%</td>
<td>23.5%</td>
<td>23.5%</td>
<td>23.5%</td>
<td>23.5%</td>
</tr>
<tr>
<td><strong>Net interest</strong></td>
<td>349</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td><strong>Profit after financial items</strong></td>
<td>25,008</td>
<td>24,464</td>
<td>26,337</td>
<td>30,847</td>
<td>35,752</td>
<td>43,155</td>
<td>52,367</td>
<td>61,581</td>
<td>72,439</td>
<td>83,115</td>
<td>95,455</td>
<td>105,728</td>
</tr>
<tr>
<td><strong>Tax</strong></td>
<td>-6,327</td>
<td>-6,189</td>
<td>-6,793</td>
<td>-7,804</td>
<td>-9,045</td>
<td>-10,959</td>
<td>-13,249</td>
<td>-15,580</td>
<td>-18,327</td>
<td>-21,028</td>
<td>-24,150</td>
<td>-27,761</td>
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<tr>
<td><strong>Profit for the year</strong></td>
<td>18,681</td>
<td>18,275</td>
<td>19,898</td>
<td>23,042</td>
<td>26,707</td>
<td>32,356</td>
<td>39,118</td>
<td>46,001</td>
<td>54,112</td>
<td>62,087</td>
<td>71,305</td>
<td>81,967</td>
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<tr>
<td><strong>Profit for the year (Status Quo)</strong></td>
<td>18,681</td>
<td>18,972.78</td>
<td>21,222.63</td>
<td>23,742.44</td>
<td>26,654.65</td>
<td>29,725.52</td>
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<td>37,230.68</td>
<td>41,671.47</td>
<td>46,645.149</td>
<td>52,215.675</td>
<td>58,454.664</td>
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<td><strong>Year</strong></td>
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<td></td>
<td></td>
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<tr>
<td><strong>Incremental Profit After Tax (SEK m)</strong></td>
<td>0</td>
<td>-698</td>
<td>-1,325</td>
<td>-700</td>
<td>142</td>
<td>2,631</td>
<td>5,852</td>
<td>8,770</td>
<td>12,440</td>
<td>15,442</td>
<td>19,089</td>
<td>23,512</td>
</tr>
<tr>
<td>(+) Amortization/Depreciation</td>
<td>1.2666</td>
<td>2.5332</td>
<td>3.7998</td>
<td>3.7998</td>
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<td>2.5332</td>
<td>1.2666</td>
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<tr>
<td>(-) Changes in working capital</td>
<td>-6.333</td>
<td>-6.333</td>
<td>-6.333</td>
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<tr>
<td>(-) Capital Expenditures</td>
<td>0</td>
<td>-703</td>
<td>-1,329</td>
<td>-703</td>
<td>146</td>
<td>2,635</td>
<td>5,855</td>
<td>8,772</td>
<td>12,440</td>
<td>15,442</td>
<td>19,089</td>
<td>23,512</td>
</tr>
<tr>
<td><strong>Free Cash flow</strong></td>
<td>0</td>
<td>-703</td>
<td>-1,329</td>
<td>-703</td>
<td>146</td>
<td>2,635</td>
<td>5,855</td>
<td>8,772</td>
<td>12,440</td>
<td>15,442</td>
<td>19,089</td>
<td>23,512</td>
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<tr>
<td>--------------------------</td>
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<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td><strong>Sales incl. VAT</strong></td>
<td>126,956</td>
<td>142,202</td>
<td>159,265</td>
<td>178,378</td>
<td>199,783</td>
<td>223,757</td>
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<td>280,581</td>
<td>314,363</td>
<td>352,087</td>
<td>394,337</td>
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<td><strong>Gross Profit</strong></td>
<td>68,269</td>
<td>73,945</td>
<td>82,818</td>
<td>92,757</td>
<td>103,887</td>
<td>116,354</td>
<td>130,316</td>
<td>145,954</td>
<td>163,469</td>
<td>183,085</td>
<td>205,055</td>
<td>229,662</td>
</tr>
<tr>
<td><strong>Gross margin, %</strong></td>
<td>62.9%</td>
<td>62.7%</td>
<td>62.7%</td>
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<td>62.7%</td>
<td>62.7%</td>
<td>62.7%</td>
</tr>
<tr>
<td><strong>Selling expenses</strong></td>
<td>-40,751</td>
<td>-45,647</td>
<td>-51,124</td>
<td>-57,259</td>
<td>-64,130</td>
<td>-71,826</td>
<td>-80,445</td>
<td>-90,099</td>
<td>-100,911</td>
<td>-113,020</td>
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<tr>
<td><strong>Administrative expenses</strong></td>
<td>-2,859</td>
<td>-3,200</td>
<td>-3,583</td>
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<td>-4,495</td>
<td>-5,035</td>
<td>-5,689</td>
<td>-6,315</td>
<td>-7,073</td>
<td>-7,922</td>
<td>-8,873</td>
<td>-9,937</td>
</tr>
<tr>
<td><strong>Operating margin, %</strong></td>
<td>22.7%</td>
<td>21.3%</td>
<td>21.3%</td>
<td>21.3%</td>
<td>21.3%</td>
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<td>21.3%</td>
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</tr>
<tr>
<td><strong>Net interest</strong></td>
<td>349</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td><strong>Profit after financial items</strong></td>
<td>25,008</td>
<td>25,399</td>
<td>28,410</td>
<td>31,784</td>
<td>35,562</td>
<td>39,793</td>
<td>44,532</td>
<td>46,840</td>
<td>55,785</td>
<td>62,443</td>
<td>69,901</td>
<td>78,253</td>
</tr>
<tr>
<td><strong>Tax</strong></td>
<td>-6,327</td>
<td>-6,426</td>
<td>-7,188</td>
<td>-8,041</td>
<td>-8,997</td>
<td>-10,068</td>
<td>-11,267</td>
<td>-12,610</td>
<td>-14,114</td>
<td>-15,798</td>
<td>-17,685</td>
<td>-19,798</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td>18,681</td>
<td>18,973</td>
<td>21,223</td>
<td>23,742</td>
<td>26,565</td>
<td>29,726</td>
<td>33,266</td>
<td>37,231</td>
<td>41,671</td>
<td>46,645</td>
<td>52,216</td>
<td>58,455</td>
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### Assumptions

