

**IMPACT OF COVID-19 ON H&M**

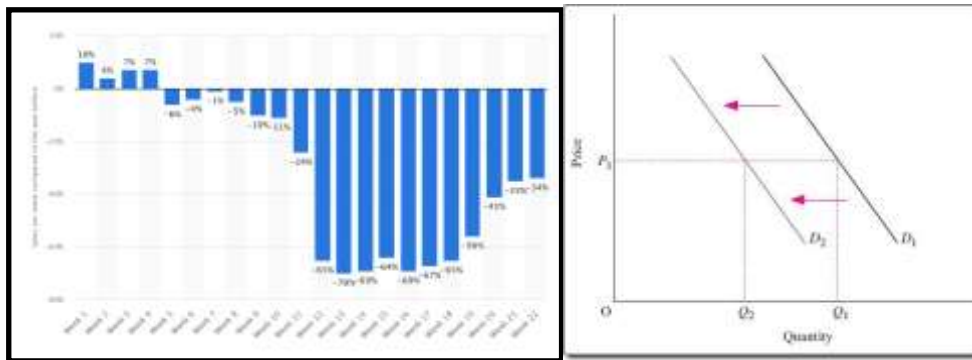
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**ABSTRACT**

The world's second biggest fashion retailer, Sweden's H&M, cut 250 of its stores globally. Covid-19 pandemic had moved a lot of H&M shoppers online. H&M, which began a gradual reopening of stores in late April 2021 after most of the stores had been shut by the pandemic.

**Against this backdrop, and with a goal to have all H&M group's brands use only recycled or sustainably sourced materials in their collections by 2030, the fashion giant faced COVID-19.**



Source - <https://www.statista.com/statistics/1133661/h-and-m-sales-growth-coronavirus-crisis>

The coronavirus pandemic, which emerged early 2020, has had drastic negative effects on businesses around the world. H&M Group, week 12 of 2020 to week 22, the sales growth was still at -34 percent compared to the year prior. Due to this in 2020 there was a significant decrease in demand, thus causing the shift of the demand curve. This paper talks about the **RECOVERY OF H&M SALES POST PANDEMIC**. H&M offered a range of services based on circular business models such as resell, remake, repair and garment rental, as well as the garment collecting in stores globally for textiles recycling. The H&M's innovation hub 'The Laboratory' runs a range of projects focusing on digital services connected to sustainability. How H&M has been able to meet the consumer expectations by incorporating all the sustainable fashion measures. They could also able to incorporate a lot of innovative ideas which include fashion & technology to cater younger segments mainly, these innovative ideas help the brand to increase its demand thus causing a shift in the demand curve.

**Key Words:** Sales Growth Recovery, Circular Business Models, Innovation Hub, Consumer Expectations, Fashion & Technology

**INTRODUCTION**

For the fashion industry, 2020 was the year in which everything changed. As the coronavirus pandemic sent shockwaves around the world, the industry suffered its worst year on record with almost three-quarters of listed companies losing money. Consumer behavior shifted, supply chains were disrupted and the year approached its end with many regions in the grip of the second wave of infections.

The pandemic has compounded the demand for all things digital, which in turn has enabled innovation, efficiency, and new ways for businesses to scale up. The shift is permanent and will continue to create opportunities to build slicker, smarter operating models and differentiated customer propositions that are more personalized to each

customer. Equally, the crisis has emphasized the need to move to more sustainable and responsible ways of working in all areas of the value chain. As the number of fashion players responding to this need continues to grow, it will prove to be a long-term boon to companies, workers, customers, and the planet.

The primary driver of growth in the coming year will continue to be digital channels, reflecting the fact that people in many countries remain reluctant to gather in crowded environments. The Earlier Recovery scenario anticipates dynamic digital growth across geographies in 2021 compared to 2019, with more than 30 percent online growth in Europe and the US and over 20 percent growth in the already highly digitized Chinese market.

