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THE IMPORTANCE OF STRATEGIC MANAGEMENT

A case study of H&M

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<p>Abstract</p> <p>Hennes & Mauritz (H&M) is a 100 billion Sweden company, engaged in designing and retailing of fashion apparel and accessories. The company offers a range of apparel, cosmetics, footwear and accessories for men, women, children and teenagers. H&M primarily operates in Europe, North America and Asia, and has a presence in over 38 countries. The company is headquartered in Stockholm, Sweden and employs approximately 87,000 people on a full-time basis.</p> <p>This thesis focused on the strategic management of H&M company. The main research problem was to make an in-depth analysis of its marketing strategy and how to implement it. The main research method was a qualitative research by analyzing their company data, annual reports and making interviews with the manager, staffs and customers in Kuopio shop.</p> <p>The thesis starts with a general introduction and some background information of this thesis work. In the theoretical part, it described the definition, process, benefit and challenge of strategic management. In the practical part, an exhaustive analysis on the company's strengths, weakness, opportunities and threats was made by using the detailed figures.</p> <p>The result shows a clear image of the process of strategic management by H&M case. Some recommendations made for H&M help to improve their sustainable developments and support a vivid example for many companies.</p>		
Keywords H&M, Strategic management, Marketing ,SWOT analysis		
Note		

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1. INTRODUCTION

1.1 Introduction of the research

1.1.1 Background of the topic

What can we do to make a company become successful and remain dynamic? It is a common question we will ask ourselves no matter what kind of businesses we are engage in. Certainly we can not only rely on the traditional ways to insure the business safe. (Wheelen & Hunger 2005, 6.)

Not too long ago, it is the only successful element for a commercial company to make and sell excellent goods and services within its national boundaries. Most companies can get profits by exporting products to foreign lands. Similarly, before the mid-1990s, a business corporation could be successful without using the Internet to maintain its social connections. But nowadays, it does not work, earthshaking change has taken place. Globalization, the internationalization of markets and corporations, has totally changed the way of modern corporations doing business. For purpose of reaching the economies of scale, it is necessary to achieve the low costs and low prices. Companies which need to be competitive begin to come up with “a global market” idea instead of a national market. With the globalization of more industries, strategic management is becoming an increasingly important way to track of international developments and position a company for long-term competitive advantage. (Wheelen & Hunger 2005, 6.)

Meanwhile, electronic commerce presents a real challenge to the strategic management. Not only is the Internet changing the way customers, suppliers, and interaction

between companies, it is making the change of the way companies work internally. (Wheelen & Hunger 2005, 7-8.)

Strategic management, is it essential to be used in current business? How to implement it to take the advantage to the fullest? Therefore, given to these questions, the importance of strategic management should be further investigated.

1.1.2 Research questions and limitations

The main focus on this research is to find out the significance of strategic management in current society. The specific questions are as following:

1. What is strategic management?
2. How to make the strategic management?
3. What is the benefit of strategic management?
4. Is there any challenge of strategic management?

The first question is to provide reader a clear definition of strategic management. When a corporation begins to pay attention to this issue, the organizer must be familiar with it. Figuring out the definition is the primary step. The second question will give us basic and important knowledge of strategic management. The consideration about strategic analysis, strategic formulation, strategic implementation and strategic evaluation should be taken into. The third question concentrates on realistic benefits what the strategic management can bring to the organization. This is the most practical issue we all care about. Besides, the challenge of strategic management also should be aware of so that it can be operated well in the competitive market.

Due to the abstractness of this topic, I choose the world famous company, H&M as a case company. In order to achieve my goal-the importance of strategic management, it

is needed to make an in-depth strategic analysis of H&M. The reason for choosing H&M is their successful business process strategy and huge popularity all over the world. It has representative to illustrate this topic.

In addition, this paper is commissioned by H&M retail shop in Kuopio, Finland. Through the analysis of their current strategy, they wish to have a profound understanding of strategic management so that it can help them to improve the performance constantly.

However the limitation absolutely exists. The research focuses on a strategic analysis of H&M. Consequently the result cannot be applied to all kinds of organization. It just offers a theoretical knowledge for any corporation who want to implement strategic management well. The organization should make a correct strategic management according to own situation. Despite the limitation, this research is still a good example to study.

1.1.3 Structure

This thesis consists of five parts. In chapter 1, it starts with an introduction of the topic, background and the research questions. The reason for doing this research, why do the case study of H&M and the four research problems are presented at the beginning. In chapter 2, the basic concepts concerning strategic management are elaborated. It provides a theoretical foundation for the research. After that in chapter 3 the methodology is introduced which describes the choice of the methods and the process of data collection. Then the exhaustive results of case study-H&M are analyzed in chapter 4. The data mostly are gathered from the interviews with H&M staffs, official website and annual reports. At the end, the recommendations and conclusions are given.

1.2 Overview of case company-H&M

Hennes & Mauritz was established in Västerås, Sweden in 1947 by Erling Persson. Today, the company operates in 38 countries and employs 87 000 workers all around the world. The main idea of H&M is to offer its customers a wide range of fashionable products with good quality and affordable prices. H&M continuously develops its collections so that each customer can find something new every time they come into the store. The collections are created centrally with approximately 100 designers, buyers and pattern makers. In addition to its permanent designers, H&M connects with top designers to create a fashion campaign. These designers have included Stella McCartney, Madonna and Karl Lagerfeld. H&M's collections include women's, men's, teenagers' and children's apparel, accessories, cosmetics and footwear. Apart from this, H&M has recently developed an interior design collection. The customers include people at all ages and tastes, which is what H&M is going for. (H&M 2011a.)

In addition to 2200 stores all around the world, H&M provides internet shopping and catalogue sales in Sweden, Norway, Finland, the Netherlands, Germany and Austria (H&M 2011a).

H&M outsources all production. The company has approximately 700 independent suppliers, which are mainly situated in Asia and Europe along with 16 production offices. The suppliers have their own subcontractors and the overall amount of manufacturer units adds up to 2700. (H&M 2011a.)

The turnover in 2010 was approximately 12 billion Euros. The target growth of H&M is 10-15 percent for newly established stores every year. Therefore, H&M plans to employ more people and the estimated number is between 6000 and 7000 workers. (H&M 2011a.)

Corporate management is located in the head office of the company, in Stockholm. Besides the management, there are main departments for design and buying, finance, accounts, expansion, interior design and display, advertising, communication, IR, HR, logistics, security, IT and Corporate Social Responsibility are located in the country's capital as well. (H&M 2011a.)

The organizational structure of H&M is the following:

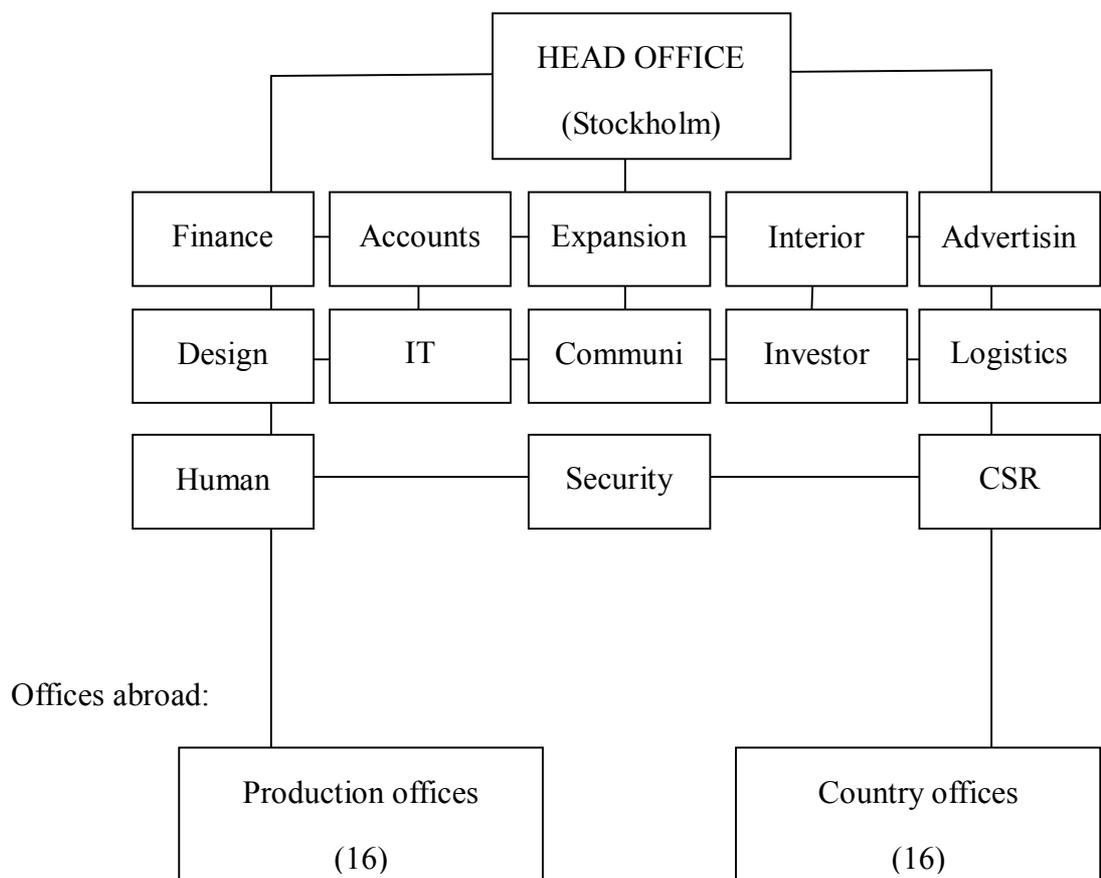


Figure 1. *Organizational structure of H&M (H&M 2011a).*

H&M's corporate culture follows the typical culture of a global corporation. The goal is to treat the entire world as one market. H&M functions in various countries, but the plans and operations are same in all of them. H&M does not favor a specific country from any of its market areas, but it implements its strategy similarly in all of them. The idea is to offer the products to multiple segments, instead of marketing only for one. This

is typical for a company like H&M that has enough resources to cover a broad selection of markets. (Czinkota et al. 1999, 473.)

2 Basic concepts of strategic management

This chapter provides some basic concepts about strategic management which involved the definition, the process, the advantage and challenges. The formulation of strategic management has been emphasized in the paper due to its practicality to apply into the real strategy process.

2.1 What is strategic management?

“Without a strategy, an organization is like a ship without a rudder, going around in circles. It’s like a tramp; it has no place to go.”-Joel Ross & Michael Kami (Fred 2011, 35).

Strategic management can be defined in various ways. According to Wheelen and Hungers’ study (2006, 3), strategic management is a set of managerial decisions and actions that determines the long-term performance of a corporation. It involves environmental scanning (both external and internal), strategy formulation (strategic or long range planning), strategy implementation, and evaluation and control. They emphasize the analyzing and evaluating of external opportunities and threats in terms of an organization’s strengths and weaknesses. (Wheelen & Hunger 2006, 3.)

From the perspectives of Dess and Miller (1993), strategic management is a process that combines three major interrelated activities: strategic analysis, strategy formulation and strategy implementation.

In the other way, Lamb (1984) states that strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment.” (Lamb 1984.)

Translating into a simple word, it can be understood as a process of strategy formulation, implementation and evaluation according to the figure 2. It is a way to gain competitive advantages for an organization. Regardless of the size, the scale, every organization needs to adopt a well-planned strategic management to survive and compete in the market and try to optimize for tomorrow following the trend of today. This is also the purpose of strategic management.