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Sales per Store (Western Europe) =</td>
<td>55.1 m SEK</td>
</tr>
<tr>
<td>Sales per Store (Asia Pacific) =</td>
<td>120.2 m SEK</td>
</tr>
<tr>
<td>Difference in Sales per Store =</td>
<td>65.1 m SEK</td>
</tr>
<tr>
<td>% of new stores 2010 in Western Europe =</td>
<td>62%</td>
</tr>
<tr>
<td>% of new stores 2010 in Asia Pacific =</td>
<td>10.30%</td>
</tr>
<tr>
<td>Status Quo # of new stores in WE 2011 =</td>
<td>155</td>
</tr>
<tr>
<td>Status Quo # of new stores in AP 2011 =</td>
<td>26</td>
</tr>
<tr>
<td>Proposed # of new stores in WE 2011 =</td>
<td>113</td>
</tr>
<tr>
<td>Proposed # of new stores in AP 2011 =</td>
<td>63</td>
</tr>
<tr>
<td>WE Sales forgone 2011 =</td>
<td>(2,355.53) m SEK</td>
</tr>
<tr>
<td>AP Sales gained 2011 =</td>
<td>4,417.35 m SEK</td>
</tr>
<tr>
<td>Net Increase in Sales 2011 =</td>
<td>2,061.83 m SEK</td>
</tr>
</tbody>
</table>

