LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

DEPARTMENT OF SOCIAL PSYCHOLOGY

**COURSEWORK SUBMISSION FORM AND
PLAGIARISM/ACADEMIC HONESTY DECLARATION**

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Case Presentation

H&M, the world's second largest clothing retailer has recently positioned itself as an ethical retailer. In 2014, it published a Sustainability Report committing the company to "grow while respecting planetary boundaries." Since then, the company has launched a Conscious Collection (pieces made from eco-fibres) as well as a recycling campaign (H&M 2016).

However, H&M continues to produce over 600 million new garments a year and is expanding operations by 10-15% annually, putting a massive strain on the environment and resources (Bain 2016). Put short, its model of production remains wasteful.

This memorandum proposes that H&M shifts towards a product-service system (PSS) aimed at providing sustainability of both consumption and production. Under such a model, ownership of the product is retained by the service provider, who sells the functions of the product, via modified distribution and payment systems, such as sharing, pooling, and leasing (Mont 2002).

Companies such as Philips and Renault already employ a PSS approach and the fashion world is picking up on it too. Thus, a decent picture of the viability of PSS models is starting to emerge from a business, supply chain, and design perspective. However, in order for these innovative models to take off on a large-scale, there is a need for accessible and desirable propositions that appeal to consumers. The following memorandum will outline recommendation along these lines.

Memorandum

TO: Mr. Karl-Johan Persson, Chief Executive Officer, H&M
FROM: LSE Consumer Psychology Consulting
DATE: March 27, 2017

Dear Mr. Karl-Johan Persson,

I want to first congratulate you on being awarded the 2016 Hållbart Ledarskap Sustainable Leadership Award. It is an acknowledgement of your leadership in guiding your company down a more sustainable pathway. The Conscious Collection, recycling campaign and Global Change Award scheme are excellent examples of your genuine efforts.

However, H&M must go beyond this. As you well know, your company currently produces over 600 million new garments a year and your plan to expand locations by 10% to 15% annually will demand massive amounts of resources- including cotton, oil and water- to operate the stores as well as to manufacture and ship the clothes. The H&M business model, based on a linear production-consumption system of sourcing, using, and disposing of objects, simply does not align with the commitment laid out in your 2014 Sustainability Report to "grow while respecting planetary boundaries."

As you yourself have said, the fashion industry is too dependent on natural resources and we need to change the way fashion is made. We therefore want to propose that you shift your business model to a product-service system (PSS). A PSS is a pre-designed dematerialized system of products, service, and necessary networks aimed at providing sustainability of both consumption and production (Mont 2002). Similar in concept to the circular economy, this type of business model typically employs a rental system in which a product can be rented for a certain time and to a certain fee (GreenStrategy 2014).

Several companies, including Philips and Renault already do this, leasing the service of light and cars, respectively. Under this model, the company maintains ownership of the product and is able restore or re-create products, lessening the demand for new raw materials. The fashion world is starting to pick up on this system too. As you may be aware, MUD Jeans, for instance, has customers sign a 12-month lease with monthly payments of about $7 for a pair of jeans, which can be switched each year (WMUR 2013). Levi's is also working to establish an infrastructure that supports closed loop products by 2020 (Hower 2016). Given your company's leadership in the world already, H&M is well placed to be a pioneer of the PSS model on a large scale.

As this is still relatively new concept, H&M could start out with only few lines of clothing, such as high-end quality jeans and sweaters, to lease instead of sell. After an annual review, the business model could be expanded to other items.

We are aware what we are proposing is quite radical. But we also know you have begun thinking along these lines, in particular through the innovative Global Change Award to find new ideas that help close the loop on textiles. This is a fantastic step in the direction of PSS. However, the ideas rewarded thus far have been on a relatively small scale and focused on the technical side. In order for the circular process to takeoff on a large scale, consumer adoption strategies will need to take center stage. The recommendations below highlight several ways to encourage users to adopt a PSS model.