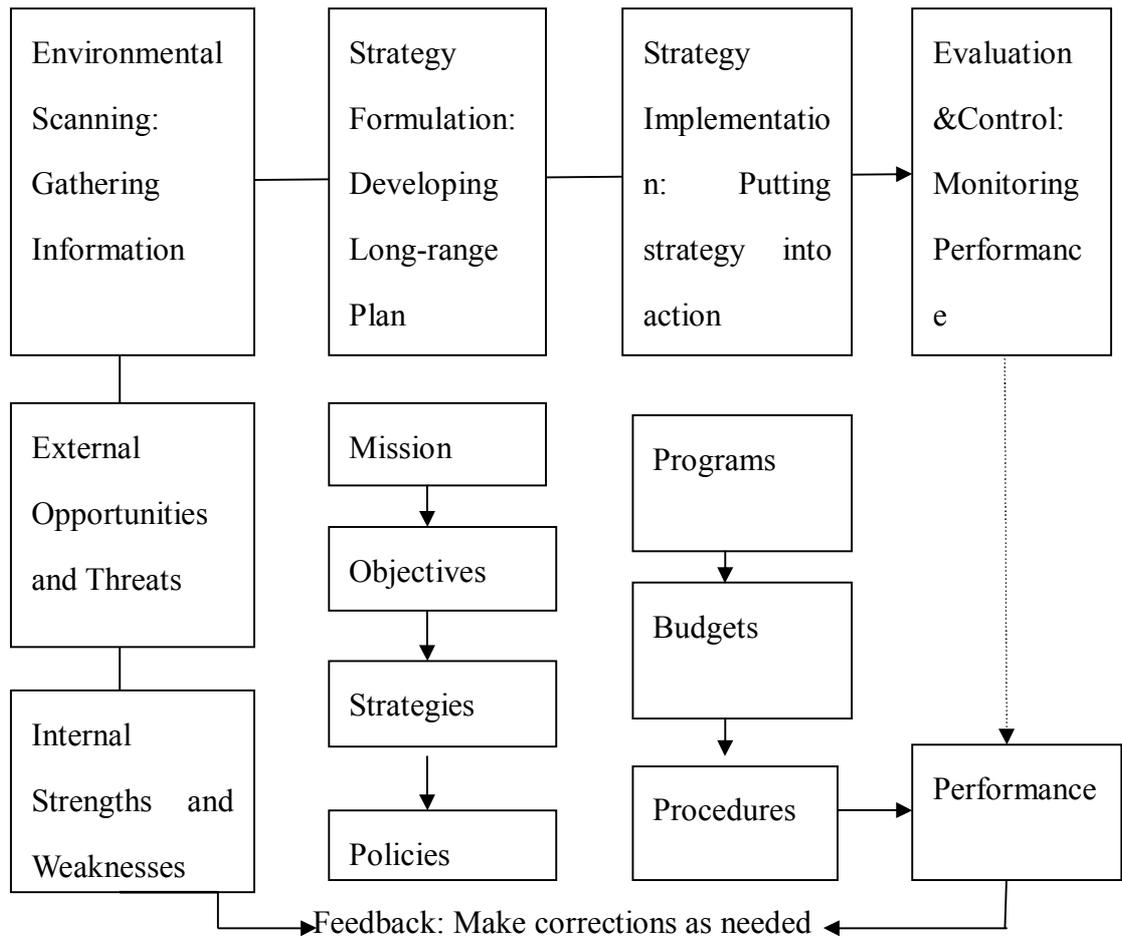


Figure 2. *Strategic management model (Wheelen & Hunger 2006, 1) .*

2.2 How to make the strategy

After having an overview of strategic management, we should figure out the process of formulating the strategy. Wheelen & Hunger (2006, 10) point out strategic management consists of four basic elements. They are environmental scanning, strategy formulation, strategy implementation and evaluation (Wheelen & Hunger 2006, 10.)

The figure below illustrates how these four elements interact (Wheelen & Hunger 2006, 10). First of all, you need to analyze the current situation and find out your company's position in the market. Then you can decide what kind of strategy is best for your company. Next you put the strategies into action and see how it works. If it does not work, you have to evaluate again and change another one. This is a complete recycle

process.

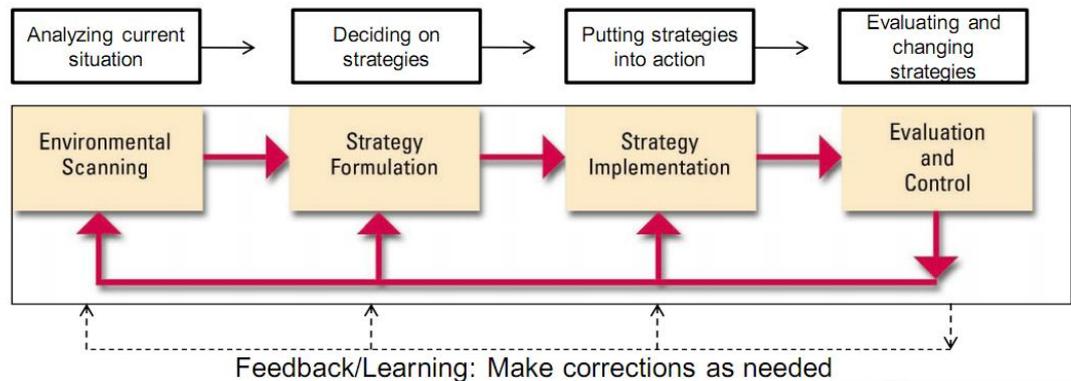


Figure 3. *Four elements of strategic management (Wheelen & Hunger 2006, 11).*

2.2.1 Environmental scanning (=strategic analysis)

Wheelen & Hunger (2006, 10) put forwards that environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within a company.

Environmental scanning

(=strategic analysis)

- Environmental variables

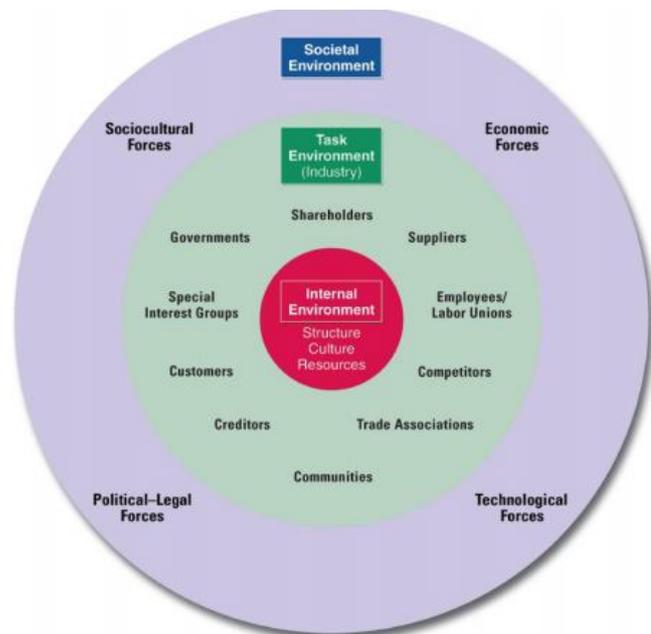


Figure 4. *Environmental variables (Wheelen & Hunger 2006, 12).*

Its purpose is clear. That is to identify strategic factors – Though scanning the

environment which contains external and internal elements; you can set up the future of the company. As we see in the above diagram, there are many variables in the environment scanning, such as sociocultural forces, economic forces, political legal forces, technological forces and so on. It helps to make a comprehensive strategy by taking these elements into consideration. (Wheelen & Hunger 2006, 10.)

Three kinds of analysis can be used for environment scanning.

1. Systematic analysis

Systematic analysis makes a basis for decision making in strategic management. It helps to identify operational environment and its effects on a company, e.g. analysis of environment, interest group, customers, competitors, suppliers, and scenarios. (Jobber 1995, 40.)

2. Synthesis analysis

Synthesis analysis combines environmental and internal analysis. Internal analysis is to analyze the productivity, economy, impressiveness of the organization. (Jobber 1995, 40.)

3. SWOT-analysis

Jobber (1995,40) stated that SWOT (strengths, weaknesses, opportunities and threats) analysis is an analysis of a company's advantages, shortcomings, favorable factors and clubs external. It is the most common ways in the strategic management. A good SWOT analysis can help a company to understand itself better and it is an important guideline for making a proper marketing strategy plan. (1995, 40.)

From the figure 5 it can be shown that strength and weakness belong to the internal origin of a company, and the opportunities and threats must be analyzed from the external environment.

SWOT ANALYSIS



Figure 5. *SWOT analysis model (Zhao 2010).*

All in all, environmental scanning (strategic analysis) provides the basis for formulating strategy on each of four possible levels: functional, business, corporate and international.

2.2.2 Strategy formulation

Strategy formulation is the developed phase of long-term plans for the effective management of environmental opportunities and threats on the principle of companies' strengths and weaknesses.

It comprises defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. Next they will be introduced in details (Quinn & Ghoshal 1999).

Mission

“That business mission is so rarely given adequate thought is perhaps the most

important single cause of business frustration.”-Peter Drucker(Fred 2011,73)

Mission and vision are viewed as two different concepts. Mission describes what the organization is now. It emphasizes the current situation and goals. Wheelen and Hunger (2006, 12) proposed that mission is the purpose or reason for the organization's existence. A well-conceived mission statement defines the fundamental, unique purpose that sets a company apart from other firms of its type and the scope of the company's operations in terms of product (including services) offered and markets served (Wheelen & Hunger 2006, 12).

Vision

“A corporate vision can focus, direct, motivate, unify, and even excite a business into superior performance.”-John Keane(Fred 2011,73)

Vision is used to describe what the company would like to become in the future. Wheelen & Hunger (2006,13) defines that vision puts into words not only what the company is for the moment but what it wants to become .In the other words, it is referred to management's strategic vision of the firm's future.

Objective

Objectives and goals can be stated what is to be achieved and when results are to be accomplished but they do not state how the result is to be achieved according to Quinn and Ghoshal (1999). A company can have many specific objective and goal in every period (Quinn & Ghoshal 1999).

Objectives are the final results of planned activity. They should be stated as action verbs and tell what is to be accomplished by when a quantified if possible. The objective specifies the organization's mission. The achievement of corporate objectives should bring about the fulfillment of a corporation's mission. (Wheelen & Hunger 2006, 14.)

Goal

Goals are seen as an open-ended statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for completion (Wheelen & Hunger 2006, 14).

A company might establish its goals and objectives in many areas which include profitability (net profits), efficiency (low costs), growth (increase in total sales, assets), shareholder wealth, reputation, contributions to employees (wages, diversity) and contributions to society (taxes paid, participation in charities).

Strategy

Wheelen and Hunger(2010,14) think a strategy of a corporation forms a comprehensive master plan that states how the corporation will achieve its goals and objectives so that it can realize the mission. It maximizes competitive advantage and minimizes competitive disadvantage.

Strategy can be divided into three types. Companies should use them simultaneously. There is a hierarchy of strategy which is a nesting of one strategy within another so that they complement and support one another. It can be concluded in the following figure.

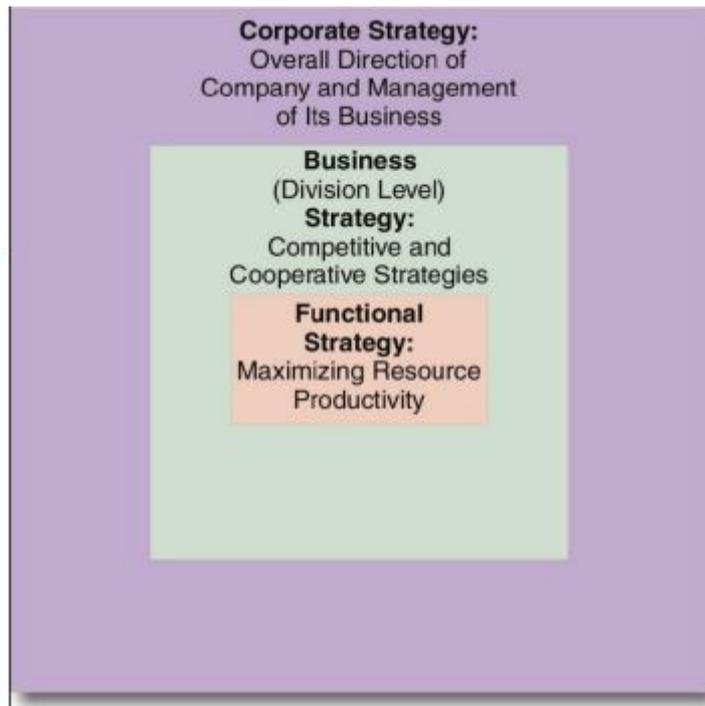


Figure 6. *Hierarchy of strategy (Wheelen & Hunger 2006, 16).*

Hierarchy of strategy

1. Corporate strategy

The first hierarchy is corporate strategy. It describes a company's overall direction in light of its general attitude toward growth and the management of its various businesses and product lines based on Dess and Miller's (1993) statement.

Three main categories can be used for corporate strategy which are stability strategy, growth strategy and retrenchment strategy respectively (Dess & Miller 1993).

2. Business strategy

The second hierarchy is business strategy. Business strategy usually happens at the business unit or product level and it emphasizes improvement of the competitiveness, positions of a corporate products or services in the specific field or market segment served by that business unit. (Dess & Miller 1993.)

There are two main categories in business strategy: competitive and co-operative strategies (Dess & Miller 1993).

3. Functional strategy

The third hierarchy is functional strategy. It is the approach taken by a functional area in order to achieve corporate and business unit objectives and strategies by means of optimizing resource productivity. (Dess & Miller 1993.)