**Equivalent of 1.6% of Sales Revenue in 2011**
# Prioritizing Options for Growth

<table>
<thead>
<tr>
<th>Option 1: Day to day performance</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
|                                 | • Increase sales per square feet  
  • Fashion credibility (Guest designers)  
  • Differentiation  
  • Cost effective  
  • Untapped segments  
  • Increase store traffic  
  • Revenues  
  • Brand visibility  
  • Constant ‘fresh’ image | • Scheduling to maximize impact  
  • Revenue contributions unjustified |

<table>
<thead>
<tr>
<th>Option 2: Online Channel</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
|                          | • 24/7 Shopping  
  • Greater reach to target segment  
  • Cost effective  
  • Changing lifestyle  
  • Viral marketing | • Integration of online channel  
  • Revenue contributions unknown  
  • Lack points of differentiation |

<table>
<thead>
<tr>
<th>Option 3: Geographic Expansion</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
|                               | • Diversification  
  • Increase revenues fast  
  • Increase brand visibility  
  • Competitive pressures to move fast  
  • New collaborations with local designers | • Lack understanding of foreign markets  
  • Right timing to enter emerging markets important  
  • Constrained by resources |

<table>
<thead>
<tr>
<th>Option 4: Product Category (LT)</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
|                                 | • Diversification  
  • Increase revenue streams in lucrative market  
  • Leverage on existing suppliers  
  • Build H&M lifestyle concept | • Incompatible with brand image  
  • High risks involved  
  • Supply chain complexity  
  • Spreading resources too thin  
  • Revenue contribution unjustified |

<table>
<thead>
<tr>
<th>Option 5: Brand Expansion (LT)</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
|                               | • Diversification  
  • Capture apparel market segments  
  • Growth Potential | • High risks involved,  
  • No economies of scale  
  • Increase complexity; resource constraints  
  • Cannibalization  
  • Affect group culture |
<table>
<thead>
<tr>
<th>Variables</th>
<th>Western Europe</th>
<th>Eastern Europe</th>
<th>North America</th>
<th>South America</th>
<th>MENA</th>
<th>Asia Pacific</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth Potential</strong></td>
<td>2.4%</td>
<td>8.9%</td>
<td>4.7% (Exp increase)</td>
<td>4%</td>
<td>12%</td>
<td>9% 5.1% (Male)</td>
</tr>
<tr>
<td><strong>Ease of Entry</strong></td>
<td>• Easy Familiar market</td>
<td>• Relatively easy Familiar market</td>
<td>• Easy</td>
<td>• Difficult Unfamiliar market</td>
<td>• Difficult Unfamiliar market</td>
<td>• Relatively easy Familiar market (P)</td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td>• Mature market • Stable competition</td>
<td>• Emerging market • Intense</td>
<td>• Mature market • Stable competition</td>
<td>• Emerging market • Intense</td>
<td>• Emerging market • Less competition</td>
<td>• Emerging market • Intense</td>
</tr>
<tr>
<td><strong>Positive Spillovers</strong></td>
<td>-ve</td>
<td>+ve (Russia)</td>
<td>+ve (Brazil)</td>
<td>+ve (Franchise)</td>
<td>-ve (Franchise)</td>
<td>+ve (Singapore)</td>
</tr>
</tbody>
</table>

**Total Market Value in 2010: €769.3bn**
### Setting the Stage – H&M MEN

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Runway</th>
<th>Backstage</th>
<th>Implementation</th>
<th>Conclusion</th>
</tr>
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<tbody>
<tr>
<td><strong>Stage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

#### Purchasing Behaviour Process

<table>
<thead>
<tr>
<th>Need Recognition</th>
<th>Look Good</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Search</td>
<td>Online</td>
</tr>
<tr>
<td>Evaluation of Alternatives</td>
<td>Creatures of Habit</td>
</tr>
<tr>
<td>Purchase Decision</td>
<td>Brick &amp; Mortar</td>
</tr>
<tr>
<td>Purchase Evaluation</td>
<td>Less reliance on information sharing</td>
</tr>
</tbody>
</table>

