ORGANISATIONAL AND ECONOMIC MECHANISMS FOR IMPROVING ENTERPRISE ASSORTMENT POLICY

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Abstract. This paper investigates organisational and economic mechanisms for improving enterprise assortment policy using the publicly reported 2023–2025 results of H&M Group. The objective is to connect portfolio governance with inventory discipline and operating performance. The methodology combines secondary-data case study, year-on-year financial comparisons and a proposed ABC–XYZ decision framework. The company's net sales declined from SEK 236,035 million in 2023 to SEK 228,285 million in 2025, whereas operating profit increased from SEK 14,537 million to SEK 18,395 million. This divergence indicates that the efficiency of the offer cannot be judged by sales expansion alone. The article proposes a stage-gated assortment council, contribution-based product screening and coordinated forecasting across channels. Public consolidated data cannot establish SKU-level assortment effects or causal attribution. The paper contributes a replicable evaluation framework for enterprises that wish to broaden their product range without allowing complexity and working-capital requirements to grow uncontrollably.

Keywords: assortment policy; product portfolio; inventory management; profitability; ABC–XYZ; retail strategy; H&M Group.

Assortment policy is a portfolio decision that allocates shelf space, procurement budgets, design effort and inventory risk across product families. A larger catalogue is not automatically a better catalogue: the marginal benefit of adding a product must exceed its complexity, holding and markdown costs. This study examines a publicly reporting fashion retailer rather than claiming access to confidential stock-keeping-unit data. The unit of observation is H&M Group, and all empirical figures are consolidated group disclosures. [1,2]

1. INTRODUCTION

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The managerial dilemma is whether variety improves demand coverage more than it raises coordination costs. Consumer-facing businesses need enough styles, sizes and price points to meet heterogeneous needs, yet every new item creates forecasting and replenishment decisions. In fashion, seasonality magnifies this trade-off. The central research question is: how can an enterprise evaluate assortment expansion in relation to profitability and working capital?

The research objectives are to (i) analyse changes in consolidated financial outcomes, (ii) construct an economic screening mechanism for assortment additions and (iii) propose measurable governance indicators. The hypothesis is not that fewer items always generate better returns; rather,

portfolio decisions become more efficient when demand uncertainty, unit contribution and stock exposure are evaluated together.

2. MATERIALS AND METHODS

The research uses a documentary case-study design, descriptive comparative analysis and transparent arithmetic. Growth is calculated as (value_t/value_t-1 − 1) × 100. Gross margin equals gross profit divided by net sales; operating margin equals operating profit divided by net sales. Inventory-to-sales is a year-end stock proxy, not an inventory-turnover ratio. Reported correlations cannot identify a causal effect of assortment decisions because exchange rates, pricing, channel mix and costs also change. [1,2]

Data refer to financial years ending 30 November 2023, 2024 and 2025. Figures for 2023 are comparative figures disclosed in the 2024 full-year report; 2024 and 2025 are reported in the 2025 full-year release. The 2025 sales figure is in Swedish kronor and is therefore affected by translation; the company separately reports local-currency sales growth.

For future implementation, ABC classification ranks SKUs by annual gross contribution (units sold × contribution per unit). XYZ classification uses the coefficient of variation CV = standard deviation of periodic demand / mean demand. Suggested control groups are AX (stable high contribution), AZ (high contribution but volatile), CX (low contribution and volatile). These are methodological proposals requiring transaction-level data.

3. RESULTS: FINANCIAL PERFORMANCE

Table 1 reproduces selected reported consolidated results in SEK million. Operating margins are the reported values. Sales contracted by approximately 3.3% between 2023 and 2025, while operating profit grew by approximately 26.5%. Gross margin increased from 51.2% to 53.4%. These patterns justify examining product mix, pricing and operating efficiency jointly rather than assuming that an expanding assortment must increase revenue.

From 2024 to 2025, nominal SEK sales fell 2.6%, but H&M reported 2% growth in local currencies. The discrepancy matters for interpretation: exchange-rate translation should not be confused with weak consumer response to the assortment.

