

H&M is losing the fast-fashion battle to Zara

Article

This article was written with the assistance of ChatGPT.

The news: H&M reported a smaller-than-expected increase in sales for its first quarter, the latest sign it's struggling to keep up with Zara owner Inditex.

- H&M's local-currency sales rose just 3% year-over-year (YoY), per a preliminary sales report, raising fears that it would report a Q1 operating loss.

- Meanwhile, Inditex reported record profits for 2022, showing itself better equipped to handle the headwinds of inflation and economic uncertainty.

Different approaches: H&M and Zara have taken opposing strategies to counter rising inflation.

- H&M **chose to absorb** higher raw material, freight, and energy costs rather than raise prices, at the expense of profits. That strategy allowed sales to grow 12% in fiscal 2022 but caused operating margins to shrink to 3.2%.
- By contrast, **Zara raised prices** by mid-single digits last year to protect its margins and began offering more expensive items for special occasions to draw in higher-spending shoppers. Despite the price hikes, Inditex said sales grew 17.5% YoY in 2022, helped by strong store traffic and online sales. Net profits grew 27% YoY to 4.1 billion euros (\$4.3 billion).

Looking ahead: While H&M is cutting staff and closing more stores than it opens to preserve cash, Inditex plans to spend 1.6 billion euros (\$1.7 billion) on store and warehouse expansion.

- Specifically, Inditex is looking to capitalize on Zara's strong growth in the US by embarking on over 30 projects—including new stores and store enlargements in cities such as Miami and Las Vegas—by 2025.
- With H&M's profits all but eroded by its pricing strategy and strong competition from fast-fashion upstart **Shein**, the world's second-largest fashion retailer may fall further behind.