- **Creatures of Habit**
- **Comfort, Price, Quality**
- **Brick & Mortar**
- **Rationalization**
- **Online**
- **Self-reliant**
- **Less reliance on information sharing**
## Setting the Stage – H&M MEN

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</table>

- **Runway**
- **Backstage**
- **Implementation**
- **Conclusion**

---

**Creatures of Habit**

**Comfort, Price, Quality**

**Brick & Mortar**

**Rationalization**

**Less reliance on information sharing**
Setting the Stage – H&M MEN

Purchasing Behaviour Process

- **Need Recognition**: Look Good
- **Information Search**: Online, Self-reliant
- **Evaluation of Alternatives**: Creatures of Habit, Comfort, Price, Quality
- **Purchase Decision**: Brick & Mortar, Rationalization
- **Purchase Evaluation**: Less reliance on information sharing
## Setting the Stage – H&M MEN

### Analysis

## Purchasing Behaviour Process

<table>
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<tr>
<th>Stage</th>
<th>Runway</th>
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<td></td>
<td></td>
<td>Less reliance on information sharing</td>
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</table>
Setting the Stage – H&M MEN

Too risky to increase emphasis on Menswear

→ PILOT TESTING in CHINA
Setting the Stage – H&M MEN

Purchasing Behaviour Process

- Need Recognition
- Information Search
- Evaluation of Alternatives
- Purchase Decision
- Purchase Evaluation

Runway
Backstage
Implementation
Conclusion

- The Fashion Fraternity
- Guest Designers
- Lock in loyalty
- iPhone Application
Setting the Stage – H&M MEN

- **Information Search**
  - Evaluation of Alternatives
  - Purchase Decision

**The Fashion Fraternity**

To create a comfortable and pleasurable shopping experience - for men only

- **Lounge**
  - Relaxing and unintimidating atmosphere

- **Catalogues**
  - What To Wear & Fashion Tips

- **Assistance**
  - Subtle, non-intruding
The Fashion Fraternity

To create a comfortable and pleasurable shopping experience - for men only
Setting the Stage – H&M MEN

Analysis | Stage | Runway | Backstage | Implementation | Conclusion

Information Search

Evaluating Alternatives

Purchase Decision

Guest Designers

sales per customer x no. of customers

Global
Caters to both genders
Prestige

Fred Perry

Tom Ford
Setting the Stage – H&M MEN

Information Search

Evaluation of Alternatives

Purchase Decision

Stage

Runway

Backstage

Implementation

Conclusion

Shi shangyizhu

To create a comfortable and pleasurable shopping experience - for men only

Lounge

Catalogues

Assistance
Setting the Stage – H&M MEN

Information Search

Evaluation of Alternatives

Purchase Decision

Shi shangyizhu
Setting the Stage – H&M MEN

Analysis | Stage | Runway | Backstage | Implementation | Conclusion

Information Search

Evaluation of Alternatives

Purchase Decision

iPhone Application

Sales channel

Fashion advice

sales per customer x no. of customers
<table>
<thead>
<tr>
<th>Price position</th>
<th>Classic Woman/Man</th>
<th>Casual Woman/Man</th>
<th>Formal</th>
<th>Trendy Woman/Man</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Segment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Fig. 6 Illustrative overview of the retail market for adults**

- **Luxury**
  - Chanel
  - Lanvin
  - Prada
- **Premium**
  - Escada
  - MaxMara
- **Upper Middle "Premium Bridge"**
  - Filippa K
  - Boss
  - Hugo
  - Diesel
- **Middle "Mainstream"**
  - Gerry Weber
  - ESPRIT
  - COS
  - GANT
  - Monki
  - Zara
  - H&M
  - Topshop
- **Lower Middle "Entry Price"**
  - Textile Harddiscount
  - Kik
  - Walmart
  - Toko
Why men category?