Indicator	2023-year	2024-year	2025-year
Net sales (SEK m)	236,035	234,478	228,285
Gross profit (SEK m)	120,896	125,299	121,821
Gross margin (%)	51.2	53.4	53.4
Operating profit (SEK m)	14,537	17,306	18,395
Operating margin (%)	6.2	7.4	8.1

3. RESULTS: INVENTORY AND EFFICIENCY

The closing stock-in-trade was SEK 37,358 million in 2023, SEK 40,348 million in 2024 and SEK 35,427 million in 2025. Dividing these closing balances by annual net sales produces approximate ratios of 15.8%, 17.2% and 15.5%, respectively. This is a snapshot of stock exposure rather than an audited average-inventory turnover measure.

Between 2024 and 2025, stock-in-trade fell about 12.2% in reported SEK terms. The company notes that inventory decreased 5% after currency adjustment, reinforcing the need to distinguish operating improvements from translation. An assortment committee could track these ratios by product family, together with markdown share and forecast bias, to identify expansion that creates disproportionate stock risk.

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Metric	2023-year	2024-year	2025-year
Closing inventory (SEK m)	37,358	40,348	35,427
Inventory / sales (%)	15.8	17.2	15.5
Annual inventory change (%)	—	+8.0	−12.2

4. DISCUSSION: GOVERNANCE MECHANISM

An effective assortment governance cycle has six connected stages: demand sensing, segment definition, product-family profitability screening, purchase-volume allocation, replenishment control and post-season learning. The economic decision should be taken at contribution-margin level when reliable SKU costs are available. Portfolio managers should separate core items, seasonal fashion and controlled experiments. A high-selling product may still destroy value if return rates, fulfilment expense and markdown exposure are ignored.

A proposed assortment council should combine marketing, finance, merchandising, logistics and digital commerce. Before approving an item, the council records target customer segment, expected contribution, expected sales variability, supplier lead time, minimum order quantity and cannibalisation risk. A pilot period tests whether actual conversion and returns match the forecast.

A portfolio score may be defined as $P_i = 0.35C_i + 0.25D_i + 0.20R_i + 0.20S_i$, where C is normalised contribution, D demand stability, R strategic relevance and S supply reliability. The weights are illustrative design parameters, not estimated H&M coefficients. Firms should calibrate them with their own performance data and sensitivity tests.

4. DISCUSSION: IMPLEMENTATION AND RISKS

The first implementation stage is data integrity: reconcile product identifiers across point-of-sale, e-commerce, purchasing and inventory systems. The second stage is classification by customer mission and margin economics. The third stage is a controlled expansion experiment in which a treatment group receives additional variants and a comparable group retains the existing offer.

Success should be evaluated by incremental contribution after markdowns and returns, availability of core products, inventory ageing, conversion and repeat purchase. Management must monitor unintended effects: eliminating low-volume products can weaken customer choice, while indiscriminate additions can fragment demand and inflate forecasting error. A trial should therefore measure both profitability and customer-service outcomes.

For manufacturing enterprises, the framework must additionally include setup times, minimum production batches, component commonality and machine changeover costs. This adaptation is analytically plausible but was not empirically tested with H&M's private production data.

The empirical design treats assortment policy as a decision system rather than a simple count of product lines. Public financial statements are appropriate for tracing the aggregate outcomes of such decisions, but they do not identify the profitability of individual stock-keeping units. Consequently, the case study distinguishes observations reported by H&M Group from managerial hypotheses that require internal validation. The observation window is also sensitive to fiscal calendars, exchange-rate translation, changes in reporting scope and accounting definitions. Comparisons are interpreted as descriptive changes, not as causal estimates of the effect of assortment decisions.

Breadth denotes the number of product categories or customer needs covered, whereas depth denotes alternatives within each category, including size, colour, style and price. Increasing breadth

can attract additional customer segments but also raises coordination costs. Increasing depth may improve conversion within established categories while intensifying inventory fragmentation. A disciplined policy evaluates the incremental contribution of each new option after accounting for markdowns, returns, storage, distribution and potential cannibalisation of existing products. Thus a larger assortment is not necessarily a better assortment.

A proposed product family should be assessed through its expected contribution margin rather than sales revenue alone. In operational terms, expected contribution equals forecast net sales less variable procurement, fulfilment, return and promotional costs. An incremental launch is economically defensible when its risk-adjusted contribution exceeds additional fixed coordination costs and the opportunity cost of capacity. When these components are unavailable publicly, the framework remains a decision recommendation and must not be presented as a measured company result. This distinction is essential to avoid attributing invented product-level profitability to the case enterprise.