In a disrupted environment, decision-makers must be bold. This research paper puts light on novel strategies developed by brands like H&M for their assortments or product offering, focusing on sustainability, value, simplicity, and downsized collections, rather than volumes. It also talks about creating a more nuanced assessment of store ROI to manage the crisis in physical retail while implementing a truly omnichannel perspective on store operations. (Fashion, 2021)

## **LITERATURE REVIEW**

### **Living with the Virus**

The Covid-19 crisis has impacted the lives and livelihoods of millions of people while disrupting international trade, travel, the economy, and consumer behavior. To continue to manage unprecedented levels of uncertainty in the year ahead, companies should rewire their operating models to enable flexibility and faster decision-making, and balance speed against discipline in the pursuit of innovation.

As the crisis continues to unfold, brands must shape their strategies by quickly grasping which trends will remain after recovery and which will dissipate. In any event, investment in data and analytics is likely to reap benefits. Armed with customer insights, companies can reset their long-term strategies and redirect investment into opportunities that will outlast the pandemic. The emphasis on sustainability is also reflected in consumer sentiment. More than three in five consumers in a McKinsey survey ran in May 2020 said brands' promotion of sustainability was an important factor in their purchasing decisions. In response, numerous companies are stepping up their sustainability efforts.

In 2021, consumers expect winning brands to be those that can define clear, long-term ambitions, while demonstrating enough flexibility, speed, and agility to navigate an uncertain short-term future. Brands should reshape their operating models to adapt to the faster pace of change and sustain those effective new working practices that have emerged from the crisis. Since adaptability will be key to all of this, brands should identify the threats to their businesses and prepare strategic responses across multiple scenarios to counter uncertainty and facilitate fast decision-making. Building cross-functional teams that are informed by strategic priorities will give brands the necessary agility to respond quickly and capture market opportunities. (Fashion, 2021)

### **Diminished Demand**

Following the deepest recession in decades, the global economy is expected to partially recover next year but economic growth will remain diminished relative to pre-pandemic levels. Since demand for fashion is also unlikely to bounce back due to restrained spending power amid unemployment and rising inequality, companies should seize new opportunities and double down on outperforming categories, channels, and territories.

The challenging environment born out of the unprecedented events of 2020 will linger into 2021, with global fashion sales projected to be below 2019 levels by as much as 15 percent in the Later Recovery scenario. According to McKinsey's Fashion Scenarios, a full recovery of global fashion sales to pre-crisis levels will not

come until the third quarter of 2022. Indeed, fashion is expected to be among the slowest-recovering discretionary spend categories.

Lockdowns and restrictions on movement have strongly influenced consumer choices around what to wear, too. The formalwear category, which was slowing down before the crisis, has been on a steeper downward slope since the pandemic started. An increase in consumer interest in health and wellness to persist beyond the pandemic, meaning demand for athleisure and activewear will likely continue to be strong in 2021. Athleisure and activewear brands have not been immune to declining sales. One driver for the category is an uptick in cycling as an alternative mode of transport.

The casualization trend that was already in motion before the pandemic and that accelerated throughout 2020 is likely to emerge as a dominant force across many fashion categories in 2021. Looking forward, as demand remains subdued in 2021, fashion companies should aim to mirror shifts in consumer behavior across their product offering and double down on growth hotspots. Product marketing campaigns should focus on in-demand categories such as athleisure and loungewear and be given a spotlight in prime locations like online landing pages. (Fashion, 2021)