• High CAGR
• Increasing market share
• Increasing acceptance
• Increasing affluence
• Increasing need to look good and trendy
• No strong focus at the moment
• China/India: Dominant market
• Experiential
• Resting area: male shopping habits
Why not the franchising model?

1. International brands in China are losing control and ability to monitor channels
2. Franchisee has the tendency to offer huge discounts when inventory builds up
3. Lack of compliance with brand building activities to save money
4. Franchisee do not see brand building as part of their responsibility
5. No feedback loop on job information, supply and sales rebate
Suits: Jul – Jan (Summer sales)
Public holiday: Demand will spike

25 – 45 years old
economic basis + strong pref for brand – 300,000,000

first tier cities – spill over to second tier cities
3rd tiers and 4th tiers are also upcoming
shopping is a leisure and past time...switch shops less often
community malls are doing better
price focus to value driven
Why not verticalization?

1. International brands in China are losing control and ability to monitor channels
2. Franchisee has the tendency to offer huge discounts when inventory builds up
3. Lack of compliance with brand building activities to save money
4. Franchisee do not see brand building as part of their responsibility
5. No feedback loop on job information, supply and sales rebate
Why not acquire?

1. Lack of expertise
2. H&M is a growing business
3. Risk of cannibalization
4. Risk of spreading one’s resources too thin
5. Unable to support too many brands
Why not Integrate?

1. Lack of expertise
2. H&M is a growing business
3. Risk of cannibalization
4. Risk of spreading one’s resources too thin
5. Unable to support too many brands
Value Proposition

**Objective**
- Sustainable growth with High Impact strategic initiatives whilst keeping things Simple

**Critical Issues**
- Prioritizing growth options
- Managing costs
- Recruiting and retaining talents

**Recommendation**
- Set. Stage
- Strut. Runway
- Backstage
• **Wet Seal Shows The Way**

Are you slowly, cautiously sorting out how to engage with your customers in social networks? By Chris Murphy, InformationWeek September 25, 2010 12:00 AM

Are you slowly, cautiously sorting out how to engage with your customers in social networks? Well, if your customers are teenage girls, and 72% of them are on Facebook and 36% of them have a smartphone, you don't have the luxury of taking your sweet time. That's why teen-girls' clothing retailer Wet Seal is among those blazing a trail in marketing with Facebook. One lesson it's learned is that girls want to do different things on each medium. They use Wet Seal's site to create outfits—500,000 of them—but they prefer to share outfits with friends using Facebook. Girls don't use their iPhones much to post content, but they viewed 750,000 outfits a week on the retailer's iPhone app in the back-to-school season. Here are some hard results Wet Seal has seen with its integrated Web, social networking, and iPhone strategy:

• Girls using the outfit tool are 40% more likely to buy, and they spend 20% more. Girls using a "Shop With Friend" feature, accessed through Facebook or the site, have a 2.5 times higher conversion rate.

• Facebook is now the largest marketing base for store traffic, thanks to coupons and campaigns, and one of the biggest drivers of traffic to Wet Seal's Web site. Facebook also is a gold mine for the customer-support team. "It's one of the primary tools they use to know if there are problems out there," says Wet Seal development director Shawn Keim. Wet Seal doesn't erase complaints but tries to resolve problems with comments on Facebook, so people see issues getting taken care of.
The current H&M application

Basic features
- 2D, static photo

Limited geographic reach
- Only works when near certain H&M stores

Smartphone penetration
- 91% of all US consumers own and use a mobile device
- 1.8 billion smart-phones in use globally by 2013

M-shopping takeup
- 48% of smartphone users say they have already, or soon will, do mobile shopping

