

5. Explain how the global supply chain functions of (a) logistics and (b) purchasing can be used to strategically leverage the global supply chains for a manufacturing company producing mobile phones.
6. What type of interorganizational relationship should a global company consider in the (a) inbound portion of

its supply chains if the goal is to buy commodity-oriented component parts for its own production and (b) outbound portion of its supply chains if the goal is to establish a strong partnership in reaching end-customers?

global

Use the globalEDGE website (globaledge.msu.edu) to complete the following exercises:

1. The globalization of production makes many people aware of the differences in manufacturing costs worldwide. The U.S. Department of Labor's Bureau of International Labor Affairs publishes the *Chartbook of International Labor Comparisons*. Locate the latest edition of this report, and identify the hourly compensation costs for manufacturing workers in China, Brazil, Mexico, Turkey, Germany, and the United States.
2. The World Bank's *Logistics Performance Index (LPI)* assesses the trade logistics environment and performance of countries. Locate the most recent LPI ranking. What components for each country are examined to construct the index? Identify the top 10 logistics performers. Prepare an executive summary highlighting the key findings from the LPI. How are these findings helpful for companies trying to build a competitive supply chain network?

H&M: The Retail-Clothing Giant

closing case

David Beckham, Freja Beha, Beyoncé, Gisele Bündchen, Georgia May Jagger, Miranda Kerr, Madonna, Vanessa Paradis, Katy Perry, Lana Del Rey, Rihanna, Anja Rubik, and so many more. Yes, it sounds like a list of celebrities and they are! These celebrities represent just a partial list of really well-known people around the world who have worked with H&M (do you recognize all of them?). But, let's move on from the "name dropping" to Hennes & Mauritz, or H&M as it is more commonly known. H&M is a Swedish multinational retail-clothing giant known for its fashion clothing for women, men, teenagers, and children. H&M has effectively used superstar celebrities like David Beckham, Beyoncé, and Gisele Bündchen for years to carry their advertising message worldwide. Behind the scenes, H&M's global supply chains are equally well orchestrated and are as high powered as its advertising campaigns.

H&M Hennes & Mauritz AB is now the full name of the company (it started simply as "Hennes" in 1947 in a small Swedish town called Västerås). The idea for the company emerged when, in 1946, Erling Persson, the company's founder, came up with the idea of offering fashionable clothing at relatively low prices while he was on a business trip to the United States. At that time, Erling Persson decided to focus on women's clothing only, and "Hennes," which means "her" or "hers" in Swedish, was started. A couple of decades later, in 1968, Hennes acquired the building and inventory of hunting equipment retailer Mauritz Widforss. A supply of men's clothing was also a part of the inventory. This resulted in menswear being included in the company's collection—and gave birth to Hennes & Maurits (H&M). H&M now has some 3,200 stores in 54 countries and approximately 116,000 employees. It is the second largest clothing retailer in



Pedestrians walk past a H&M store in Singapore.

the world after Spain-based Inditex (parent company of ZARA) and ahead of U.S.-based GAP Inc.

H&M Hennes & Mauritz AB comprises six different brands, although the H&M brand is the most recognizable worldwide. The other brands are COS, Monki, Weekday, Cheap Monday, and & Other Stories. H&M designs sustainable fashion for all people at relatively modest prices and sells its products in 54 countries and online in an additional 10 markets. COS explores the concept of style over fashion and sells its products in stores and online in 38 countries. Monki is promoted as a fashion experience and is offered

In 30 markets in stores and online. Weekday is a jeans-focused fashion destination with sales in 25 markets. Cheap Monday combines "influences from street fashion and subculture with a catwalk vibe" and is offered in some 20 markets. The last brand, called "& Other Stories," was launched in 2013 and focuses on personal expression and styling, with availability in 17 markets. The collection of these brands, driven by the H&M collection and its footprint in 64 countries, presents a unique global supply chain challenge for the company.

The collections of clothing are created by a team of 160 in-house designers and 100 pattern makers. The design and pattern team is large and diverse, representing different age groups and nationalities. H&M Hennes & Mauritz AB's (H&M from now on) design process is about "striking the right balance between fashion, quality and the best price . . . and it always involves sustainability awareness." H&M does not own its own factories but instead works with around 900 independent suppliers to implement the team's designs into reality. These independent suppliers are mostly located in Europe and Asia. They manufacture all of H&M's products, and they also generally source fabrics and other components needed to create the fashion statements we have come to know from the H&M brands. Some 80 people in the H&M organization are dedicated to constantly audit the working conditions at the factories of suppliers, including safety and quality testing and ensuring that chemicals requirements are met.