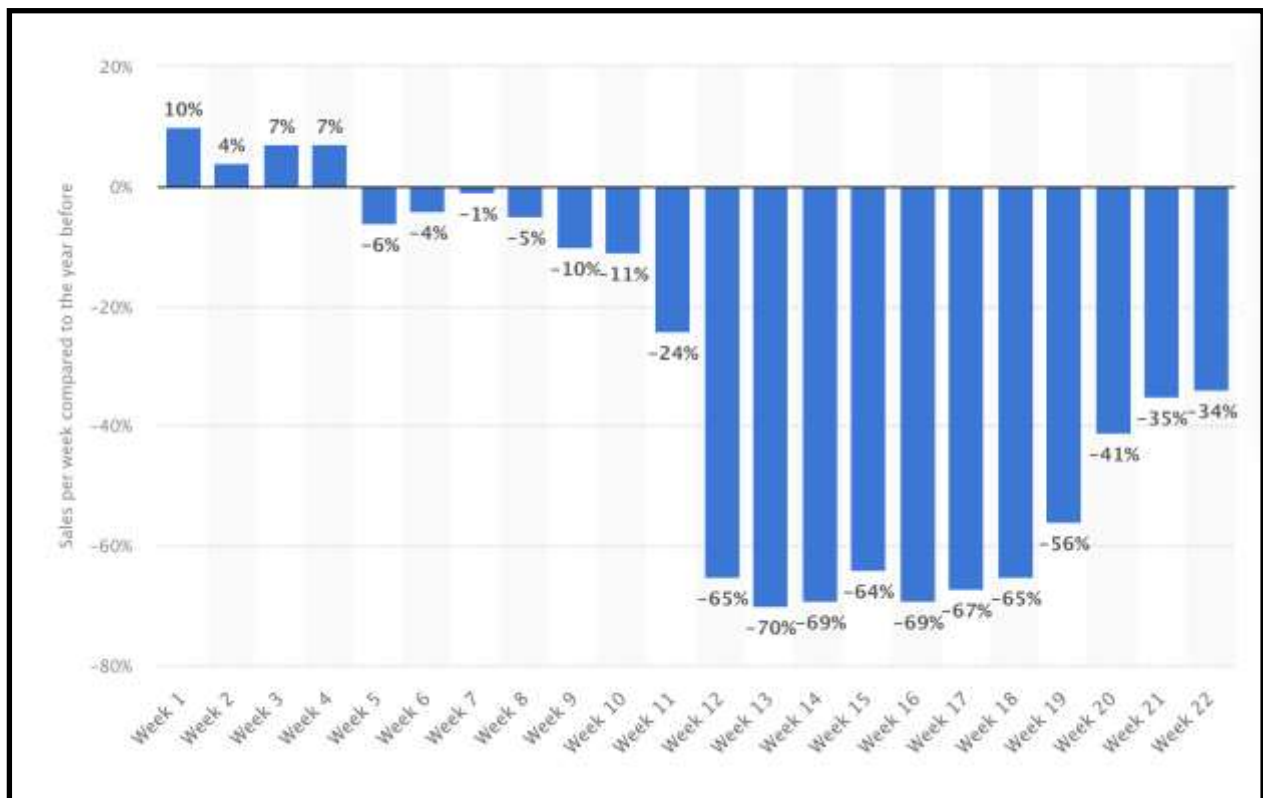


Figure 1: Graph on H&M's 2020 Weekly Sales (Source- <https://www.statista.com/statistics/1133661/h-and-m-sales-growth-coronavirus-crisis/>)

**Consumer Shifts**

Consumer behavior has undoubtedly shifted over the past year, as people sheltered from the virus in their homes, travel was restricted and stores were closed around the world. However, as digital consumption continues its dominance and growth in 2021, companies must develop more engaging and social experiences to encourage consumers to connect. (H&M, H&M Group Annual and Sustainability Report 2021, 2021)

**Digital Sprints**

Digital adoption has soared during the pandemic, with many brands finally going online and enthusiasts embracing digital innovations like live streaming, customer service video chat, and social shopping. As online penetration

accelerates and shoppers demand ever-more sophisticated digital interactions, fashion players must optimize the online experience and channel mix while finding persuasive ways to integrate the human touch.

With the global pandemic keeping people at home, 2020 may be remembered as the year in which fashion retail made a definitive shift online. Over just eight months, e-commerce’s share of fashion sales nearly doubled from 16 percent to 29 percent globally, jumping forward six years’ worth of growth.