Recommendations

Recommendation 1: Sharing is Caring
Consumers may hesitate to embrace a model of leasing and returning clothes for many reasons. But habituated patterns of buying "new" clothes and the fear of wearing items "contaminated' by others are probably the two biggest reasons. To counter these mindsets, we suggest you make the PSS stand out as a different, innovative, and forward-thinking system that users, especially millenials, would want to identify with.

The allure of "no ownership," for instance, is expanding among millennials as they place more emphasis on sharing access to coveted goods (Mincer 2015). The success of models such as Airbnb and Zipcar showcase this trend. H&M can pitch the PSS as a similar sharing concept: leasing clothes to share the cost over time and people.

In one study by Penn State University, saving money was the most cited reason of millenials for using sharing services. But H&M can also tap into millenials desire to reduce their carbon footprints. Seventy percent of the respondents of the same study said they believe overconsumption is bad for the planet and society – and while they don't want to sacrifice life's pleasures, they want to consume smarter (Kindergan 2015). Adopting a PSS model would enable user to do this. H&M can spread this message through several mechanisms, outlined below.

Recommendation 2: Engaging Platform
Juicy Facts
Once someone subscribes to the PSS subscription service, they should be given access to an online platform. This platform should serve many uses. First, it can serve as an information hub with relevant and exciting facts about the PSS, for instance how much raw materials and energy is saved through it. Studies show that people react more to positive-framed messaging than to guilt-ridden messaging. Remanufacturing typically uses 85% less energy than manufacturing (not to mention it can also can be twice as profitable, while also giving a boost to local economy in the process) (Gray 2009).

Get Personal
Once someone subscribes to the PSS subscription service, they should be given access the online platform where they can record their exact measurements and style preferences. In this way, the leasing model can be fine-tuned to the individual user, allowing the user to feel more of a personalized connection with the new PSS system.

Use the Crowd

Key to attracting users to the leasing model will be to ensure that the products are seen as "cool." While up-cycled products may inherently look different than "new" ones, we suggest H&M's take measures to ensure the leased products retain an appealing look. We have seen from your many runway events that H&M has a fantastic designer team. However, we would suggest that users be given the opportunity to share their own designs for the PSS products. H&M already searches for new design talent through the H&M Design Award. Why not crowd-source for designs which can easily be upcycled? Users could vet on the designs, and the ones with the most votes could be added to the lease line. This would not only provide an interactive way to engage with your users but it will also provide H&M with some certainty of demand around the leased products it launches.

Recommendation 3: Make the PSS come to life

Create Social Value

While the PSS model has an inherent positive impact on the environment, we suggest you incorporate an additional social-oriented approach. One such way could be to employ socially disadvantaged people for the "in-between" leasing phase of remanufacturing and cleaning process. In doing this, you can add social value and a personal connection to the PSS process, which may be more appealing to consumers than just leasing clothes.

Unique tags

In addition, we propose that upon finishing each renewed product, the employee tags the product with a tag that says "Refreshed for you by xyz name." Vintage is cool because the pieces of clothes have a history and story embedded in them. A PSS approach could enable a similar feeling by creating meaning and a story behind the clothes to make them more than just 'old used clothes" or "new unworn clothes." At the same time, the "refresh" label could assuage concerns about clothes being potentially "contaminated" by someone. The label could also serve as a signal to others that you are supporting the PSS system.

Unifying Symbol

Supplementary to the tags, we suggest that every person who becomes a subscriber to the PSS system be given a bracelet. Meaningful bracelets can be worn to signal support for a collective cause, as seen with the successful Livestrong bracelet campaign. Inherently circular, the bracelets could be fashionably designed (upcycled of course) in a way to invoke the image of the circular PSS process.

Recommendation 4: Tap into External Influences

Get a celebrity on board

It is no secret that celebrities have appeal. Featuring M.I.A. in the World Recycle Week video in 2016 is an excellent example of how H&M is already making use of such appeal. We encourage you to continue this approach for promoting the use of PSS model. For instance, H&M could ask supermodel Cameron Russell, who works on fashion and

climate change, to post videos about how she loves leasing because it lets her wear trendy clothes without accumulating junk in her closet.

