Land Securities – Building the business of fashion

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Letter from Caroline Rush

CEO, British Fashion Council

The British Fashion Council (BFC), commissioned this report in collaboration with the London Business School (LBS) to investigate whether there is a formula for successfully commercialising creativity in the fashion industry. The BFC aims to lead the industry through creative leadership, to support growth and provide the best resources and environment in which designer businesses can commercially and creatively excel. This report highlights common themes of success and best practice to help further these aims as well as providing points for consideration by the BFC and Government.

This partnership with LBS is a new but important one for the BFC. We aim to encourage more MBA graduates to pursue rewarding careers in the sector, working with British designers to assist them in fulfilling their potential for growth. We hope this will be the first of several papers with LBS on the designer fashion sector.

I would like to thank the authors of this report, Alejandra Cara and Alessandra Basso, for their determination and persistence in pinpointing the common themes that lead to success as well as highlighting common challenges British business face. Thank you to London Business School’s Gareth Howells, Executive Director, MBA and MiP Programmes, Jeff Skinner, Executive Director, Deloitte Institute of Innovation and Entrepreneurship, Fiona Stubbs, Senior Sector Manager, Retail, Consumer and Healthcare, Career Services and Associate Dean Wendy Alexander for making our first project such a dynamic one and to Jane Boardman, CEO of Talk PR for keeping the communication flowing. This report wouldn’t have been possible without the collaboration of retailers, designer brands, consultants and communications experts who formed the basis of the research and interviews. Finally, a thank you on behalf of us all to Land Securities for supporting the publishing and launch of this report.

Caroline rush
Executive summary

There is a dearth of guidance available to fashion designers starting their own businesses. This is an anomaly in an industry that employs almost 800,000 people and makes £26bn annually.1 This report’s objective is to address that fact, to analyse the key factors that lie behind the commercial success of British Designers’ Fashion Businesses (’DFB’), identify the biggest challenges that they face at different stages of their businesses and suggest the best practices for tackling them. We interviewed a number of people including 19 designers (emerging, contemporary and established), 14 retailers, 16 advisors, 5 PR and media representatives and 5 investors.

Defining success

— There are three dimensions of success within the designer fashion sector:
  1. Creative acclaim (how the designer’s creativity is perceived)
  2. Communications perception (public profile and awareness)
  3. Commercial acclaim (how much sales and profits the designer generates)

Whilst the industry has a clear appreciation of creativity, this tends not to be seen as success unless it is connected to commercial success. Although we believe that it would be short-sighted to assume that every designer’s objective is to achieve global commercial success, this report focuses on the challenges and best practice for designers who wish to achieve commercial success.

Factors that drive commercial success

This report identifies the main internal and external factors that drive commercial success for DFB. Each chapter lays out the factors and gives best practice recommendations in each case. In brief, the factors that contribute to the commercial success of DFB are:

1. Behave as a business – strategy and business planning
   — Designers should have hunger and entrepreneurial spirit to drive their businesses forward
   — Business and creativity need to work hand-in-hand
   — It is important to draw up a business plan and create a clear vision for the company from the start
   — Gaining credibility and reliability should be a core value
   — Designers who have a trusted business partner tend to be more commercially successful but, designers also need to develop basic commercial skills themselves.
   
2. Recognise the importance of product development
   — Successful designers have a clear brand position, point of view and a unique selling proposition that connects through to the product and product development
   — Initially there should be a focused product offering and limited Stock Keeping Units (SKUs)
   — It is crucial to get pricing right and to stick within industry norms.

3. Be clear of your unique brand proposition, support with a marketing and comms plan
   — Develop the brand’s identity and support it with a marketing and communications plan
   — Marketing and communications are key to brand building
   — It is important to see PR and media as part of the broader marketing plan
   — Social platforms can be a powerful part of the communications strategy and allow direct dialogue with the customer but they need focused resources and constant development.

4. Tackle the challenges of production
   — Designers need a good understanding of the manufacturing process to make realistic demands on manufacturers. Investing in relationships is key
   — Balancing the challenges of finding a reliable manufacturer in the UK and the challenges of production overseas is crucial
   — On-time payment to manufacturers helps designers when agreeing production conditions for future collections.

5. Find the key to sales and distribution
   — The sales and distribution strategy should be consistent with the brand’s positioning
   — Designers need to understand contractual conditions with retailers, distributors and sales agents, the different available options and their impact on the business
   — Buyers’ feedback is essential to understanding customer behaviour and preferences, and building relationships with them is crucial to commercial success
   — On-time delivery gives retailers confidence in placing orders
   — The direct financing of an own-brand flagship store is not the only option. Opening stores can be pursued through different investment options including partnerships, joint ventures or franchising
   — When selling online, it is important to consider the opportunities and peculiarities of the digital channel.