Within the global supply chain infrastructure, one key aspect of H&M is the ordering of each product. Specifically, ordering each product at the optimal moment is an important part of H&M achieving the right balance among price, cycle time, and quality. To realize the effectiveness needed to ultimately sell fashion-oriented clothing at affordable prices, H&M works closely with long-term partners and invests significant resources into the sustainability of the work needed in its supply chains. In these areas, H&M strives to promote lasting improvements in working conditions and environmental impact throughout the footprint that it makes worldwide.

Through its 900 suppliers, the company is connected to some 1,900 factories and about 1.6 million workers.

Sources: H&M website, <http://hm.com>, accessed April 12, 2014; L. Siegle, "Is H&M The New Home of Ethical Fashion?" *The Observer*, April 7, 2012; G. Petro, "The Future of Fashion Retailing—The H&M Approach," *Forbes*, November 5, 2012; K. Stock, "H&M's New Store Blitz Moves Faster Than Its Digital Expansion," *Bloomberg Businessweek*, March 17, 2014; and M. Kerppola, R. Moody, L. Zheng, and A. Liu, "H&M's Global Supply Chain Management Sustainability: Factories and Fast Fashion," *GlobaLens*, a division of the William Davidson Institute at the University of Michigan, February 8, 2014.

CASE DISCUSSION QUESTIONS

1. Does it surprise you that the second largest clothing retailer is only selling in stores in 54 countries plus an additional 10 countries online? Why do you think it is not covering more of the world's countries?
2. H&M does not own any of the factories that produce its clothes. Instead, it relies on some 1,900 factories and 900 suppliers to create what its team designed. These factories and suppliers are mostly in Europe and Asia. How can H&M ensure that its customers receive the quality expected in the clothing?
3. H&M stresses sustainability in its promotional campaigns. How can it ensure that the working conditions are appropriate for the 1.6 million people that serve in its supplier network? Is it even H&M's role to ensure that the working conditions and environmental impact are great in every market it engages in?
4. If you worked for H&M, what would you suggest that it focus on to become even larger than it is now? Should it have its own factories? Should it expand to more than the 64 countries (54 with stores and 10 online) that it is in now? Should it control more of the global supply chains?

Endnotes

Note: Elements of the sections on Strategic Roles for Production Facilities; Make-or-Buy Decisions; Global Supply Chain Functions; Coordination in Global Supply Chains; and Interorganizational Relationships are drawn from Tomas Hult, David Closs, and David Frayer (2014), *Global Supply Chain Management*, New York: McGraw Hill.

1. T. Hult, D. Closs, and D. Frayer, *Global Supply Chain Management: Leveraging Processes, Measurements, and Tools for Strategic Corporate Advantage* (New York: McGraw-Hill Professional, 2014).
2. D. A. Garvin, "What Does Product Quality Really Mean," *Sloan Management Review* 26 (Fall 1984), pp. 25–44.
3. See the articles published in the special issue of the *Academy of Management Review on Total Quality Management* 19, no. 3 (1994). The following article provides a good overview of many of the issues involved from an academic perspective: J. W. Dean and D. E. Bowen, "Management Theory and Total Quality," *Academy of Management Review* 19 (1994), pp. 392–418. Also see T. C. Powell, "Total Quality Management as Competitive Advantage," *Strategic Management Journal* 16 (1995), pp. 15–37; and S. B. Han et al., "The Impact of ISO 9000 on TQM and Business Performance," *Journal of Business and Economic Studies* 13, no. 2 (2007), pp. 1–25.
4. For general background information, see "How to Build Quality," *The Economist*, September 23, 1989, pp. 91–92; A. Gabor, *The Man Who Discovered Quality* (New York: Penguin, 1990); P. B. Crosby, *Quality Is Free* (New York: Mentor, 1980); and M. Elliot et al., "A Quality World, a Quality Life," *Industrial Engineer*, January 2003, pp. 26–33.
5. G. T. Lucier and S. Seshadri, "GE Takes Six Sigma beyond the Bottom Line," *Strategic Finance*, May 2001, pp. 40–46; and U. D. Kumar et al., "On the Optimal Selection of Process Alternatives in a Six Sigma Implementation," *International Journal of Production Economics* 111, no. 2 (2008), pp. 456–70.
6. M. Saunders, "U.S. Firms Doing Business in Europe Have Options in Registering for ISO 9000 Quality Standards," *Business America*, June 14, 1993, p. 7; and Han et al., "The Impact of ISO 9000."
7. G. Stalk and T. M. Hout, *Competing against Time* (New York: Free Press, 1990).