In a word, there is metaphor to describe the relationship between corporate strategy and business strategy. If corporate strategy is like a big family, then the business strategy is like many children of it.

4. International strategy

Except these three strategy, Dess and Miller (1993) also point out nowadays the most international companies must formulate strategy not only by across national borders but also across corporate, business and function levels. While facing up to all the challenges of strictly domestic businesses, these companies must also compete with differences in social, political, cultural and economic systems of different nations. (Dess & Miller 1993.)

Policy

Policies are the last but important element in strategy formulation. They are rules or guidelines that express the limits within which action should occur (Quinn & Ghoshal 1999, 5).

A policy is an extensive guideline for leaders to make decisions that combines the formulation of a strategy with its implementation (Wheelen & Hunger 2010, 15). Wheelen and Hunger (2010,15) also stress that using policies can make sure that employees throughout the firm make right decisions and take actions that support the

company's mission, objectives and strategies.

2.2.3 Strategy implementation

When you have strategies and policies, you need put them into action through the development programs, budgets and procedures. This process is called strategy implementation. It might contain changes within the overall structure, culture, and management system of the entire company.

The programs, budgets and procedures are three approaches in the strategy implementation. Wheelen and Hunger (2006, 17) acknowledge that a program is a statement of the activities or steps needed to accomplish a single-use plan. It is the orientation of strategy. Also, a budget is a statement of a corporation's programs in terms of money. It is used in planning and control, a budget lists the detailed cost of each program. At last, Procedures are a system of sequential steps or techniques that describe in detail how a particular task or job is to be done. (Wheelen & Hunger 2006, 17.)

2.2.4 Evaluation and control

After implementation period, how can we know whether the result is good or not? Therefore we cannot skip evaluation and control. It is a process in which company activities and performance results are monitored so that actual performance can be compared with desired performance. Performance is the last result of activities. It involves the actual outcomes of the strategic management process. (Wheelen & Hunger 2006, 18.)

Evaluation needs feedback as well. With the developing of a company, the strategist must go back to revise or correct decisions made earlier in the process (Wheelen &

Hunger 2006, 18).

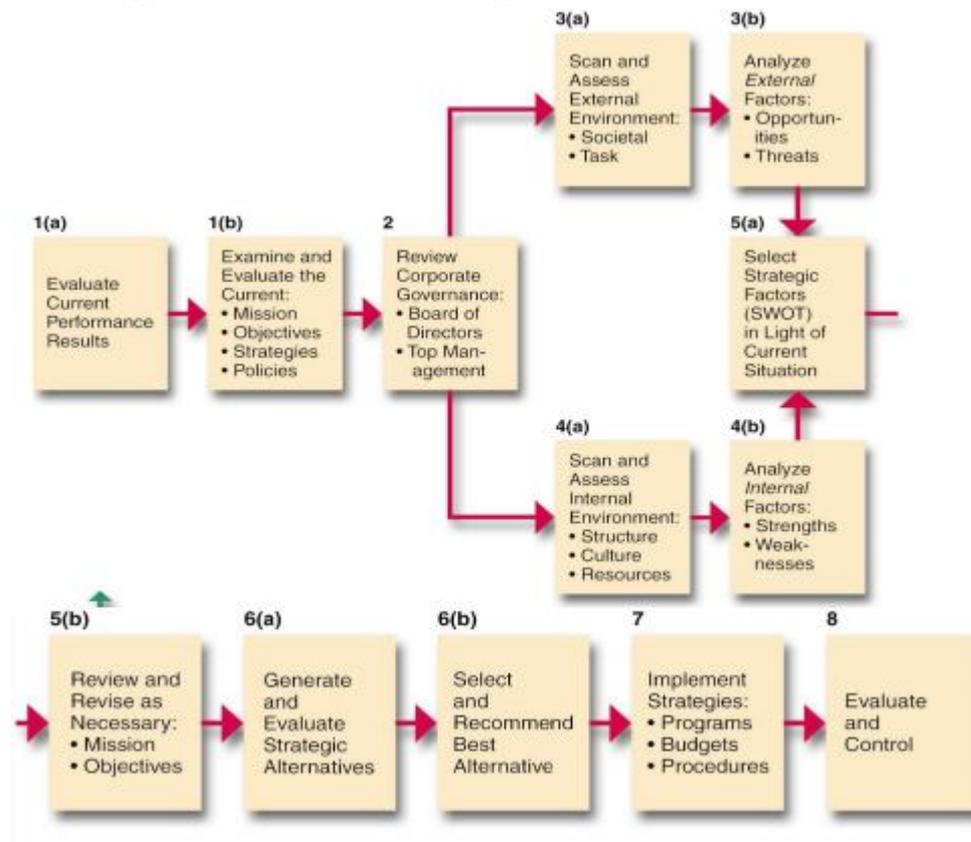


Figure 7. *Strategic decision-making process (Wheelen & Hunger 2006, 22-23).*

2.3 The benefits of strategic management

Strategic management is dispensable for a company to be more proactive than reactive in molding its own future; it makes an organization to initiate and affect activities so that it can exert control over its own destiny. At present, the benefits of strategic management begin to be recognized and realized by more and more people, no matter small business owners, chief executive officers, or presidents and managers of many for-profit and non-profit organizations. (Fred 2011, 48.)

Looking back in history, the basic benefit of strategic management has been helped organizations formulate sound strategies by using the more systematic, logical and rational approach to strategic choice (Fred 2011, 48).

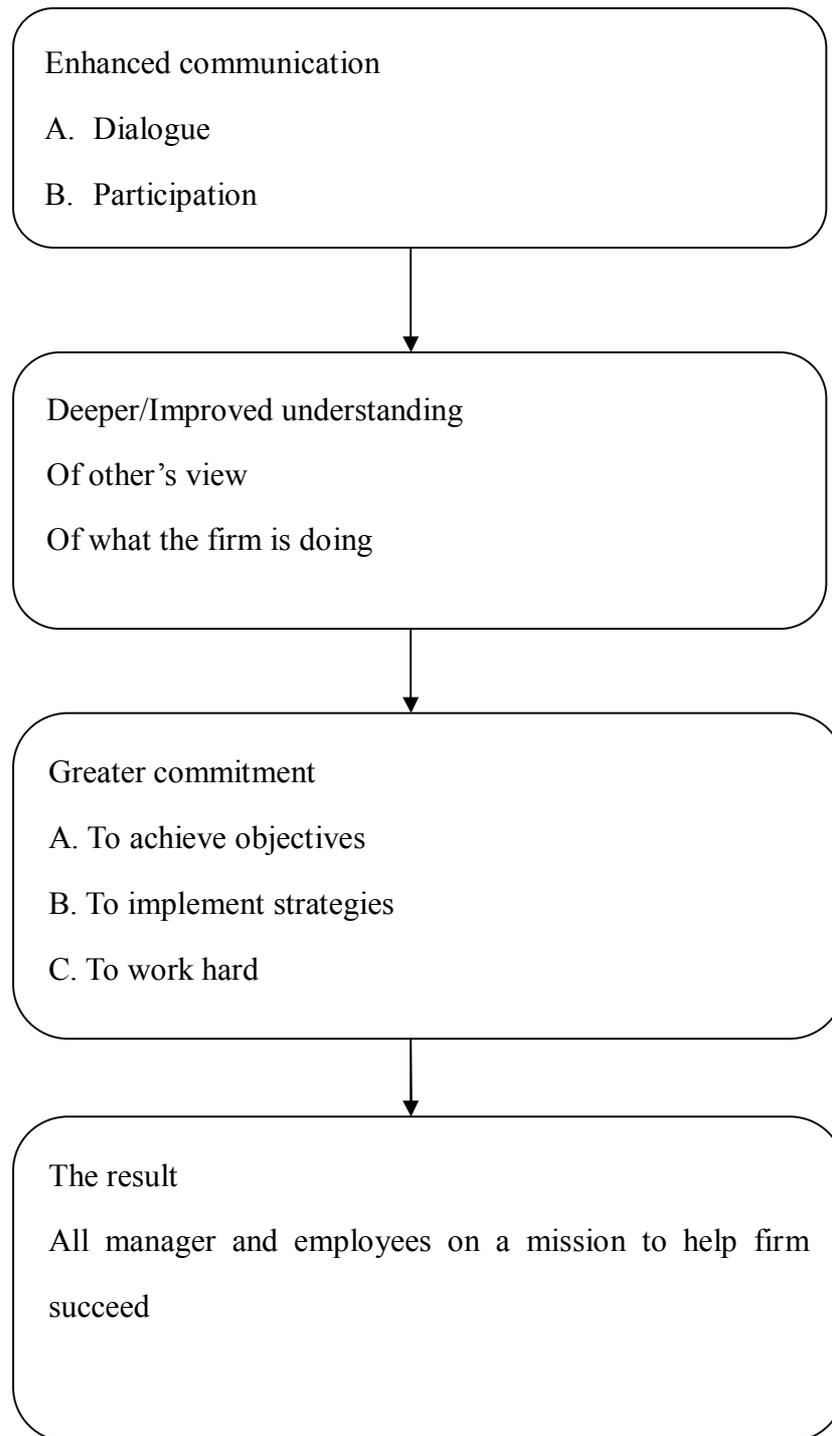


Figure 8. *Benefits of strategic management (Fred 2011, 48).*

Look at the figure 8, it illustrate the benefits of a firm that does the strategic planning. Generally speaking, a well strategy need all the employees to help to accomplish on a mission, thus the whole process of strategic management is a good way to motivate all managers and employees dedicating to the company. First of all, it help them to

enhance communication, the employees began to know what the company is doing, how to achieve the goal, so that they involve themselves into the firm and make a greater commitment for it. Then the managers and employees become more creative and hard-working when they gradually understand each other. Finally, the company will succeed with the effort of the entire employees. (Fred 2011, 49.)

To be specific, the benefits consist of financial benefits and non-financial benefits. Financial benefits include improvement in sales, profitability and productivity. A good strategic management can achieve the mission, objectives of the company, the profits will come naturally (Fred 2011, 49).

Meanwhile, there are many non-Financial Benefits. They are listed in following paragraphs :(Fred 2011, 50.)

- It can improve understanding of competitors strategies. A good SWOT can help us to understand the difference with our competitors, including the awareness of threats.
- It allows reducing resistance to change. More and more opportunities can be exploited in the process.
- It defines the management problems objectively.
- It provides a framework for a company to coordinate and control the activities.
- It promotes the communication among the employees and managers.
- It encourages having a strategic think, inspiring people think about more about the future of a company.

2.4The challenges to strategic management

Through the general introduction, we know that strategic management includes three aspects which are strategic planning, strategic implementation and control of the

strategy in an organization. Almost all the modern organizations have tried strategic management to make sure that they can reach the expected level of performance. However, there are still many challenges for strategic management in the modern business society. (Hajara 2011.)

1. Orientation for globalization

Now nearly every business organizations begin to get globalised, step in to global operations with the multi-national corporations or use other foreign business operations methods. Because of the globalization of operations of in business world there are many new orientations coming out, such as international human resource management (IHRM) and international finance. The process of company's strategic management has to be renovated all the time to deal with these new orientations. (Hajara 2011.)

2. Emerging e-commerce and internet culture

With the increasing expansion of internet and the technology, some companies have turned attention to e-commerce where they conduct business with electronic means such as online purchasing, online selling and online advertising. Strategic management process of the business should succeed to change e-commerce motivation into the business process. (Hajara 2011.)

3. Cut throat competition

When the globalization, e-commerce and many other changes emerged in the business society, business has become hyper competitive. If you are not using proper competitive strategy, the organization cannot survive any longer. The process of strategic management can help to generate competitive intelligence, foresee the next moves of rivals and build the competitive strategy to defeat competitors in the tough battle. (Hajara 2011.)

4. Diversification

With increased uncertainty and the rapid changes in business environment, the business risk has grown up substantially. Companies now engage in diversified operations must diversify the business risk where they focus on more than one business area or industry rather than specializing in one area. The strategic management should be capable of identifying diversification of business opportunities and manage them well. (Hajara 2011.)

5. Active pressure group

Under the modern society, there are active pressure groups operating such as environmental activism and consumer protectionism. Therefore strategic management must identify these external pressure groups and understand their concerns. (Hajara 2011.)

6. Motive for Corporate Social Responsibility (CSR) and ethics

Also, the modern business organizations have to possess corporate social responsibility and ethics to attain their corporate reputation so that it can be more competitive in the environment. Strategic management should do researches for possible corporate social responsibility activities and implement those to be in step with expectations of the society. (Hajara 2011.)