Target groups
Similarly, we suggest H&M targets specific groups. For instance, you could target fans of certain music artist, such as Justin Bieber, to lease out a jacket in the style of that artist. As an extra incentive, H&M could ask the musician to donate their clothes to the company and then carry out a lottery system in which one lucky leaser gets to lease the musician's original jacket. Fans are well connected on social media and thus, such an approach could help get group buy-in for the leasing idea.

Social psychology justifications

The section below outlines key consumer and social psychology theories used to develop the recommendations made to H&M.

Alleviating Cognitive Dissonance
Many millenials face serious cognitive dissonance. Cognitive dissonance is the state in which an individual experiences discomfort based on two or more "contradictory cognition elements" (Festinger (1957). On the one hand, millenials are becoming ever more concerned about increasing about planetary boundaries (Mahoney 2014). On the other hand, they are under pressure to keep up with modern society, leading to mass consumption (Barton 2015). This second cognitive element can be explained through consumer psychology that combines both a biological base and socially constructed ways to reach consumers.

From a biological perspective, there are certain needs and desires inherent to us since humans have existed. Examples of these are the need for belonging, status, and friends. Veblen in his *Theory of the Leisure Class* discussed how the rich used leisure and conspicuous consumption to display status. Admiration and reverence for the leisure class leads lower classes to mimic their behaviors in an attempt to attain a higher status. The result of this is that the less well-off may not only give up other necessary material needs but they also perpetuate wasteful behavior.

This behavior can be further explained by the theory of the Extension of Self, which states that we often use objects to fulfill these needs. As Belk (1988) writes, "the functions that possessions play in the extended self involve the creation, enhancement, and preservation of a sense of identity." Marketing and advertising often take advantage of this use of objects to tell us that a certain object will fulfill or enhance certain aspects of one's identity.

At the same time, our lives are also directed by societal installations. According to installation theory, we are socialized, habituated, guided by social feedback, and controlled by institutions (Lahlou 2015). Installations such as shops and retail websites are examples of institutions that guide us towards purchasing the products they are selling.

Your marketing and store design teams are most likely fully aware of these approaches. We understand they are simply acting in accordance with the linear model of operation in which you and your competitors currently operate. However, by beginning to switch to a PSS model of production, you can help ease the cognitive dissonance felt by so many young people today by enabling them to both a) still acquire items that fulfill biological needs but also b) doing so in a manner that is less harmful to the environment.

Dual Processing

The strategies behind the power of persuasion were important to keep in mind while making recommendations. Users interact with and process messages through two routes of the brain. System 1 is automatic, associative, uncontrolled and largely unconscious, often triggered by emotions or our environments (Kahneman 2011). Persuasion tactics appealing to system 1 typically include emotion-triggering messages or an attractive person as a promoter of your agenda. Employing socially disadvantaged people could appeal to people's emotions of empathy while engaging a celebrity falls under using an attractive messenger.

One particularly challenge tied to our automatic system is the deep-seated resistance and sense of disgust many people feel at the idea of wearing something worn by another (Belk). Indeed, O'Reilly et al. (1984) found that secondhand clothing worn close to its former owner (e.g., underwear) does not sell and apparently. For this reason, making the "in-between" remanufacturing come to life can help create transparency around the activity. In addition, the tags which say "Recreated for you by ___" can help provide reassurance that the item you are leasing went through a thorough wash.

"System 2" on the other hand, is more reflective, controlled and slow (Evans, 2008). In terms of persuasion, this means that tactics should, for instance, focus on the quality and logic of arguments. The recommendation to highlight facts about energy and raw material savings from a PSS model would align with this System 2 approach. System 1 and 2 can often work together or separately, depending on a user's motivation, cognitive resources and contextual surroundings. Thus, it is important H&M employs a variety of approaches to persuade consumers to adopt the PSS model.