6. Understand the importance of funding and financing
   — The large gap between the funding of production and the recovery of the revenue from sales is a major challenge that has to be carefully managed
   — DFBs must be aware of funding options, as well as what investors take into consideration in order to maximise their chances of securing investment
   — Grants and awards are instrumental for the success of most designers at an initial stage
   — The investor community has to be educated on how the industry works so it can assess the risks and opportunities of potential investment.

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1 From the Value of the UK Fashion Industry Update February 2014
In order to make our analysis, we started from the hypothesis that British designers need robust business support to develop successful commercial fashion enterprises, both in the UK and on a global scale. Our analysis moved through different steps:

— First, we assessed start-up practices. Most British fashion designers, especially at the beginning, run all elements of the business themselves. They generally have little to no strategy and little business experience.

— Secondly, we diagnosed the external challenges and internal factors that could potentially inhibit a DFB from becoming a commercially successful business.

— Thirdly, we identified how successful DFBs tackled these internal and external challenges and determined common patterns. From this, we highlight a series of recommendations at the end of this report:

1. To British designers, we suggest general best practices.
2. To the British Fashion Council, we give ideas for supporting British DFB in achieving commercial success and possible interventions.
3. To the Government, we pinpoint areas in which intervention is required to enable and sustain the contribution of the fashion industry to the UK economy, as explored in The Value of the UK Fashion Industry.

“Designers should have an appreciation of business. It is important for them to think from a very early stage about putting in place the right business processes.”

Sian Westerman
Senior Advisor at Rothschild
Christopher Kane
by Marigay McKee
President, Saks Fifth Avenue

“When I first met Christopher, he had borrowed £300 from his grandmother to buy the fabric for his collection from a Glasgow street market. In his year at Central St Martins, there was also a very wealthy student who spent a substantial amount of money on his collection. Christopher has gone onto become successful. The other hasn’t. Christopher had hunger and passion and the other designer didn’t.”

1.1 / The designer as an entrepreneur and businessman

Regardless of its core creative component, fashion businesses are commercial enterprises and designers starting their own brands are entrepreneurs. Embarking on an entrepreneurial venture requires self-motivation and self-propulsion, a mix of ambition, passion, hunger, perseverance and dedication.

Consequentially the first questions that designers need to ask themselves are:

— Do I understand what it takes to run a business?
— Do I have the skills and knowledge in place to pull together a business plan and make it happen?
— Do I have a unique selling proposition (USP)?
— Do I have the hunger and determination to turn this USP into a successful business?

Designers should be aware what starting a business entails so they can assess whether starting their own business is the best route, as there are other routes to develop skills and apply their creativity.

1.2 / The business plan and long-term strategy

—— The Business Plan
It is key for designers to prepare a solid foundation for the development of a sustainable business that creates and delivers value. The existence of a business plan is one of the elements that differentiate successful fashion businesses. The most successful designers create a road map at an early stage to define where they want their business to be in the short, medium and long term. This is crucial because once designers start juggling day-to-day operations, they have little time to think about long-term strategy and business planning.

—— Strategic Approach to Sales and Growth
Business planning also allows designers to choose the right pace for sustainable growth. By starting small and slow, designers can choose strategic retailers to partner with and have better control over their cash flow and operations. They can also have tighter control on quality and deliveries. Once they reach trading volumes that allow them to benefit from economies of scale, they can work on reducing manufacturing costs and start investing more aggressively in marketing and PR.

—— The Importance of Reliability
Building relationships, and gaining credibility and reliability should be as much a core value as the product itself. This applies to relationships with all stakeholders: manufacturers (on-time payment and technical knowledge), buyers (deliver a quality product on time), and investors (good credit history). As well as reliability, transparency and open dialogue are important. Often things happen that are beyond the designers’ control, they have to learn how to communicate in a professional manner to retain the confidence of their stakeholders.

1.3 / The role of the business partner

In many successful DFB, the designer partners with a business professional who focuses on the day-to-day operations of the business, allowing the designer to concentrate on the product and creation process. There must be mutual respect and understanding. The business partner must enable the designer’s vision and have the commercial sense, business skills and industry knowledge to lead the commercial aspects of the business. Equally, designers should have respect for the business planning process and their commercial partner. Creative talents need an environment where creativity is rewarded and where they are encouraged to take risks and challenge the norms whereas business people need to enable this creative environment while providing the proper business boundaries that allow them to monetise creativity and turn it into commercial success.