3. METHOD

In this chapter, the method of this research is introduced. It starts with three main questions why the qualitative method, benchmarking and case study are selected in the study. Then the process of data collection and implementation are explained step by step.

3.1 Qualitative method

Both qualitative and quantitative methods are important methodologies in research. Qualitative research is particularly relevant when prior insights about a phenomenon under scrutiny are modest, implying that qualitative research tends to be exploratory and flexible because of ‘unstructured’ problems (Eriksson & Kovalainen 2008, 5). It is concerned with interpretation and in-depth understanding which is prone to get a well-rounded and profound knowledge of strategic management by some common readers. Owing to this advantage of qualitative research, it is widely used to analyze business case study. This study is to explore the importance of strategic management so that an in-depth analysis of case company is necessary. The qualitative research is more suitable in the data collection.

3.2 Case study

A case study is an in-depth study which is applied to a particular participant or small groups. In a case study every aspects which influence the subject’s life and history will be analyzed to search for a patterns and causes for behavior. As a case study it is aiming at learning from the case and it can be generalized to others. (Cherry 2010.)

Normative and practical case studies in particular have been criticized for their

managerial concerns, i.e. their objectives are to help managers and decision-makers gain better operational control over business organizations. Hence case studies are always used to gain a better understanding of mundane and changing business practices in their social contexts. (Eriksson & Kovalainen 2008, 115.) Therefore the case study is employed to explore the importance of strategic management in this research.

In this study, the H&M Company is intensively chosen to illustrate two crucial questions-the conception of strategic management and how to make an analysis of strategic management. Furthermore, the importance of strategic management can be concluded from this successful case.

3.3 Benchmarking

Benchmarking is an analytical tool which is often used to determine whether a company's competency of value chain activities are strongly competitive compared to other rivals so that it can be confident to winning in the marketplace. Benchmarking includes measuring costs of value chain activities in an industry to formulate "best practice" among competitive firms with the views of learning or improving on those best practices. Benchmarking can make a firm to take action to improve its competitiveness and win a good position by identifying value chain activities where rival firms have comparative strengths in cost, service, operation and reputation. It can be typically measured by quality, time and cost. Through learning the benchmark company, we can make improvements which help to do things better, faster, and cheaper. (Fred 2011, 152.)

The most important part of benchmarking is to gain access to other company's value chain activities with associated costs. Benchmarking needs to compare the process of

management or results with the best firm in this industry, think about how they perform it, how to compete with them. Organizations evaluate various aspects of their processes in relation to best practice companies' processes, usually within a peer group defined for the purposes of comparison. As an organization, benchmarking allows to develop plans in order to make improvements or adapt specific best practices, usually with the aim of increasing some aspect of performance. (Fred 2011, 152.)

In this case, the rival of H&M, Zara has been selected as the benchmarking target. They have something in common which is easy to compare with. Both of them are successful apparel company and have a huge popularity in the same industry. However, they own difference business strategy to conduct the business performance. The aim of benchmark in here is to evaluate H&M's strategic management and learn some experiences to improve their strategy and performance better.

3.4 Data collection

In order to keep the accuracy of this research, different approaches have been used to gather the data:

- Study of the annual reports of H&M and other published materials
- Interview with H&M manager in Kuopio, Finland
- Interview with the Staffs in H&M, Kuopio, Finland
- Interview with the customers of H&M, Kuopio, Finland
- Information from H&M official website, newspaper and magazine.

On the basis of the general information from H&M official website, the overview of H&M' s conception, business idea, current sales situation, goals and some basic questions could be described.

The interviews with manager, staffs, and customers are for in-depth and concrete analysis of H&M's strategic management. In this interview, all the questions seem to be creditable and valid, because these questions are absolutely answered and explained well and objectively through face-to-face communication with interviewees. Moreover, some information was accessed from the telephone interview. Nevertheless, the questions which involved the confidential information, the manager and staffs may reject to answers. That could be the limitation of this research.

During the whole process of research, 6 interviews have been conducted. Three interviews were made in H&M retail shop in Kuopio, Finland; two interviews were made in Savonia University of Applied Sciences; one interview was made by telephone.

The list of interviews is as following:

Title	Name	Date	Reason
Manager	Mikko Alatalo	2.3.2011	General information, goals, sales situation
Staff	Virpi Jalasvaara	2.3.2011	Customer service
Staff	Emilia Knuutinen	2.3.2011	Mission, vision
Customer	Zhang Qian	5.3.2011	Feedback of quality
Customer	Fang Ruina	27.2.2011	Feedback of concept
Customer	Tanja Kekkonen	16.3.2011	Feedback of services

Table 1 *The list of interviews*

4 RESULT

In this part, the substantial results of this research have been generalized. They are analyzed according to the theoretical knowledge concerning basics of strategic management. All the findings combined the H&M case and theories together in order to interpret the whole process of strategic management.

4.1 Environment analysis

As mentioned in the theoretical part, environment analysis consists of mission, vision, value, goal and objectives. After the research, the detailed environmental analysis of H&M has been summarized in next paragraphs.

4.1.1 Mission

“2010 was a very good year for H&M with a sales increase of 15 percent. Profit after financial items increased to SEK 25 billion. During the year we improved our market position further with a strengthened customer offering by giving the customers even more fashion and quality at the best price. The economy improved from 2009 but in several countries the economic situation was still uncertain and difficult.”-Karl-Johan Persson, CEO (H&M 2011a.)

From the comments of CEO-Persson, we can see that the mission for H&M is to strengthen customer offering by giving more fashion and quality at the best price. To achieve that mission, H&M expanded substantially during 2009 and 2010, opening stores in numerous exciting new markets. For example, Lebanon in October 2009, Russia in March 2009, Beijing in April 2009, South Korea, Israel and Turkey in 2010 and Croatia, Romania, Jordan, and Morocco in 2011. With the fast expansion all over the world, H&M is gradually becoming stronger and have a firm position in this industry. (H&M 2010b.)

Among these markets, Germany is their biggest one, followed by the UK and Sweden. Obviously, they have great potentials for continued expansion and growths in 2010. In addition, H&M launched a franchise operation in the Middle East, in Dubai and Kuwait from the autumn 2006. However, franchising is useful way, but not a different part of H&M's establishment strategy. (H&M 2010b.)

4.1.2 Vision

H&M's vision is always to provide the customers with a better offering and even want to exceed their customers' expectations. H&M took many years of efforts to realize it. Take an example, the British fashion designer created a capsule women's collection got a fantastic sales when it was launched in around 200 H&M stores on 23 April, 2009. Its bright colors and lively patterns attracted customers. And only a month later, a more comprehensive summer collection which was typical Matthew Williamson – wonderful colors and patterns arrived in the stores. The pieces also worked really well with H&M's own summer collections. It can be seen that H&M really strive to make the customers the best offering about the design and fashion. (H&M 2009.)

At the same time, H&M are still trying to expand the online and catalogue sales. At the beginning of 2011, they have been launching the new H&M Shop Online in the markets where we offer online and catalogue sales before. With the development of online stores, people can buy the products of H&M just by clicking the mouse. Naturally, it will help H&M to achieve its vision in the future. (H&M 2010b.)

From the figure in 2010 annual report, H&M are absolutely optimistic about the future plan. In the figure below, gross profit the financial year increased from SEK 62,474 to 68,269 m,

The gross margin grew by 1.3 percentage units to 62.9 percent (61.6). This is a significant performance. (H&M 2010b)

	FULL YEAR 2010	FULL YEAR 2009	Q4 2010	Q4 2009
(SEK m)				
Net sales	108,483	101,393	29,711	28,011
Gross profit	68,269	62,474	18,792	18,581
gross margin, %	62.9	61.6	63.2	66.3
Operating profit	24,659	21,644	7,060	7,909
operating margin, %	22.7	21.3	23.8	28.2
Net financial items	349	459	118	83
Profit after financial items	25,008	22,103	7,178	7,992
Tax	-6,327	-5,719	-1,691	-1,838
Profit for the period	18,681	16,384	5,487	6,154
Earnings per share, SEK	11.29	9.90	3.32	3.72

Figure 9. *Income statements (H&M 2011a).*

4.1.3 Value

“Fashion and quality at the best price “(H&M 2011a).

Everyone knows that H&M is a value-driven company. The H&M spirit is made according to a lot of core values that describe the way they work. Among these values, the foundation of this is very important – fashion and quality at the best price. Almost every member of H&M believes this and lives up to this value. (Monster 2010.) In this interview in H&M shop, when the manager and other staffs were asked about the feeling in H&M. Their answers are incredibly the same. They all said “they are very happy to be one of H&M; they are enjoying their jobs and like to offer fashionable clothes for people.” (Alatalo 2011; Jalasvaara 2011; Knuutinen 2011) Besides, the H&M spirit’s basic values also include simplicity, continuous improvement, team spirit and personal initiative (Monster 2010).

H&M think that individual decision-making and the assumption of responsibility should be encouraged, and employees’ performance will be evaluated by receiving

regular feedback concerning their work. Transferring of responsibility to the retail store level is one important thing of their cultural value, so every H&M shop will share the same corporate culture and pass on it. In this way employees should feel a strong individual commitment to H&M, and their individual initiative is also encouraged. They believe that creativity and pleasure of a work will be created when they are work in a favorable environment. (Monster 2010.)

4.1.4 Goal

“To increase the number of stores by 10 – 15 percent per year”(H&M 2011a).

“Our global growth strategy is for each individual store to strengthen the H&M brand while also contributing to increased sales and profitability,” says Head of Expansion Stefan Larsson. “Our focus is always on the individual store.” In 2009, H&M was expanding rapidly. One important achievement that year was the new establishment in Russia. Then the then CEO-Rolf Erikson opened H&M’s first store in Moscow On 13 March in the metropolis shopping centre, which is welcomed by hundreds of people lining outside. Later, the second store opened in the Mega Khaki shopping centre around Moscow. In the autumn, H&M began to open the door to St Petersburg. In 2011, H&M are planning to add approximately 250 new stores. Among these China, the UK and USA will be the largest expansion targets for H&M in 2011 according to the annual report. As far as we know, we believe that H&M can make this goal come true in the near future as this kind of developing speed. (H&M 2009.)

In order to grow rapidly, H&M puts much pressure on the team to remain flexible. Many customers are worried about the quality of H&M. When I asked about this problem, the manager and staffs are not concerning about that. They said H&M always take all kinds of measures to keep the quality and production speed. All the employees must ensure that everything they can do to satisfy the customer in the best way.

(Alatalo 2011;Jalasvaara 2011;Knuutinen 2011)

4.1.5 Objective

The overall objectives of H&M focus on the environmental and social aspects.

H&M's environmental objectives are environmental awareness, respect for nature, the sustainable use of resources, healthy products, clean production chain and green transport. The company considers it is very important to promote the environmental awareness to the employees and suppliers. H&M pays attention to the nature and takes it into consideration when making decisions for the company. H&M's respect towards the environment is seen throughout the whole production chain from recycling and waste reduction to sustainable production methods and green transport. (H&M 2011b.)

H&M's social objectives are closely related to the Code of Conduct, which H&M has developed in order to maintain control among its many suppliers. All suppliers must agree on the Code of Conduct, in order to become a supplier for H&M. Therefore, one of H&M's social objectives is to have full compliance with the Code of Conduct. H&M also wishes that the Code of Conduct can reflect the company's business activities and is followed by means of efficient management system. In addition, H&M values its employees greatly and therefore, the social objectives cover that the factory workers can have their own rights to demand. The workers are to be informed of their rights and they are protected in all legislations. H&M considers it important to inform stakeholders and engage both them and the employees in Corporate Social Responsibility. (H&M 2011b.)

4.2 H&M fact

With a clear vision and mission, H&M is performing very well even in the global recessionary environment. It can be shown in the facts below.

- H&M opened its first store in Sweden in 1947.
- H&M has almost 2,200 stores in 38 markets and expanding continually.
- H&M has more than 100 designers, buyers, and pattern makers to create H&M's collections for women, men, teenagers, and children.
- H&M also sells cosmetics and home items under its own brand name.
- New merchandise is delivered to our stores daily.
- In the Nordic countries, H&M Rowells offers catalog and online purchasing of fashions.
- H&M does not own any factories. Instead, they work with about 700 independent suppliers located primarily in Asia and Europe.
- There are 22 production offices of H&M around the world: 9 in Europe, 11 in Asia, and one each in Africa and Central America.
- Today the company employs over 87,000 people. (H&M 2011c.)