Potential in mobile
- Mobile marketing spend will top USD 1 billion in 2011

Source: Forrester Research, ABI Research, Modus Associates
Levi’s is the latest international brand to set up an online shop in China. Well, that is made possible through Alibaba Group’s Taobao Mall. It’s a wise choice as Taobao is China’s largest retail website with more than 370 million users and receives over 50 million unique visitors each day. In Levi’s new online store, users are spoilt for choice with over 200 Levi’s products to choose from. On top of that, Levi’s will also introduce exclusive online-only styles on Taobao, a bonus to keep users coming back. Despite in early stage, Levi’s effort seems to be paying off well. Several thousands pair of jeans were already sold online, according to Taobao’s statistics. Apparently, Levi’s isn’t the only brand that has entered China’s online market through Taobao. “UNIQLO, Adidas, Procter and Gamble, L’Oreal Paris, Lenovo, Li Ning and Revlon have all launched official online retail storefronts on Taobao Mall as part of their e-commerce strategy,” a Taobao spokeswoman told Penn Olson. “For corporate retailers, Taobao Mall offers the infrastructure for complete management of their own brand and online retail channel while providing access to consumers situated in second and third tier regions across China in addition to urban centers such as Shanghai and Beijing,” she added. Business-to-consumer (B2C) ecommerce is booming in China. Last quarter, China hit a new high with a total of 64 million B2C orders. Without a doubt, a large number of orders comes from Taobao. If you’re a retailer and looking to capture the Chinese market, Taobao seems like a good place.
### SALES INCLUDING VAT BY COUNTRY AND NUMBER OF STORES

**Full year 1 December - 30 November**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>SEK m 2010</th>
<th>SEK m 2009</th>
<th>Change in % Local currency</th>
<th>No. of stores 30 Nov 2010</th>
<th>New stores</th>
<th>Closed stores</th>
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</thead>
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<tr>
<td>Sweden</td>
<td>8,365</td>
<td>7,881</td>
<td>6</td>
<td>168</td>
<td>10</td>
<td>3</td>
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<td>Norway</td>
<td>5,858</td>
<td>5,598</td>
<td>5</td>
<td>101</td>
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<td>2</td>
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<td>Denmark</td>
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<td>4,254</td>
<td>2</td>
<td>87</td>
<td>12</td>
<td>2</td>
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<td>United Kingdom</td>
<td>8,392</td>
<td>7,564</td>
<td>11</td>
<td>192</td>
<td>26</td>
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<td>Switzerland</td>
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<td>6,042</td>
<td>1</td>
<td>75</td>
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<td>2</td>
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<td>Germany</td>
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<td>30,069</td>
<td>2</td>
<td>377</td>
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<td>Netherlands</td>
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<td>7,402</td>
<td>0</td>
<td>112</td>
<td>10</td>
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<td>Belgium</td>
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<td>3,502</td>
<td>-4</td>
<td>64</td>
<td>6</td>
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<td>Austria</td>
<td>5,255</td>
<td>5,503</td>
<td>-5</td>
<td>66</td>
<td>4</td>
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<tr>
<td>Luxembourg</td>
<td>406</td>
<td>411</td>
<td>-1</td>
<td>10</td>
<td>2</td>
<td>1</td>
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<tr>
<td>Finland</td>
<td>2,567</td>
<td>2,543</td>
<td>1</td>
<td>43</td>
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<td>France</td>
<td>9,140</td>
<td>8,455</td>
<td>8</td>
<td>151</td>
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<td>USA</td>
<td>8,916</td>
<td>7,487</td>
<td>19</td>
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<td>Spain</td>
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<td>2,466</td>
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<td>Czech Republic</td>
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<td>667</td>
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<td>Portugal</td>
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<tr>
<td>Italy</td>
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<td>3,616</td>
<td>20</td>
<td>72</td>
<td>8</td>
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<tr>
<td>Canada</td>
<td>2,713</td>
<td>2,190</td>
<td>24</td>
<td>55</td>
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<tr>
<td>Slovenia</td>
<td>568</td>
<td>615</td>
<td>-8</td>
<td>11</td>
<td>1</td>
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<tr>
<td>Ireland</td>
<td>517</td>
<td>557</td>
<td>-7</td>
<td>12</td>
<td>1</td>
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<tr>
<td>Hungary</td>
<td>387</td>
<td>306</td>
<td>26</td>
<td>15</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>225</td>
<td>187</td>
<td>20</td>
<td>7</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>646</td>
<td>480</td>
<td>35</td>
<td>18</td>
<td>3</td>
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<tr>
<td>China</td>
<td>2,527</td>
<td>1,614</td>
<td>57</td>
<td>47</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>1,794</td>
<td>1,111</td>
<td>61</td>
<td>10</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>916</td>
<td>373</td>
<td>146</td>
<td>11</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>255</td>
<td></td>
<td></td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>28</td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
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<tr>
<td><strong>Franchise</strong></td>
<td>899</td>
<td>591</td>
<td>52</td>
<td>50</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>126,966</strong></td>
<td><strong>118,697</strong></td>
<td><strong>7</strong></td>
<td><strong>2,206</strong></td>
<td><strong>243</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>
1) Eastern Europe & Asia Pacific
2) Grow by 10-15% new stores (220-330 stores in following 12 mths)
Eastern Europe
Back-up: Zara operational efficiency
## 2010 Expansion