*Figure 2. H&M’s Advertisement Image, H&M expands online presence by launching on Myntra*

*(Source: <https://in.fashionnetwork.com/news/H-m-expands-online-presence-by-launching-on-myntra,1129131.html>)*

As online channels continue to prosper, physical retail’s struggles will likely persist, and we expect to see fashion companies continuing to close stores in 2021. One example among many so far was H&M’s announcement that it would close up to 750 stores worldwide and focus on digital growth. H&M has expanded its online presence by tying up with Flipkart’s multi-brand e-commerce fashion platform [Myntra](#). H&M has also unveiled its first Indian celebrity campaign to celebrate the tie-up. The campaign features Bollywood names including Harshvardhan Kapoor, Aditi Rao Hydari, Diana Penty, Amyra Dastur, and Aditya Seal wearing H&M’s latest collection. Over the next year, momentum in e-commerce will only accelerate. Fashion executives see digital as the biggest opportunity by far for 2021, with 70 percent of executives expecting growth of more than 20 percent in their e-commerce channels. New digital opportunities are leading to creative solutions for marketing, design, and new revenue streams across the fashion industry. A partnership between H&M and Myntra, for example, will create a wider reach of audience, while other collaborations exist between fashion companies and designers. H&M already runs its e-commerce store in India but the tie-up with Myntra, one of India’s largest online fashion retailers, will bring the brand to a large demographic of new customers. (Fashion, 2021)

### **Technological Advancements**

Innovations such as Livestream commerce have captured the imagination and helped to bridge the gap between physical and digital by bringing human interaction to the digital shopping experience. Virtual fashion is likely to emerge as a not insignificant opportunity for brands both as a revenue stream and as a channel for product discovery. (H&M, Innovation, 2022)

- H&M Foundation’s [Global Change Awards](#) funds early-stage innovations that have the potential to build a planet-positive fashion industry.
- Our Circular Innovation Lab supports innovators and start-ups in joint development projects around circularity, from early-stage proof of concepts to capsule collections.

- H&M CO: LAB is our venture capital arm that invests in new and developing technologies.
- The Laboratory is our wider internal innovation hub that supports our brands and business with research and idea exploration.

**Retail ROI: H&M Group**

H&M Group sank to a loss in the second quarter of 2020 as the pandemic caused sales to plummet 50 percent year-on-year, but it has since recovered faster than expected. The fast-fashion giant’s chief is focusing on more sustainable business models to drive growth in the coming years. When Helena Helmersson stepped into the top job at H&M Group in January 2020, fast fashion was already under pressure, facing disruption from ultra-fast digital native competitors and growing scrutiny for chasing unbridled growth amid a climate crisis.

The pandemic forced leaders like Helmersson to find ways to adjust to the many disruptions and constraints that came with the crisis. Some retailers were forced into bankruptcy; others canceled next season’s orders, leaving their suppliers in the lurch, even as pressure to answer for the social and environmental impact of business decisions continued to mount. H&M was one of a few major retailers to pay garment suppliers for orders already produced or in progress. While Helmersson managed to return the group to profitability faster than expected, H&M’s future success will hinge on whether the company can finally crack omnichannel retail and scale-up sustainable business models while still generating growth and profit. (H&M, Transparency, 2022)

**H&M’s New Circular Business Model after the Pandemic**

As consumers become more engaged with sustainability issues, circularity will be the key that unlocks the door to a more sustainable future. However, it is not the kind of revolution that can be led by a few leaders, while others wait and see. Rather, a collective effort is required, in which fashion companies, customers, and all participants in the value chain collaborate.

To date, players that feature sustainability at the center of their branding have been at the forefront of circular practices, as well as some established fast fashion brands owing more so, perhaps, to the resale value of their stock rather than their eco aspirations. However, looking forward, we expect mass-market brands to scale their efforts. In addition, aggregators are well-placed to launch resale and repair programs, combined with an enhanced in-store experience. Marketplaces can build on their size and logistical capabilities. As consumers become more engaged with sustainability issues, circularity will be the key that unlocks the door to a more sustainable future.