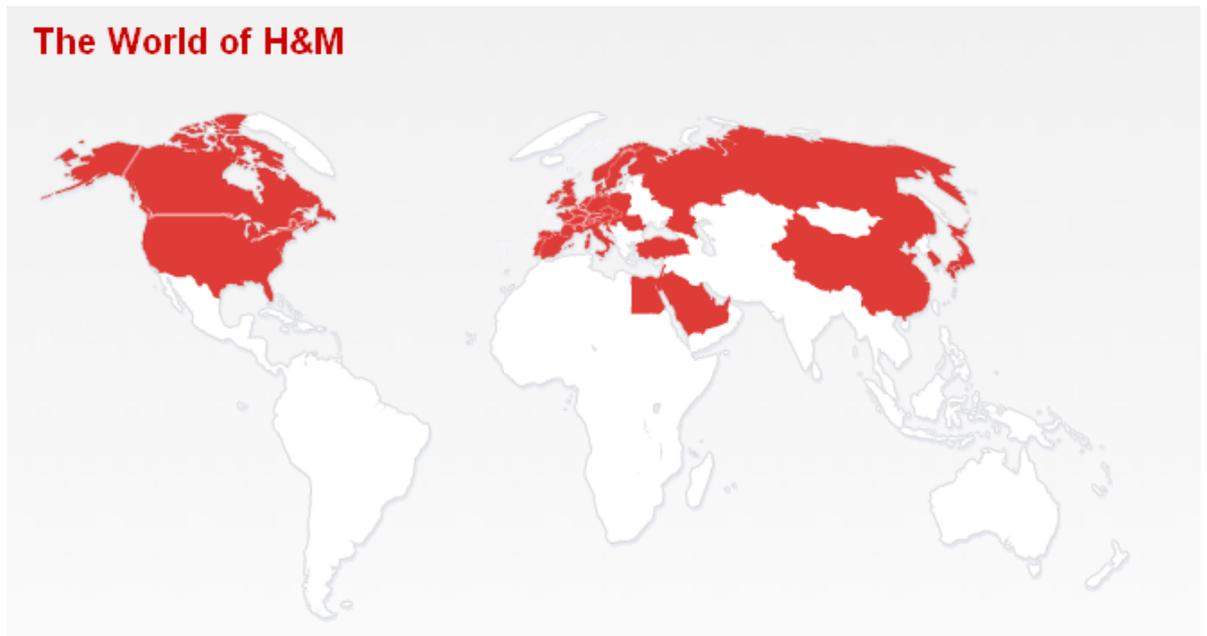


Figure10. *The world of H&M (H&M 2011c).*

1. Background

H&M is a very famous company and it is well known for its market and financial performance. The strategy of the company is carried out along the lines of fast

expansion and to find most promising markets, cost-efficient production of goods, as well as reduction of lead times. H&M is also a good 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 IT platform. (E-business watch 2011.)

2. Activities and organization

H&M sells clothes and cosmetics in about 2200 stores, which distributed in 38 countries. There are more than 87,000 employees in this group and its turnover was 25 billion SEK in 2010. Although its central functions are based in Sweden, there is still a national office in most of the sales countries. (E-business watch 2011.)

The suppliers' operations are audited by more than 30 Code of Conduct auditors who work at H&M's production offices. And there are also more than 100 quality controllers who have the right to report any infringements of the Code of Conduct they find. Audit results are reported to the local H&M office and the CSR department, which is a corporate level department in Stockholm. Its manager reports directly arrive to the managing directors. (E-business watch 2011.)

From next figure11, we can find out what the organization of H&M is made of. Firstly, it has the managing director to decide on general issue. Then there are buying, production, communication and investor relations departments. All of them need to undertake the corporate social responsibility. In order to keep a good quality they have quality controllers.

Also, each supplier has to follow the code of conduct so that they own code of conduct coordinators and environmental coordinators to monitor that. At last, every department must report CSR reporting to the headquarters and investor relations.

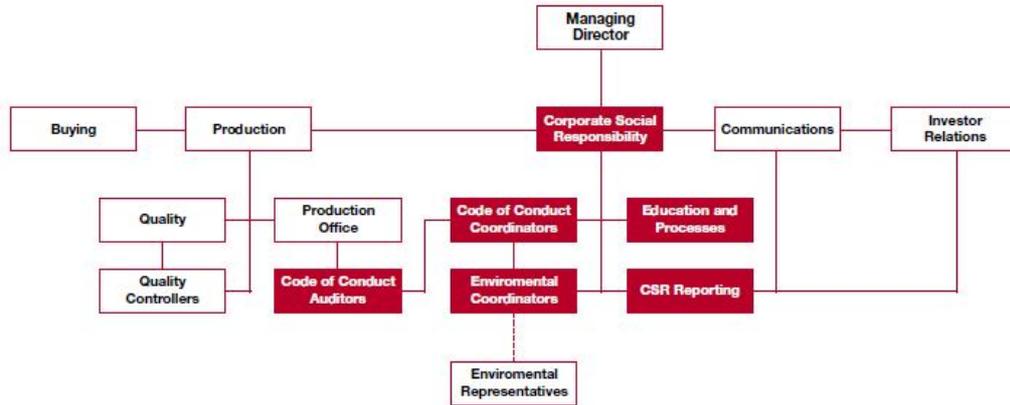


Figure 11. *Organization of auditors in H&M (E-business watch 2011).*

3. Buying and production

H&M is a big famous company but it does not have any factories of its own. It relies on a network of external suppliers managed through two departments: Buying and Production. H&M's method of production is customer-driven, and its buying function focuses on customers, fashion and composition of the range. Its clothing collections are created in Sweden by around 100 internal designers, 50 pattern designers and around 100 buyers. H&M puts high attention to research and prediction of emerging trends. They use both traditional research means and innovative research means such as street trends. The activity is performed by central staff and national offices which are responsible for detecting new trends. (E-business watch 2011.)

The production function is constitutive of 21 production offices. The company purchases costumes from about 750 suppliers, 60% of them in Asia and the remainder mainly in Europe (E-business watch 2011).

There is a mediating function between the internal buying department and external suppliers in order to make sure 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.

(E-business watch 2011.)

In order to reduce lead times, production offices also deal with sample garments and other checking and testing. 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 minimize risk, buying is carried out on an ongoing basis throughout the year. (E-business watch 2011.)

Because of developments in the buying process, H&M has reduced the average lead time by 15-20% in recent years. Flexibility and short lead times reduce the risk of the wrong buying, and stores are allowed to restock quickly with the best selling products. (E-business watch 2011.)

H&M operates with two main collections per year, one in spring and the other in autumn. In each season, there are numbers of sub-collections; therefore customers could always find new goods here. The purpose of the company is to find the optimal time and supplier to order each item. For this reason, 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 usually can get supplementary orders in a few weeks. (E-business watch 2011.)

4. Logistics and distribution

Acting as importer and wholesaler, as well as a retailer, H&M controls every stage in the logistic chain. And the continuous IT development provides support to H&M logistics. While the stock management is primarily handled within the H&M organization, 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. There is a distribution centre in every country, so that goods can be quickly inspected and allocated either in a store or in the centralized stock room (referred to as "Call off warehouse) when arrival. The role of

“Call off warehouse” is to supply item levels in stores according to selling trends. (E-business watch 2011.)

The main distribution channels are proprietary stores. H&M has been selling by mail order in Nordic countries. The company began its “shopping online” service in 1998. And the “shopping online” service has since been continuously improved. However, stores continue to be the main distribution channel. Owning of a proprietary network, H&M can keep its control of the expansion strategy and of business locations. (E-business watch 2011.)

5. IT

It can be shown clearly in the diagram below IT play a very important role in the whole process of value chain. Individual stores are linked to the logistics and procurement departments and the central warehouse. From central departments, it has possibility to follow sales of individual items to feed an intelligent procuring system. The company’s activity relies on IT integration between the central office and the production offices. H&M has 21 production offices totally. They must negotiate with the suppliers all over the world. Communication between departments takes place electronically, including design and product development. (E-business watch 2011.)

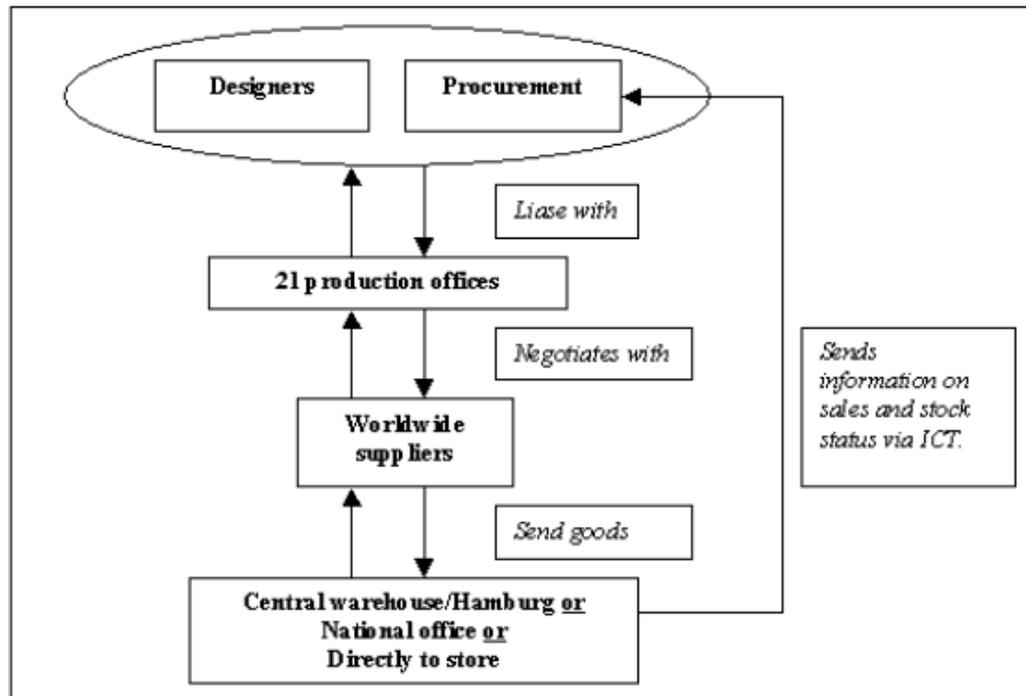


Figure 12 .*The working process of IT in H&M (E-business watch 2011).*

4.3 Strategy analysis

In this section, a SWOT analysis of H&M has been given in the following table. These results are based on the data from annual reports, interviews with H&M staffs and official website. In this paper, SWOT analysis is the most important part in terms of strategy analysis.

4.3.1 SWOT of H&M

A SWOT analysis of H&M involving the strengths, weaknesses, opportunities as well as threats can be briefly shown in table below.

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • Strong brand image • Low costs / cheap prices 	<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • Possible new suppliers markets in Asia • The economic crisis can increase the interest for cheap clothes • Online market
<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • slow distribution system • Low quality • Excessive expansion • Amount of suppliers(require resources) 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • Lots of competitors



Table 2 *SWOT of H&M (H&M 2009)*

Strength

H&M's strengths include a good brand image and cheap price. H&M has established a strong brand which motivates employees creating unity and attracts skilled work force. The company benefits from a good image from the customers and they have a strong fame everywhere in the world thanks to its huge number of outlets. Also the prices that H&M offer to its customers are really competitive thanks to the cost saving management way of the company. (Alatalo 2011)

Cheap price is known by everybody. Their other strength is that they have a wide range and many different concepts. The entire concept of low priced apparel has brought loyal

customers for H&M for years. The various departments for women, men, teenagers and children are their foundation. They can work with them in different types of buildings, street locations and shopping centers with very different characters. (Alatalo 2011)

Weaknesses

As the company wants to save money everywhere it's possible, the distribution system is really slow and it takes a lot of time to deliver a product to the outlet. It may be really bad for the reaction time if the company to the competitors offer. Also the low quality of the product could give to the customers the need to go to the competitors. H&M has amount of suppliers. This is a good thing. However, as H&M's production units add up to 2700, the control of all these demand great resources and management. If H&M cannot maintain its effective organizational structure, the situation may lead to the failure of control. (Alatalo 2011)

Opportunities

There are several opportunities for H&M to develop its business. As the online market is more and more developed and H&M should start to sell its product online. At the start of 2011, H&M are launching the new H&M Shop Online in the markets where they offer online and catalogue sales already. Shopping experience and functionality have been improved. Around the end of 2010 they plan to start online sales in USA where should be the world's largest online market. (H&M 2010b.) In addition, the economic crisis was really strong and it may increase the interest of the population for cheap and fashionable clothes. Finally the development of some Asian countries such as Vietnam can give the opportunities to H&M to found new suppliers cheaper and more preferment in terms of quality and time of production. (Alatalo 2011)

Some supplier markets with high purchasing power and plenty of customers are with an interest in fashion, just like in our Asian markets, China and Japan. H&M's expansion is rapid and running parallel on four continents. Many potential projects are running

simultaneously and competing with each other. “There are considerably more opportunities for new openings than the stores that we actually door open,” says Stefan Larsson. “During the establishment process we decide against some potential stores. Only the best business opportunities remain. The aim is to create the best H&M stores through a combination of best location and best possible business conditions, wherever they are in the world.” (Alatalo 2011)

Threats

The major threat is that this market is full of competitors that are constantly growing and that are generally aggressive. That’s why H&M should keep its effort in differentiation in order to face this competition.