<table>
<thead>
<tr>
<th>Region</th>
<th>No of new stores</th>
<th>% of total new stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>151</td>
<td>62.1%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>29</td>
<td>11.9%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>26</td>
<td>10.3%</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>15</td>
<td>6.2%</td>
</tr>
<tr>
<td>North America</td>
<td>22</td>
<td>9.1%</td>
</tr>
<tr>
<td>Variables</td>
<td>Western Europe</td>
<td>Eastern Europe</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------</td>
<td>----------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Russia: 43.8bn)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Growth Potential</strong></td>
<td>2.4%</td>
<td>8.9%</td>
</tr>
<tr>
<td><strong>Ease of Entry</strong></td>
<td>Easy</td>
<td>Relatively easy</td>
</tr>
<tr>
<td></td>
<td>Familiar market</td>
<td>Familiar market</td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td>Mature market</td>
<td>Emerging market</td>
</tr>
<tr>
<td><strong>Note: Clustering is good</strong></td>
<td>Stable competition</td>
<td>Intense</td>
</tr>
<tr>
<td><strong>Positive Spillovers</strong></td>
<td>-ve</td>
<td>+ve (Russia)</td>
</tr>
</tbody>
</table>

**Total Market Value in 2010:** €769.3bn
M-commerce
a complementary revenue stream

• 5th: multi-channel
  - build integrated multi-channel platforms (addressing customers via different platforms and integrating them) call centers, web & mobile, direct, other, catalog, print/mail, TV, stores.
  - Customers touched by numerous channels will spend more with the retailer: Average annual spend (USD): 260 -> 660 -> 1,620 from single channel -> dual channel -> tri-channel (store, catalog, internet) also creates more loyal customers
  - push into online – e-/m-commerce
  - “Apparel, accessories and footwear” is biggest category in online sales, and is expected to continue to grow at high rates (2009-2013 CAGR: 11%, forecasted online sales for USA, $40.3 bn in 2013)
• challenge for fashion industry – need to define equilibrium between brand and commercial objectives
## Where to expand in 2011

<table>
<thead>
<tr>
<th>Emerging markets</th>
<th>Market Size</th>
<th>Ease of Entry</th>
<th>Growth Potential</th>
<th>Competition</th>
<th>Positive Spillovers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
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<tr>
<td>Eastern Europe</td>
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</tr>
<tr>
<td>South America</td>
<td></td>
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</tr>
</tbody>
</table>

### Franchise to MEA

**Cultural and legal constraints**

- **Favorable**: 
  - Asia-Pacific: Middle East & Africa: Eastern Europe: South America:  
- **Unfavorable**: 
  - Asia-Pacific: Middle East & Africa: Eastern Europe: South America:
Where to expand in 2011