Fashion assortments are exposed to short product life cycles, forecast error and seasonal demand. Inventory risk should therefore be measured jointly through stock cover, sell-through, ageing and gross margin after markdowns. Fast replenishment is particularly valuable when early sales reveal demand that was difficult to predict before launch. Conversely, slow-moving options should trigger a structured decision to discount, redistribute, bundle or discontinue. A lifecycle approach connects design, sourcing, replenishment and end-of-season clearance instead of assigning responsibility for obsolete stock to a single department.

An ABC analysis ranks products by their contribution to annual sales or margin, while an XYZ analysis classifies demand predictability. Combining both methods generates actionable portfolio groups. AX items merit high availability and frequent replenishment; AZ items warrant careful forecasting and smaller initial commitments; CZ items may be candidates for discontinuation unless they serve a documented strategic purpose. Classification thresholds must be calibrated to the enterprise and the measurement period. Public consolidated reports cannot reveal the company's actual ABC–XYZ matrix, so the segmentation is presented as a reproducible method for future internal analysis.

Assortment decisions should reflect customer missions rather than only merchandise classifications. Customers may seek convenience, novelty, value, quality or a coordinated outfit, and each mission implies a different optimal mix. An enterprise should map categories to these missions and identify gaps, duplication and unintended price competition between its own lines. Strategic coherence also requires a consistent brand promise: a new category that generates short-term sales but weakens brand recognition may destroy long-term value. Customer research and product performance data should therefore inform the same portfolio review.

A practical assortment committee can combine merchandising, finance, supply chain, marketing and analytics. Each proposed introduction should include a documented target customer, expected contribution, initial stock commitment, review date and exit rule. Finance should verify the economic assumptions; marketing should test consumer relevance; supply chain should assess supplier flexibility and lead time. Decision rights must be clear so that exceptions to stock limits and markdown policies can be traced. Cross-functional governance reduces the risk that sales targets alone encourage excessive assortment expansion.

Three scenarios can be considered before committing to a new product family: conservative demand, central demand and optimistic demand. Each scenario should vary conversion, unit margin, return rate, replenishment lead time and markdown severity. The relevant output is not only expected profit but also the potential cash tied up in inventory under an adverse scenario. A sensitivity table identifies which assumptions drive the investment decision. Such forward-looking scenarios are

illustrative unless supported by enterprise forecasts, and they should not be confused with H&M's disclosed historical financial results.

Operational implementation requires reliable product identifiers and a common data dictionary across channels. Daily transaction records can be linked to product attributes, store location, customer returns, supplier lead times and promotional activity. Dashboards should show contribution per product family, full-price sell-through, stock availability, aged inventory and forecast bias. Analysts must guard against misleading comparisons caused by promotional timing and seasonality. Regular data-quality checks are as important as sophisticated forecasting models, because inaccurate product mappings can create false signals about assortment profitability.

The central limitation of this case study is the use of publicly available consolidated disclosures. These data can support financial trend analysis but cannot establish that a particular assortment intervention caused the observed change. A stronger design would use monthly category-level data, comparable stores, product launches and control groups. The recommended mechanisms may be transferred to smaller manufacturers or retailers after adjusting for production constraints, procurement lead times and available analytics capacity. Future studies should test whether disciplined portfolio pruning improves cash conversion without reducing customer retention.

A key limitation is the absence of SKU-level gross margins, stock ageing, returns, store-level demand and item-level service rates in public filings. Therefore ABC–XYZ classes, item profitability and stockout frequencies cannot be estimated credibly. Any numerical threshold suggested here is a proposed management rule, not an observed policy of the case company. The results are descriptive and cannot demonstrate that assortment rationalisation alone caused higher profits.

The case demonstrates that reported sales volume and profit can move in different directions. The recommended response is not automatic catalogue reduction but systematic, evidence-based assortment governance. The most actionable contribution is a decision framework linking demand variability, contribution, supplier reliability and inventory exposure. A future primary-data study should estimate SKU-level treatment effects using transaction records and a controlled pilot.

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