In addition, there are other risks and uncertainties they cannot avoid and predict. It related to fashion, weather situations, climate changes, trade interventions and exchange rates, but also in connection with expansion into new markets, the launch of new concepts, changes in consumer behavior and handling of the brand. (H&M 2010b.)

The year was also full of challenges. The global financial crisis and recession, with more consumer restraint and discount driven markets, naturally affected. However, H&M recognized that there were things they could have done better too. Self-criticism and striving to make constant improvements are part of H&M’s corporate culture and they work hard to become more efficient in all areas. Increased efficiency also means that they can invest in giving the customers an even more attractive offering.

4.3.2 Strategy formulation

H&M strategy is well developed and it is working very well. Therefore the company is

the leader on its market today. To permit this huge success, the H&M management established a really complete strategy that is carefully formulated in order to achieve the objectives and goals of the organization. The hierarchy of the strategy is a part of the strategy formulation. As we mentioned in the chapter 2, it includes corporate strategy, business strategy and functional strategy. All three are used in a company's strategic management. The different strategies must support and complete each other in order to be efficient.

The strategy of H&M is both lower costs and differentiation:

They are constantly looking for reduce cost in every step of the business in order to offer to the customers the best prices. First they have a simply supply chain management that is based on a "just in time" management system. Delivery times vary from 2-3 weeks to six months, depending on the type of product. It is therefore important to be able to order each item at the right time for stores in order to have it on time. The short delivery times is not always wanted because they must consider the compromise between price, time and quality. They also save cost in producing in Asia and they have partnership with cheap suppliers that produce fast and cheap.(H&M 2009)

In the same time they really want to be different than the competitors in order to have a competitive advantage. This sector is really competitive and H&M need to be different to attract the customers and increase the market shares. To achieve this differentiation, they regularly offer special limited collections designed by famous artist or designers such as Roberto Cavalli, Madonna, Karl Lagerfeld and so on. (H&M 2009)

Corporate strategy

As we mentioned in the theoretical part, the corporate strategy describes the direction an organization takes with the objective of achieving business success in the long term (Wheelen & Hunger 2006, 15).

There are three different corporate strategies possible:

- Growth strategy

This is when a company has the strong wish to grow and increase the market share, the territorial presence, the profit and in a more large way, the wish to growing the business (Thomas 2011).

- Stability strategy

This is when a company is satisfied with its current rate of growth and profits; it may decide to use a stability strategy. This strategy is essentially a continuation of existing strategies (Thomas 2011).

- Retrenchment strategy

Tomas (2011) proposed that the retrenchment strategy includes a reduction in the scope of a corporation's activities, which also generally necessitates a reduction of the number of the employees, sale of assets associated with discontinued product or service lines, possible restructuring of debt through bankruptcy proceedings, and in the most extreme cases, liquidation of the firm.

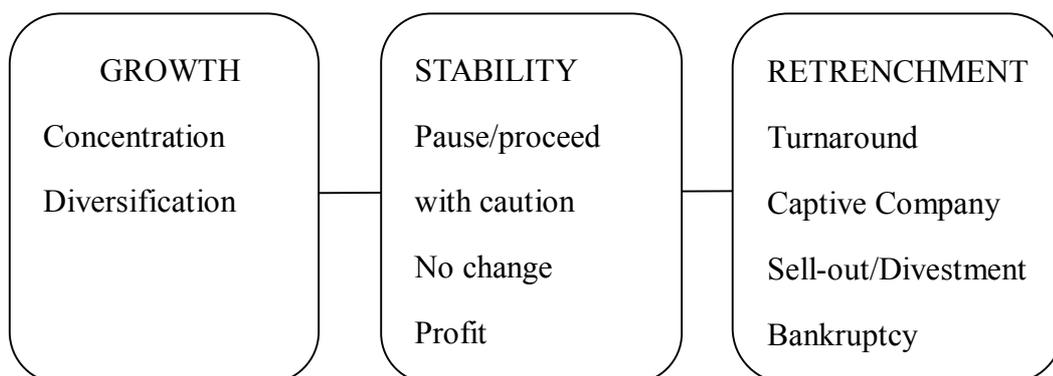


Figure13. *Corporate Directional Strategies (Hunger & Wheelen 2006, 166).*

H&M growth strategy

H&M have a constant growth strategy based on really fast market coverage by opening

constantly new stores every week. The company has plans to double its number of outlets by 2013 that implies that they plan to have about 3000 stores around the world. It means that they open every days a new store. They want to be present everywhere in the world and in every activity areas. They are also always looking for occupying markets share from the competitors and increasing the amount of sales, the popularity and the profit. (H&M 2011a.)

Business strategy

The business strategy is the attitude of a company to react from its competitors. It could be a competitive strategy or a cooperative strategy. H&M have a really aggressive competitive strategy as they do not cooperate with no one and are always looking for eat the market share from competitors by using low prices and as we previously have seen, their differentiation competitive advantage.(H&M 2009.)

Functional strategy

The Functional strategy is when a company uses one functional area on its organization in order to achieve the objectives and be more competitive (Wheelen & Hunger 2006,15) .For example, an IT company such as Samsung will surely have a functional strategy based on research and development in order to create new IT materials and be more competitive.

The H&M functional strategy is also based on the research and development area of its organization as they are constantly looking for new models in order to be different from the competitors. They use more than one hundred designers to create the new model in order to create fashion and not following what the competitors did. In addition, as we previously seen, they also work sometimes with famous designers to make special collections. (H&M 2009.)

These strategies must complete and consistent with each others in order to have an

efficient global strategy. But we must also say that these strategies must be in accordance with the goals and the image that the company wants to share with customers. In this case H&M has a goal that is really different to the strategy is that the company wants to offer products that are good in term of quality ,nevertheless at the same time they use cheap suppliers in order to be competitive and offer the best price to the customers.

4.4 Strategy implementation

H&M provides a wide range of strategic decisions for its operations. They are all extremely confident with decisions made by a big corporation. Even though the objectives are well stated and informed to be acted before, H&M has not been able to provide anything except vague figures or results of these strategic decisions. Here we have a question, if the company only wants to create an image of a responsible company and if it is really implementing these strategically smart decisions. However, H&M does show results of its strategic decisions. As we mentioned before, the sustainability of the company is a major part of H&M's image as it is showed in various campaigns. In addition, the company maintains the importance of the Code of Conduct created, as it is important in choosing who H&M works with. (Parkkali & Sallinen 2010.)

At the heart of H&M's success is a vertically integrated business model spanning, design, just-in-time production, marketing and sales. The key to this model is the ability to adapt the offer to customers' desires in the shortest time possible. For H&M, time is the main factor to be considered, above and beyond production cost. The group believed that vertical integration gave it more flexibility than its rivals to respond to fickle fashion trends. With the European markets becoming saturated, H&M had been looking at stretching its product line and furthering its global expansion.

Although H&M is a new market within the business area, the company has been utilized

a strategic marketing move, including a strategic planning in order to make the market be known in the marketing environment. The company has also made it possible to be connected to their target market through the use of technological advancement like the e-marketing. Moreover, this marketing entry strategy can be considered as effective since the company has included the entire factor to be assessed in order to make the business prolong its competitiveness and survive in the threatening place of the market.

4.5 Evaluation and control

H&M uses different kinds of reports to evaluate and inform of its past operations. For example, as a big part of H&M's strategy, sustainability is reported annually in a Corporate Sustainability Report. The company also publishes an annual report to conclude overall activities of the past year. Financial information is controlled by five year summaries. In addition to all of these, H&M arranges press releases, annual general meetings and conferences to further evaluate and inform of its activities. No doubt H&M did an excellent job in evaluation part, which is one of reasons about critical success. (Parkkali & Sallinen 2010.)

4.6 Comparison between H&M and ZARA

The differences between H&M and Zara have been shown in this chapter. They have something in common which is easy to compare with. Both of them are successful apparel company and have a huge popularity in the same industry. However, they own difference business strategy to conduct the business performance. Benchmarking in here is aim at evaluating H&M's strategic management and learning some experiences to improve their strategy and performance better.

4.6.1 Introduction of ZARA

Zara is a subsidiary company of the Spanish Inditex Group. It is a famous apparel brand, and also the exclusive brand of apparel retail chain of Zara brand. It was established in 1975 in Spain. As a part of Inditex Group, Zara is ranked to the third around the world and the first brand in Spain. Among 56 countries, it has owned the establishment of more than two thousand clothing chains. Zara is always favored by the young people who love the fashion. It stands out by the excellent design and cheap price. In short, everyone can embrace high fashion in Zara. (Zara 2010.)

Now Zara has established 2200 women's apparel chain shops in 27 countries in Europe and the 55 countries in the world. In 2004 its revenues up to 4.6 billion Euros, profits of 440 million Euros. This performance is even better than GAP which is the largest brand in U.S. (Zara 2010).

Zara's success can be summarized into four factors. Firstly, it owns a professional group of designer. Secondly, it has 9 garment factories itself, so that the new apparel can be completed from planning to production within a week. Thirdly, Zara has a fast delivery. And last, Zara takes a strategy of "limited collection and new design". Every three week all of the clothing products should be updated. (Zara 2010.)

Zara's designers have unique creativity and enthusiasm for young people. They often visit to New York, London, Paris, Milan and Tokyo, to learn the latest female fashion and trends in order to understand customer reaction by first-hand information. Zara currently own 9 factories in Spain which can master the production speed. After the completion of a clothing design, the designer must send information of specification to the production line. The current inventory is about 15% to 20% of all production. Compared with any other apparel chains, Zara is much lower by 40%. (Zara 2010.)

In terms of logistics and distribution, Zara is mainly transported by truck in France, Germany, Italy, Spain and other European countries. The production can arrive in the retail shop within 48 hours averagely .The 30% remaining of sales is places in the way of air to Japan, the United States, Eastern Europe and other distant countries .In order to allow consumers to catch up with the latest trends, Zara will make the new listing every week. And every 3 weeks, the clothing store will be updated by new ones. Zara has highly competitive sales performance in clothing market. Zara’s ultra-speed, multi-species and efficiency of operations helped to achieve the success in the world. In a word, Zara’s strategy has a great reference value for H&M. (Zara 2010.)

4.6.2 SWOT of Zara

The table below shows the SWOT analysis of Zara:

<p>Strengths</p> <ul style="list-style-type: none"> • Brand image • Fast production 	<p>Opportunities</p> <ul style="list-style-type: none"> • Global market penetration • Online market • Decentralise distribution center
<p>Weaknesses</p> <ul style="list-style-type: none"> • Centralised distribution system 	<p>Threats</p> <ul style="list-style-type: none"> • Lots of competitors



SWOT

Table3 *SWOT of Zara (Zara 2010)*

Strengths

Zara’s strength is very well known and consists mainly of the brand image comparing to the price. Zara has a fashionable and ‘cool’ image. In general, most of young people

want to shop at Zara, and also proud of buying there and wearing the clothes. It's different with H&M, because H&M sell more mass products. Wearing H&M clothes is not something to be ashamed of, but it's also not something to show off with others. (Zara 2010.)

Besides the brand image, Zara has another strong point comparing to H&M. Zara has the ability to design and get products in the store within 6 week. This is faster than the other rivals who need average of 6 months, which are also the time H&M needs. (Zara 2010.)

Weaknesses

As told before the quality of H&M products are quite low in customer's eyes. H&M wants to keep the prices of their products lower, which means the quality is less. Besides that the continuous saving on all the departments within the company makes the distribution and logistics system slow. For Zara the distribution system in Europe is ok. The weakness for them is that they use the same centralized distribution in America. That means all the products for America come from Spain. That makes the distribution vulnerable. (Zara 2010.)

Opportunities

For both companies the growth on the on-line market is a big opportunity. Except that also the growth in Asia is a big possibility. For Zara there are possibilities in the decentralization of the distribution in America. For H&M the chances are in the growing interest for cheap clothes due to the economic crisis. (Zara 2010.)