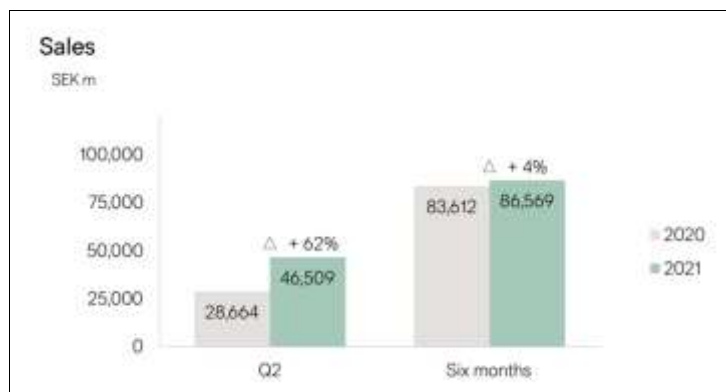


Figure 3: Swedish fashion retailer H&M Group’s net sales increased by 12% in the first half of 2021 compared with the same period in 2020, while net sales in the second quarter of 2021 increased 75% year-on-year. Source: <https://hmgroup.com/wp-content/uploads/2021/07/The-full-report-PDF.pdf>

As circularity grows, digital enablement will be critical. As the traditional linear fashion value chain transitions into a circular system, consumers will be incentivized to engage beyond an initial purchase to engage in circular business models, which in turn will support data collection that can shape a brand’s business going forward as shown in Figure 2. (H&M, Circular & climate positive, 2022)

**H&M aims to:**

- Offer rental options such as subscription services and the option to buy rented products at a discount
- Borrow online marketplace techniques to filter, sort, and group assortments, or leverage retailer-curated collections
- Enable peer-to-peer business, including resale and rental, and sweeten the deal with logistics and digital solutions
- Create timeless collections, reflecting the declining prominence of seasonality
- Offer tips for care and repair
- Enable returns and recycling
- Develop data strategies to inform business decisions.
- Leverage store networks to create in-store circularity hubs
- Build out non-store collection points and home pick-ups to improve accessibility
- Optimize sorting facilities and recycling technology, either in-house or with partners
- Eliminate single-use packaging.

H&M’s innovation hub **‘The Laboratory’** runs a range of projects focusing on digital services connected to sustainability. The group also includes investment arm **CO: LAB**, which is focusing on entrepreneurs that are exploring the future of fashion. Through CO: LAB the H&M group has invested in businesses such as Renewcell, a Swedish textile recycling company that has developed a unique method of recycling textiles on an industrial scale, creating natural biodegradable fibers. H&M group’s goal is to use only recycled or sustainably sourced materials in their collections by 2030. (H&M, Annual Report 2020, 2020)

**Supporting Customer Adoption**

For younger consumers born into the sharing economy, adopting circularity is a natural step. However, older consumers may require education and encouragement. Some consumers believe there is a hygiene issue with second-hand clothes, and others struggle to translate their sustainable values into actions for a wide range of reasons. (H&M, H&M Group Annual and Sustainability Report 2021, 2021)

H&M is responding by marketing circular items alongside conventional ranges, for example offering a range of circular services in their core businesses, such as resell, remake, repair, and garment rental, as well as the H&M group’s garment collecting and proving discounts in exchange of old garments in stores globally for textiles recycling. All these practices aim in helping to normalize circularity in the minds of shoppers. (H&M, Circular & climate positive, 2022)

**Post Covid Consumer Experience**

Initiatives are underway throughout the supply chain to meet customers’ expectations of a smooth and inspiring experience wherever, whenever, and however they choose to meet us on our websites, in digital marketplaces, and on social media.H&M has been able to incorporate a lot of innovative ideas which include fashion & technology. Since H&M caters to younger segments mainly, these innovative ideas help the brand to meet consumer expectations by incorporating all the sustainable fashion measures. (H&M, 2021)

**Visual Search**

Image recognition helps customers find the right product by making relevant recommendations based on pictures that the customer has taken or been inspired by.

