

H&M's layoffs are a harbinger of more challenges to come for European retailers

Article

The news: A difficult combination of soaring energy prices and slowing sales is driving H&M to lay off 1,500 of its roughly 155,000 employees to save 2 billion Swedish crowns (\$190

million).

- The retailer has been facing challenges for a while. In late September, CEO **Helena Helmersson** noted that a combination of its pullout from Russia, weak sales in several key markets, and rising raw material and freight costs were hurting its bottom line.

A tough environment: H&M is operating in a difficult environment as consumers in key markets across Europe [pull back on discretionary spending](#) amid soaring prices and surging energy costs.

- **The situation has resulted in European retailers having to stockpile huge quantities of excess inventory.** For example, UK clothing and fashion companies are holding 57% more stock than they did before the pandemic, [per](#) Unleashed's Manufacturers Health Check report.
- **Consumer prices across the eurozone rose 10.0% year-over-year (YoY) in November**, down from a record annual rate of 10.7% in October, [per](#) a flash estimate by Eurostat.
- **Energy costs soared 34.9% YoY** in November (down from an even more dramatic 41.5% in October), thanks in large part to the war in Ukraine, while food, alcohol, and tobacco prices rose 13.6% (up from 13.1% in October).
- **European retailers are taking dramatic steps to lessen the impact of those soaring energy costs**, [per Reuters](#). For example, **Aldi Nord** shortened its operating hours and French consumer electronics retailer **FNAC Darty** is lowering temperatures by two degrees in its stores and offices. Meanwhile, several merchants, including luxury companies **Ermenegildo Zegna** and **Valentino**, are switching off lights in shops earlier at night or in unoccupied areas.

Retailers have the unenviable task of finding ways to control their costs without significantly impacting the customer experience.

Categories/Activities in Which Adults in Select Countries Are Cutting Back due to Higher Prices, Sep 2022

% of respondents

	UK	Spain	Italy	Germany	France	US	Total
Dining out	60%	59%	59%	63%	49%	55%	57%
Apparel, footwear, and accessories	40%	47%	51%	57%	52%	40%	48%
Entertainment and recreation	48%	40%	32%	45%	43%	36%	41%
Travel	33%	42%	37%	39%	32%	24%	34%
Groceries	38%	23%	24%	41%	22%	37%	31%
Gas	26%	30%	28%	27%	32%	33%	29%
Home decor and furniture	30%	26%	28%	30%	24%	22%	27%
Household goods	30%	24%	25%	28%	16%	24%	25%

Source: First Insight, "The State of Consumer Spending: Inflation's International Impact," Sep 22, 2022

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Cutting jobs: H&M is far from alone among European retailers turning to layoffs to protect its bottom line.

- **Asos**, which employs more than 2,000 people, in October announced plans to lay off over 100 roles weeks after reporting an operating loss of almost £10m for the year.
- A week after **Joules** fell into administration, the retailer made redundancies across senior directors, per Retail Gazette. The company is currently in talks to be taken over by South African retail conglomerate The Foschini Group, which could help salvage some of its 1,600 jobs.
- Online car retailer **Cazoo** cut 750 jobs as it shuts its business in the European Union, according to The Guardian. That's the second time this year that it has cut 750 jobs, as it announced redundancies in the UK in June.

The big takeaway: European retailers face a host of concurrent, interrelated challenges. Consumers are pulling back spending at the same time that businesses' costs are rising, while high interest rates are forcing them to focus squarely on their bottom lines rather than adopt longer-term perspectives.

- "With retailers across the board—from discounters to luxury—warning of losses amid such a challenging economic environment, it's likely we'll see more job cuts in the sector," said **Carina Perkins**, eMarketer senior analyst at Insider Intelligence.

*This article originally appeared in Insider Intelligence's **Retail & Ecommerce Briefing**—a daily recap of top stories reshaping the retail industry. Subscribe to have more hard-hitting*

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