Threats

Both companies face the threats of new competitors due to their success. Not just the global companies, but also more local competitors gain a piece of the market.

4.6.3 Strategy of Zara

The main point of the H&M strategy is to achieve lower costs combined with differentiation. The differentiation is mainly based on more fashionable limited collections. For Zara it's completely different because they try to be more fashionable for reasonable prices. Not the cheapest prices in general, but cheap prices comparing to competitors who offer similar products. (Tripa & CUC 2007.)

Zara also tries to offer a more complete package to the customer. Not just the products, but the whole feeling that customers have when they buy and where the clothes is different comparing to H&M. Zara is focusing on the limited collections, while H&M is more basic to everyone. (Tripa & CUC 2007.)

Corporate strategy

The long term strategy for a company can be growth, stability or retrenchment strategy. As told before, H&M has a growth strategy, but so does Zara. As they are not really selling the same products they both grow in a different way. Zara wants to be in every main place while H&M seems to care more about the quantity than the quality by opening a new store every day. (Tripa & CUC 2007.)

Business strategy

The way Zara and H&M act towards their competitors is different. H&M is very aggressive and tries to beat every competitor; Zara has a more specialized market share. That's why Zara has more local 'specialist' competitors. They don't really focus on these businesses but trust on their own name and quality. In general Zara is more expensive than H&M, but it is in fact more worthy among same quality brands. (Tripa & CUC 2007.)

Strategy

The H&M functional strategy is based on the research and development area of its organization as they are constantly looking for new models in order to be different to the competitors. They try to be new to attract customers. Zara has the strategy of following the competitors' fashion. They watch what the competitors does, and reacts with their own products. Zara can develop a product and get it in the store within 6 weeks. This is a huge strength as it normally takes 3 to 6 months. In addition, Zara always produces everything in limited numbers. Re-order is not possible which means that the customers know that they have to buy something they like now, because it will be sold out soon. (Tripa & CUC 2007.)

4.7 Recommendation for H&M

In this section, the challenges that H&M is facing with are summarized. Based on the SWOT analysis and the facts about H&M, the recommendation from the perspectives of author are given below.

4.7.1 Challenges of H&M

H&M follows the ongoing trends and customer wishes carefully and renews the collection based on those. However, the company could adopt the practice of its rival company-Zara in creating the trends. H&M always seems to a little bit behind of the fashion trends and focus on the basics, whereas Zara, which is currently the biggest competitor, has them in stores first.

At H&M, the quality of the products sometimes suffers from the low level of prices. The company could enhance the quality. However, H&M should pay high attention to the fluctuations of prices and not let them get too high for the customer segments that the company is offering the products for.

As mentioned before, H&M presents itself as a sustainable corporation. However, in the sustainability reporting, only vague figures are presented, and this may give an unwanted image in the eyes of a stakeholder or a customer. Clear and precise figures would bring transparency to the sustainability reporting and result in a positive and reliable image.

4.7.2 Recommendations for H&M

The paper has analyzed various aspects of H&M's strategic management and its implementation. Based on these facts and theories, recommendations can be made for the company. Generally speaking, my recommendations are simple.

1. As the most competitive rival, Zara is not so dangerous yet, but H&M should keep an eye on their growth and strategy, and try to change the strategy flexibly all the time.
2. Lacking own supply chain is one of weak point of H&M. If H&M develop own supply chain management, the production process will be faster and reactive which can bring more profits.
3. H&M has already had a big market share in the world. For the present, maintaining the development efforts and getting the market penetrations are better strategy.
4. H&M should take more efforts on the fashion design and product more fashionable clothes with cheaper price to attract own specialized customers.

Most importantly, I think that H&M doesn't need to reduce the expansion. Because of this speed of expanding, many people doubt that H&M raised the cost and loosed the control due to the amount of suppliers. In my opinion, it has the ability to control and monitor the suppliers. I also recommend that it can focus on some emerging markets,

like China, Korea, Singapore...As a Chinese, I think China had indeed embraced globalization, but of a sort. For example, traveling through Shanghai, it would be hard to distinguish it from Taipei, Hong Kong, or any US city for that matter. The wide street is packed with automobiles. Bright Neon lights decorate the shops. You will find Chinese wearing Nike shoes or Calvin Klein tees, and drink Coca cola. The impression is that foreign products and influence flows free and accepted readily at China. Compared with domestic products, they prefer international brand like H&M and Zara.

There are of course foreign companies able to set a stronghold in the Chinese soil, but only those who came utterly prepared, knowledgeable in Chinese society, and committed to do business. After all China is a large country with its transportation and communication sector still under development. The immediate issues faced by the investors were cultural differences, trade barriers and government restrictions.

5 CONCLUSION AND DISCUSSION

In last chapter the whole thesis content will be reviewed again. Some limitations in the research process will be discussed .Also the experiences and suggestions from author can be concluded for further study and investigation.

5.1 Conclusion of this thesis

The theme of this thesis is to discuss the importance of strategic management. As people know, it is one of the compulsory subjects for business students. Nevertheless, why is it so important to learn the knowledge and how to apply the theory into practice? That is a tough question. Due to the globalization and development of Internet, It is necessary to know the knowledge about strategic management for a company. In order to solve this problem and explore the benefits of strategic management, this paper was made by a case study of H&M.

H&M is a world famous apparel company. The success of H&M will be a reference example for any organization. It is really a big challenge for me to make the in-depth analysis of H&M's strategy because of lacking prior experiences and extensive materials which should be analyzed.

In the theoretical part, as the strategic management involved vast quantities of information, this thesis selected the basic concepts concerning the topic to discuss. And the strategic analysis as a crucial part was stressed. After introducing the definition, the process, the benefits and challenge of strategic management, the environmental scanning of H&M could be formulated. During the research process, the qualitative research was adopted and the data was collected though the interviews with H&M's manager, staffs and customers, the official website and annual reports. Thereby the exhaustive analysis of H&M was made in order to illustrate the

importance of strategic management and provide the successful experience for more companies. This included the current financial performance of H&M, the company's mission and objectives and corporate governance. In addition, the societal trends affecting the company were presented along with SWOT analysis of the company's operations. The definition of the current situation at H&M also included strategic factors and problems of immediate and long-term.

The strategic analysis of H&M entailed all aspects of environmental scanning. These included environmental analysis showing how the company is affected by external factors as well as how the company deals with them. In addition, environmental scanning also included the internal analysis showing aspects of the organization and its economy. The strategic analysis would not be complete without the steps of strategic management, which were also provided in the thesis. These included the strategy formulation (how H&M creates its strategies), strategy implementation (how H&M puts the strategies in use) and evaluation and control (how H&M deals with the results of strategy implementation).

The strategic analysis came to together after analyzing a strategy of another company-Zara and comparing it to H&M's. Two companies had remarkable differences, but were noticed to be quite similar after all. Based on the comparison of the companies' strategies and despite the similarities, a conclusion was made that H&M should learn something from Zara but don't need to afraid of it.

Recommendations for a company with the magnitude of H&M's are not easy to come up with, as the strategy is a result of many years of experience in the fast fashion field. A company can always be advised to be more sustainable or be more innovative with trends, but a question can be made if it really is worthwhile to advice a company that has succeeded in so many markets in the delicate field of fashion for so many years.

In a word, all the research questions have been answered from the case study of H&M.

5.2 Limitation of this thesis

There are some limitations in the process of data collection. Firstly, the exact figures of the sales situation are avoided in the interview. All of the analysis is concluded from the official website and annual reports. The answers from the interviewees are more general information therefore the recommendation cannot be made especially for the H&M shop in Kuopio area. Secondly, some staffs in H&M, Kuopio cannot answer in English. The obstacle of language gains difficulties of interviews. Thirdly, most of common customers only have no clue of strategic management due to the abstractness of this topic, so it tends to be limited to the strategists and senior management level.

5.3 Suggestion for further research

When finishing this research it can be found that the strategic management did play a significant role in the success of H&M. In this thesis, it only concentrates on a case study of H&M. Probably it cannot be applied to other companies or fields. However it can be concluded that every company needs an accurate strategy before they explore the market. They should be clear about the marketing analysis and the advantage, disadvantage, mission, vision and goals. Then found the place of them. People can learn some successful experiences from some examples, but can't copy the strategy from others. Since every company has its own way of operation and characteristics.

The author hopes this thesis can help H&M in Kuopio achieve a better performance in near future and it can arise more and more attentions to strategic management.

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APPENDIXS

Appendix 1 Questionnaire

QUESTIONNAIRE

1. How long have been working in H&M?

(Mikko Alatalo,the top manager of H&M in Kuopio, Interview 2.3.2011; Virpi Jalasvaara, shop controller, Interview 2.3.2011; Emilia Knuutinen, sales person, Interview 2.3.2011)

2. As we know, 2010 was a very good year for H&M with a sales increase of 15%.Profit increased SEK 25 billions. Do you think has it achieved its mission? What are the mission, vision and goals of H&M?

(Mikko Alatalo,the top manager of H&M in Kuopio, Interview 2.3.2011)

3. Are you satisfied with H&M's present sales?

(Mikko Alatalo,the top manager of H&M in Kuopio, Interview 2.3.2011)

4. What do you think is the key factor of H&M's success?

(Mikko Alatalo,the top manager of H&M in Kuopio, Interview 2.3.2011)

5. Do you like to be one of H&M group? Why?

(Mikko Alatalo,the top manager of H&M in Kuopio, Interview 2.3.2011; Virpi Jalasvaara, shop controller, Interview 2.3.2011; Emilia Knuutinen, sales person, Interview 2.3.2011)

6. Compared with the similar European brand, for example, ZARA, what is H&M's

competitiveness and weakness in your eye?

(Mikko Alatalo, the top manager of H&M in Kuopio, Interview 2.3.2011)

7. As a manager of H&M, do you think is there any relationship between the accurate strategic management and the success of H&M?

(Mikko Alatalo, the top manager of H&M in Kuopio, Interview 2.3.2011)

8. Do you think the current business strategy for H&M reasonable? Is there anything needs to be improved?

(Mikko Alatalo, the top manager of H&M in Kuopio, Interview 2.3.2011)

9. What measures do you think can help to improve H&M's developing situation?

(Mikko Alatalo, the top manager of H&M in Kuopio, Interview 2.3.2011)

10. What is the picture of H&M in future five years in your mind?

(Mikko Alatalo, the top manager of H&M in Kuopio, Interview 2.3.2011; Virpi Jalasvaara, shop controller, Interview 2.3.2011; Emilia Knuutinen, sales person, Interview 2.3.2011)

11. Are most of customers satisfied with H&M's quality and service? If someone complains about that, how will you deal with it?

(Virpi Jalasvaara, shop controller, Interview 2.3.2011; Emilia Knuutinen, sales person, Interview 2.3.2011)

12. As one of member of H&M, what measures can you do to improve the sales?

(Virpi Jalasvaara, shop controller, Interview 2.3.2011; Emilia Knuutinen, sales person, Interview 2.3.2011)

13. Do you often shop in H&M? What is the reason to choose it?

(Fang Ruina, Customer, Interview 27.2.2011; Tanja Kekkonen, Customer, Interview

16.3.2011)

14. Are you satisfied with H&M's quality and service? Do you have any advices?

(Fang Ruina, Customer, Interview 27.2.2011; Zhang Qian, Customer, Interview 5.3.2011; Tanja Kekkonen, Customer, Interview 16.3.2011)

Appendix 2 Group income statement

GROUP INCOME STATEMENT (SEK m)

Full Year, 1 December - 30 November

Fourth quarter, 1 September - 30 November

	2010	2009	Q4 2010	Q4 2009
Sales including VAT	126,966	118,697	34,792	32,758
Sales excluding VAT	108,483	101,393	29,711	28,011
Cost of goods sold	-40,214	-38,919	-10,919	-9,430
GROSS PROFIT	68,269	62,474	18,792	18,581
<i>Gross margin, %</i>	62.9	61.6	63.2	66.3
Selling expenses	-40,751	-38,224	-10,942	-9,961
Administrative expenses	-2,859	-2,606	-790	-711
OPERATING PROFIT	24,659	21,644	7,060	7,909
<i>Operating margin, %</i>	22.7	21.3	23.8	28.2
Interest income	356	467	122	86
Interest expense	-7	-8	-4	-3
PROFIT AFTER FINANCIAL ITEMS	25,008	22,103	7,178	7,992
Tax	-6,327	-5,719	-1,691	-1,838
PROFIT FOR THE PERIOD	18,681	16,384	5,487	6,154
All profit is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.				
Earnings per share, SEK*	11.29	9.90	3.32	3.72
Number of shares, thousands*	1,655,072	1,655,072	1,655,072	1,655,072
Depreciation, total	3,061	2,830	729	672
of which cost of goods sold	336	310	79	95
of which selling expenses	2,540	2,350	608	507
of which administrative expenses	185	170	42	70

* Before and after dilution. See page 5, Share split.