**RFID** (Radio Frequency Identification) means items with a digital price tag can be located quickly, to get precise information on an item’s availability.

**In-Store Mode**

In-store mode allows customers to see on their mobile which items are in the store they are currently in and purchase them online.

**Customer Loyalty Programme**

Members of H&M’s customer loyalty program can choose to pay now or later through the H&M app, whether shopping in-store or online.

**Express Delivery**

Next-day delivery and express delivery continue to be rolled out in more markets.

**#HMxME** invites customers to share their fashion stories on Instagram while also providing an easy way to buy the items in the images.

**Garment Rental**

The brands of the H&M group are testing and offering innovative new services such as garment rental, second hand, made-to-measure jeans, repairs, alterations, and climate-smart deliveries, all to help customers live a more sustainable lifestyle.

**Scan & Buy**

The customer scans the QR code on a product in-store to find and buy the item online in the size and color they want.

**Garment Collecting**

The H&M group collects used clothes and home textiles, from any brand and in any condition, for reuse and recycling in exchange for discount vouchers up to 20% off. (H&M, Reuse and recycling, 2022)

**Reusable, plastic-free packaging** From 2021 H&M’s goal is to make all their packaging material to be recyclable, reusable, or compostable. (H&M, Packaging, 2022)

**Methodology**

For the writing of this paper secondary data has been used. We have taken data from the official annual report of H&M. By understanding their graph and data for the last 5 years, and by comparing their past stats, and improvements in their past performances we concluded their post-pandemic recovery and sustainability supply chain goal. All the data that is used in this report has been collected from the five-year annual report of H&M and the State of Fashion Study 2021 published by McKinsey Global Fashion Index Proprietary which provides a global and holistic industry benchmark for the entire fashion industry. The MGFI was first created for The State of Fashion 2017 to track industry performance through three key variables: sales, operating profit, and economic profit. MFI is composed of an extensive list of public and private companies spanning market segments, product categories, and geographies. The analysis of public companies is built with data from McKinsey Corporate Performance Analytics.

**CONCLUSION**

There is no question that 2020 has brought unprecedented challenges to consumers and companies around the world. As the pandemic has called into question the role of the physical workplace, fashion companies must balance business efficiency with employees’ needs and preferences, creating a new hybrid work model that supports organizational priorities. Another major challenge is the need for reskilling, as the pandemic has highlighted the importance of certain roles over others and certain areas of responsibility within roles. As entirely

new skill needs continue to emerge next year, fashion companies will either have to develop them in-house or acquire them by recruiting. Fashion schools expect the weight of digital and analytics skills, for example, to increase significantly in their curricula due to higher demand from fashion employers.

Regardless of the recovery timeline, the new operations of the fashion industry emerging from the crisis will be radically more digital than in the past and will require new pools of skills. In response to these and other shifts, retailers are adapting their store strategy and re-thinking the role of the store in an omnichannel environment.

Today’s consumer is more ethically minded, demanding that brands and retailers build their businesses with a conscience. 2020 has seen a continued focus on sustainability, with fast-fashion brands facing pressure from both consumers and shareholders to take action. Fast-fashion brands are recognizing that being ethical and inclusive as organizations are both important and good for business — but that the industry has a long way left to go.

While 2021 is likely to be challenging for almost all fashion companies, there will be opportunities for some. Those that find success is likely to continue to pivot to digital, understand where the demand lies, and target better-performing geographies, segments, or product categories. In challenging times, bold decisions often reap the richest rewards. However, decision-makers must also show they can respond quickly to a dynamic situation while managing risk effectively because the decisions they make over the coming months will be critical to the future of their business.

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