<table>
<thead>
<tr>
<th>Emerging markets</th>
<th>Market Size</th>
<th>Ease of Entry</th>
<th>Growth Potential</th>
<th>Competition</th>
<th>Positive Spillovers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
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<td></td>
</tr>
<tr>
<td>South America</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Move to medium run –
1. competition is intense
2. unfamiliar market
Eastern Europe: mid-price on the rise

Timely opportunity
• Economic crisis
• Increased demand for middle-market

Geographical proximity
• Manufacturers in Turkey, Morocco and Bangladesh
• Headquarters in Stockholm
<table>
<thead>
<tr>
<th>Variables</th>
<th>Western Europe</th>
<th>Eastern Europe</th>
<th>North America</th>
<th>South America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Size</td>
<td>US$379bn</td>
<td>US$64bn</td>
<td>US$352bn</td>
<td>US$88.3bn</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Russia: 43.8bn)</td>
<td>US: US$329bn</td>
<td>(Brazil: 43% of total volume sales and nearly 55% of value sales in 2008 – lower end market)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth Potential</td>
<td>2.4%</td>
<td>8.9%</td>
<td>4.7% (Exp increase)</td>
<td>4%</td>
</tr>
<tr>
<td>Ease of Entry</td>
<td>Easy</td>
<td>Relatively easy</td>
<td>Easy</td>
<td>Difficult</td>
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<td></td>
<td>Familiar market</td>
<td>Familiar market</td>
<td></td>
<td>Unfamiliar market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Sensitive</td>
</tr>
<tr>
<td>Competition Note: Clustering is good</td>
<td>Mature market</td>
<td>Emerging market</td>
<td>Mature market</td>
<td>Emerging market</td>
</tr>
<tr>
<td></td>
<td>Stable competition</td>
<td>Intense</td>
<td>Stable competition</td>
<td>Intense</td>
</tr>
<tr>
<td>Competition</td>
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<td></td>
<td></td>
<td>Emerging market</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Less competition</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Intense</td>
</tr>
<tr>
<td>Positive Spillovers</td>
<td>-ve</td>
<td>+ve (Russia)</td>
<td>+ve</td>
<td>+ve (Franchise model)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+ve (Singapore - SEA)</td>
</tr>
</tbody>
</table>

Note: Clustering is good

**Total Market Value in 2010: €769.3bn**
Defining the Tiers

First-Tier Cities
Four municipalities: Beijing, Chongqing, Shanghai, Tianjin
Cities with total retail sales of more than RMB30bn, annual per capita income of RMB11,000 and high per capita retail sales as proportion of income:
10 provincial capitals: Changchun (Jilin), Chengdu (Sichuan), Guangzhou (Guangdong), Hangzhou (Zhejiang), Harbin (Heilongjiang), Jinan (Shandong) Nanjing, (Jiangsu), Shenyang (Liaoning), Wuhan (Hubei), Xi’an (Shaanxi)
Four leading cities: Dalian, Qingdao, Shenzhen, Xiamen

Second-Tier Cities
17 provincial capitals: Changsha (Hunan), Fuzhou (Fujian), Guiyang (Guizhou), Haikou (Hainan), Hefei (Anhui), Hohhot (Inner Mongolia), Kunming (Yunnan), Lanzhou (Gansu), Lhasa (Tibet), Nanchang (Jiangxi), Nanning (Guangxi), Shijiazhuang (Hebei), Taiyuan (Shanxi), Urumqi (Xinjiang), Xining (Qinghai), Yinchuan (Ningxia), Zhengzhou (Henan)
50 prefecture-level cities, including, Ningbo, Suzhou, Wuxi, Wenzhou, Nantong, Dongguan, Zhanjiang
15 more cities with populations of between 500,000 and 2mn

Third-Tier Cities
Approximately 200 county-level cities

Fourth-Tier Cities
Approximately 400 capitals of county towns

Source: Ogilvy