Appendix 3 Consolidated statement of comprehensive income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (SEK m)

Full Year, 1 December - 30 November

Fourth quarter, 1 September - 30 November

	2010	2009	Q4 2010	Q4 2009
PROFIT FOR THE PERIOD	18,681	16,384	5,487	6,154
Other comprehensive income				
Translation differences	-2,169	-386	-879	395
Change in hedging reserves	386	680	286	-631
Tax attributable to other comprehensive income	-100	-190	-74	83
OTHER COMPREHENSIVE INCOME	-1,883	104	-667	-153
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	16,798	16,488	4,820	6,001

All comprehensive profit is attributable to the shareholders of the parent company H & M Hennes & Mauritz AB.

Appendix 4 Group balance sheet

GROUP BALANCE SHEET (SEK m)

30 November

ASSETS	2010	2009
FIXED ASSETS		
Intangible fixed assets		
Brands	349	396
Customer relations	97	110
Leasehold rights	688	744
Goodwill	64	424
	1,198	1,674
Tangible fixed assets		
Buildings and land	656	492
Equipment, tools, fixture and fittings	14,813	14,319
	15,469	14,811
Long-term receivables	518	551
Deferred tax receivables	1,065	1,246
TOTAL FIXED ASSETS	18,250	18,282
CURRENT ASSETS		
Stock-in-trade	11,487	10,240
Current receivables		
Accounts receivables	2,258	1,990
Other receivables	1,453	889
Prepaid expenses	876	937
	4,587	3,816
Short-term investments	8,167	3,001
Liquid funds	16,691	19,024
TOTAL CURRENT ASSETS	40,932	36,081
TOTAL ASSETS	59,182	54,363

GROUP BALANCE SHEET (SEK m)

30 November

EQUITY AND LIABILITIES	2010	2009
EQUITY		
Share capital	207	207
Reserves	-369	1,514
Retained earnings	25,653	22,508
Profit for the year	18,681	16,384
TOTAL EQUITY	44,172	40,613
Long-term liabilities*		
Provisions for pensions	257	254
Deferred tax liabilities	906	2,038
Other provisions	-	368
	1,163	2,660
Current liabilities**		
Accounts payable	3,965	3,667
Tax liabilities	2,304	439
Other liabilities	2,202	2,531
Accrued expenses and prepaid income	5,376	4,453
	13,847	11,090
TOTAL LIABILITIES	15,010	13,750
TOTAL EQUITY AND LIABILITIES	59,182	54,363
Pledged assets and contingent liabilities	-	-

* Only provisions for pensions are interest-bearing.

** No current liabilities are interest-bearing.

Appendix 5 Sales including VAT by country and number of stores

SALES INCLUDING VAT BY COUNTRY AND NUMBER OF STORES

Full year 1 December - 30 November

COUNTRY	SEK m	SEK m	Change in %		No. of stores 30 Nov 2010	New stores	Closed stores
	2010	2009	SEK	Local currency			
Sweden	8,365	7,881	6	6	168	10	3
Norway	5,858	5,598	5	5	101	9	
Denmark	4,358	4,254	2	12	87	12	2
United Kingdom	8,392	7,564	11	18	192	26	1
Switzerland	6,122	6,042	1	3	75	2	
Germany	30,628	30,069	2	12	377	24	9
Netherlands	7,387	7,402	0	10	112	10	1
Belgium	3,345	3,502	-4	5	64	6	3
Austria	5,255	5,503	-5	5	66	4	1
Luxembourg	406	411	-1	9	10	2	1
Finland	2,567	2,543	1	11	43	6	1
France	9,140	8,455	8	19	151	17	1
USA	8,916	7,487	19	27	208	19	
Spain	6,109	6,285	-3	7	122	9	1
Poland	2,668	2,466	8	11	76	11	
Czech Republic	707	667	6	12	22	3	
Portugal	937	928	1	11	21	1	
Italy	4,331	3,616	20	32	72	8	
Canada	2,713	2,190	24	19	55	3	
Slovenia	568	615	-8	1	11	1	
Ireland	517	557	-7	2	12	1	
Hungary	387	306	26	38	15	5	
Slovakia	225	187	20	32	7	3	
Greece	646	480	35	48	18	3	
China	2,527	1,614	57	66	47	20	
Japan	1,794	1,111	61	62	10	4	
Russia	916	373	146	153	11	6	
South Korea	255				2	2	
Turkey	28				1	1	
Franchise	899	591	52	52	50	15	1
Total	126,966	118,697	7	15	2,206	243	25

Appendix 6 Five year summary

FIVE YEAR SUMMARY**1 December - 30 November**

THE FINANCIAL YEAR	2010	2009	2008	2007	2006
Sales including VAT, SEK m	126,966	118,697	104,041	92,123	80,081
Sales excluding VAT, SEK m	108,483	101,393	88,532	78,346	68,400
Change from previous year, %	7	15	13	15	12
Operating profit, SEK m	24,659	21,644	20,138	18,382	15,298
Operating margin, %	22.7	21.3	22.7	23.5	22.4
Depreciation for the year, SEK m	3,061	2,830	2,202	1,814	1,624
Profit after financial items, SEK m	25,008	22,103	21,190	19,170	15,808
Profit after tax, SEK m	18,681	16,384	15,294	13,588	10,797
Liquid funds and short-term investments, SEK m	24,858	22,025	22,726	20,964	18,625
Stock-in-trade, SEK m	11,487	10,240	8,500	7,969	7,220
Equity, SEK m	44,172	40,613	36,950	32,093	27,779
Number of shares, thousands*	1,655,072	1,655,072	1,655,072	1,655,072	1,655,072
Earnings per share, SEK*	11.29	9.90	9.24	8.21	6.52
Shareholders' equity per share, SEK*	26.69	24.54	22.33	19.39	16.8
Cash flow from current operations per share, SEK*	13.17	10.86	10.86	9.29	7.28
Dividend per share, SEK	9.50**	8.00	7.75	7.00	5.75
Return on shareholders' equity, %	44.1	42.2	44.3	45.4	40.2
Return on capital employed, %	58.7	56.7	61.1	63.7	58.7
Share of risk-bearing capital, %	76.2	78.5	75.7	78.5	80.0
Equity/assets ratio, %	74.6	74.7	72.1	76.9	78.1
Total number of stores	2,206	1,988	1,738	1,522	1,345
Average number of employees	59,440	53,476	53,430	47,029	40,855

* Number of shares adjusted according to share split. See page 5, Share split.

** Proposed by the Board of Directors.

Definition on key figures see page 8.

Appendix 7 Key ratios per quarter

KEY RATIOS PER QUARTER

	2008				2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales including VAT, SEK m	23,241	25,412	24,540	30,848	27,282	31,070	27,587	32,758	29,095	31,604	31,475	34,792
Sales excluding VAT, SEK m	19,742	21,609	20,871	26,310	23,299	26,538	23,545	28,011	24,846	27,033	26,893	29,711
Change from previous year, %	18	8	12	15	18	23	13	6	7	2	14	6
Operating profit, SEK m	3,799	5,155	4,365	6,819	3,364	5,671	4,700	7,909	4,978	6,965	5,656	7,060
Operating margin, %	19.2	23.9	20.9	25.9	14.4	21.4	20.0	28.2	20.0	25.8	21.0	23.8
Depr. for the period, SEK m	578	577	590	457	721	715	722	672	772	783	777	729
Profit after financial items, SEK m	4,057	5,433	4,586	7,114	3,554	5,784	4,773	7,992	5,055	7,040	5,735	7,178
Profit after tax, SEK m	2,941	3,939	3,325	5,089	2,577	4,193	3,460	6,154	3,741	5,209	4,244	5,487
Liquid assets*, SEK m	22,450	14,528	17,786	22,726	23,625	14,904	16,238	22,025	26,200	18,992	21,362	24,858
Stock-in-trade, SEK m	7,892	7,073	7,930	8,500	9,052	8,601	10,215	10,240	8,402	8,562	10,545	11,487
Equity, SEK m	34,803	27,263	30,828	36,950	41,043	31,644	34,612	40,613	43,746	36,064	39,352	44,172
Earnings per share, SEK**	1.78	2.38	2.01	3.07	1.56	2.53	2.09	3.72	2.26	3.15	2.56	3.32
Equity per share, SEK**	21.03	16.47	18.63	22.33	24.80	19.12	20.91	24.54	26.43	21.79	23.78	26.69
Cash flow from current operations per share, SEK**	1.48	3.17	2.57	3.63	0.74	3.60	1.91	4.60	3.25	4.30	2.23	3.42
Share of risk-bearing capital, %	81.0	76.0	75.1	75.7	77.9	74.8	76.2	78.5	80.8	75.9	75.8	76.2
Equity/assets ratio, %	79.5	74.2	73.5	72.1	74.6	71.0	72.8	74.7	77.2	71.8	72.3	74.6
Total number of stores	1,529	1,593	1,618	1,738	1,748	1,822	1,840	1,988	1,992	2,062	2,078	2,206
Rolling 12 months												
Earnings per share, SEK**	8.60	8.88	8.98	9.24	9.02	9.18	9.26	9.90	10.61	11.22	11.69	11.29
Return on shareholders' equity, %	43.6	56.9	50.7	44.3	39.4	51.6	46.8	42.2	41.4	54.8	52.3	44.1
Return on capital employed, %	60.5	77.4	68.9	61.1	54.3	70.9	64.5	56.7	55.4	72.9	69.3	58.7
Stock-in-trade in % of turnover	9.7	8.5	9.3	9.6	9.8	8.9	10.2	10.1	8.2	8.3	9.9	10.6

* Liquid funds and short-term investments

** Number of shares adjusted according to share split. See page 5, Share split.

Definitions on key figures see page 8.

Appendix 8 Segment reporting

SEGMENT REPORTING (SEK m)

1 December - 30 November

	2010	2009
Nordic region		
External net sales	17,023	16,302
Operating profit	966	692
Operating margin, %	5.7	4.2
Assets excluding tax receivables	6,076	5,037
Liabilities excluding tax liabilities	1,562	1,639
Investments	393	375
Depreciation	276	259
Eurozone excluding Finland		
External net sales	58,412	57,229
Operating profit	3,011	2,545
Operating margin, %	5.2	4.4
Assets excluding tax receivables	16,178	16,601
Liabilities excluding tax liabilities	3,403	3,307
Investments	1,988	2,789
Depreciation	1,433	1,374
Rest of the World		
External net sales	33,048	27,862
Operating profit	2,038	1,298
Operating margin, %	6.2	4.7
Assets excluding tax receivables	12,248	10,711
Liabilities excluding tax liabilities	2,508	1,875
Investments	2,000	2,135
Depreciation	1,141	1,015
Group Functions		
Net sales to other segments	58,641	57,510
Operating profit	18,644	17,109
Operating margin, %	31.8	29.7
Assets excluding tax receivables	23,615	20,768
Liabilities excluding tax liabilities	4,327	4,452
Investments	578	387
Depreciation	211	182
Eliminations		
Net sales to other segments	-58,641	-57,510
Total		
External net sales	108,483	101,393
Operating profit	24,659	21,644
Operating margin, %	22.7	21.3
Assets excluding tax receivables	58,117	53,117
Liabilities excluding tax liabilities	11,800	11,273
Investments	4,959	5,686
Depreciation	3,061	2,830

Appendix 9 Parent company income statement

PARENT COMPANY INCOME STATEMENT (SEK m)

1 December - 30 November

	2010	2009
External sales excluding VAT	6	-
Internal sales excluding VAT*	6,900	5,521
GROSS PROFIT	6,906	5,521
Selling expenses	-2,240	-1,898
Administrative expenses	-2,024	-1,561
OPERATING PROFIT	2,642	2,062
Dividend from subsidiaries	12,153	13,092
Interest income	73	113
Interest expense	0	0
PROFIT AFTER FINANCIAL ITEMS	14,868	15,267
Year-end appropriations	705	-41
Tax	-912	-608
PROFIT FOR THE YEAR	14,661	14,618

* Includes royalty received from Group companies

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME (SEK m)

1 December - 30 November

	2010	2009
PROFIT FOR THE YEAR	14,661	14,618
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	14,661	14,618