Building Relationships

In a linear economic business model, consumers buy a product and may never come back to buy from the same store. In contrast, a PSS model in which users subscribe over an extended period of time enables a company to establish a long-term relationship with the

consumer. Indeed, if H&M is to become a pioneer in PSS, it will need to attract and maintain loyal users to sustain and expand the process.

The recommendation to register users sizes and preferences help create a personalized connection between the user and the new PSS system. But it can also make the process of acquiring clothes easier. Some people may enjoy browsing for hours. But for others, the acquisition of products demands a large investment in time, resources as well as "psychic energy" such as attention (Csikszentmihalyi and Rochberg-Halton 1981). Similarly, as Schwartz (2003) writes in Paradox of Choice, people often feel overwhelmed by endless options. Thus, providing tailored recommendation according to size and preferences can be doing a huge favor to your users.

Engaging users in a crowd-sourcing design process is also likely to build a long-term relationship as well. According to Jeppesen & Lakhani (2010), crowd-sourcing occurs when a producer poses a problem, ask for proposed solutions from varios third parties ("the crowd"), and then selects the best solution or combination. Employing this tactic could have significant win-win benefits for both H&M and users: the company can save some costs normally spent internally on design (West and Gallagher, 2006) while users may feel more customer satisfaction (Franke and von Hippel 2003) and show more trust (Dahlander and Wallin 2006).

Signaling

As mentioned earlier, objects can signal a part of one's self identity. Just because an object is leased instead of bought, does not mean it should lose value in what it represents to other people. It still must reflect what the user wants it to reflect to others. As Moscovici (1984) has said, "a person always acts upon the world in reference to a generalized other." Clothes is worn in public. Thus, what others may think plays a role when acquiring clothes.

It is for this reason we suggested starting with a high-end line of leasing. Zip car founder Robin Chase has often said that, "Zipcar made car rental sexy" because instead being associated with the negative image of rental cars, Zipcar's appeal is, "wheels you really want," with mustangs and convertibles among the options for rent (Boutin 2012). Similarly, at H&M, people should have the option to lease items that reflect a high-quality look.

Yet for others, the desired look may be to make the statement that s/he is leasing clothes, for instance if wanting to attract a mate who is also eco-conscious. The recommended tag could enable such a signal if made visible to the outside.

Group Dynamics

According to Lewin, it is easier to change social practice in groups. One of the reasons for this, he writes, seems to be the unwillingness of the individual to depart too far from group standards" (1999). While H&M may want to boast about its unique PSS approach,

tapping into group dynamics for its adoption will be critical. The recommendation to target online fan groups aligns with this thinking. Leveraging the power of existing connections can encourage fellow fans to jump on board the PSS wagon. Social proofing plays a similar role. According to Cialdini (2001), social proofing refers to the idea that people often use others' behaviours as a guideline, especially in unfamiliar contexts. Given that a lease model is new for most consumers, the recommendation to target specific fan groups can encourage fans to try the PSS together. Once a few fans start posting reviews and pictures of their idol-related leased item, other fans may be eager to try out the PSS as well.

Similarly, Veblen's theory, as discussed above, states that the masses often mimic the behavior of elites. While this has in the past led to wasteful consumption behavior, the recommendation to have a celebrity promote the PSS model can help switch this around: instead of engaging in conspicious consumption, the celebrity can highlight how cool it is not to own clothes, thereby encouraging the "masses" to follow suit.

Finally, the bracelet idea also ties into theories related to groups. Tajfel (1972) defines social identity as "the individual's knowledge that he belongs to certain social groups, together with some emotional and value significance to him of the group membership.". Thus, the bracelet can serve to a) reinforce wearer's identity as a leaser, b) build community through visible symbol, and c) help create a catalytic shift in social awareness.

In conclusion, we are aware that shifting to a PSS business model will require significant investment and it may even seem to conflict with your current business approach. However, H&M is a robust company that can afford short-term costs associated with the transition towards becoming a pioneer in the PSS movement. This will ultimately provide benefits not only for the planet, but for consumers and your company as well.

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