At an initial stage, business partners tend to be someone from the designer’s inner circle. However, as the business grows, more sophisticated management skills may be necessary. Designers should try to avoid letting emotional ties take priority over the best interests of the business. Although their role may have changed over time, there is a long list of examples that confirm that having the right type of support can help creative talents become the best they can be. To name but a few:

— Giorgio Armani and Sergio Galeotti
— Calvin Klein and Barry Schwartz
— Alexander McQueen and Jonathan Akeroyd, now Sarah Burton and Jonathan Akeroyd
— Tom Ford and Domenico De Sole
— Yves Saint Laurent and Pierre Bergé
— Christopher and Tammy Kane
— Alexander Wang with his brother, Dennis, mother Ying and his sister-in-law Aimie
— Nicholas Kirkwood and Christopher Suarez

“How do you surround designers with the support system that helps them navigate through some of the pitfalls that happen to early young designers?”

Ruth Chapman – Co-Founder & Co CEO, MatchesFashion.com
At the initial stage of a fashion business, scarce resources and low control of the value chain can constrain product development. Identifying which products to offer, where to expand and how to do it is necessary to ensure organic growth of the business and to avoid incurring unnecessary expenses.

2.1 / A focused initial approach and gradual expansion

Designers’ first collections should be focused on a specific product category and/or limited SKUs. Product focus provides two main advantages:
1. It allows designers to master their skills in a recognisable niche area, thus setting the basis of their USP and brand identity.
2. It makes the management of the supply chain more manageable.

A few excellent pieces can be enough to create a breakthrough during a fashion show/presentation, capture buyers’ attention and to understand that there is potential for the creation of a brand and development of a sustainable business. When buyers and press have contradictory reactions, designers should focus on the needs of the business; buyers’ feedback reflects customers’ taste based on shop-floor sales and enables designers to re-direct their product.

To create a commercially successful product, designers need to know who their customer is and to understand their needs in order to deliver a relevant product and unique benefits. Designers also need to adopt a consistent approach to pricing, both internally within a collection and externally in relation to competitors. Lastly, designers should develop and keep consistency across collections, making sure that the DNA of the brand is carried across collections to allow for its products to be identifiable and for the brand equity to grow.

2.2 / A winning price architecture

Many new DFBs take a cost-based approach to pricing. This starts from identifying direct costs, adding the indirect and related proportion of fixed costs and finally applying the desired margin. However, it is broadly agreed that pricing strategy should follow a value based approach – understanding how much the targeted customer is willing to pay for the product to determine what is the right price point. Then, by working backwards, the maximum production cost that the product can sustain is calculated.

DFBs should follow a value-based approach:

— Know who the targeted customer is and how much they would be willing to pay
— Identify a price range by having conversations with retailers or directly with clients
— Estimate the product’s overheads, direct and indirect costs and calculate a wholesale price that allows the maximum value extraction. The correct estimate of the costs of material is crucial
— Compare and adjust the different variables (product cost, margin, wholesale price or a combination) to ensure the correct positioning in the market
— Add a good yet realistic margin that will allow for building the business
— Implement a range plan to formulate a price architecture that guarantees margins at a fair price point by keeping internal and external consistency.

In this process, the expertise provided by a supportive merchandiser or business partner can be very valuable.

“People need to be focused first. Try to master one technique, because ultimately what you are doing is craftsmanship, the construction of the garment... And then, prepare the future and add layers. Keep your core business, understand what the market needs, what you offer, fine-tune your techniques of production. It’s a matter of mastering one technique whilst keeping the business solid.”

Rodrigo Bazan – President of Alexander Wang
Successful brands balance a financially solid core business with a progressive expansion in categories that allow synergies, helping the business grow organically and stay under control. As for external category expansion, designers mentioned licensing as a viable option once the brand is solid enough to attract business partners specialised in other product categories. Licensing requires careful selection and control of the category as well as partners to ensure that the underlying agreements:

- Share the brand’s vision
- Stimulate a positive halo effect by raising brand awareness and indirectly supporting the main products sales
- Guarantee a profitable source of cash in-flow to the brand.

Matthew Williamson
Range Plan
By Joseph Velosa
Chairman, Matthew Williamson

“Costing is super important and we dedicate many meetings to analysing costing and set up prices because if you get that wrong, you potentially lose thousands of pounds. If something doesn’t make a margin, unless it’s a very beautiful piece, you take it out of the collection. We still do those pieces that are more for the show and then we revise the pre-collection plan. At the end of the season we analyse the best and least selling piece and that is passed over to the design department. Then, everything is left to the creative process. They have a range plan which is very important, particularly with a pre-collection. It divides collections by style and by price point. They almost have to put design against the numbers so that they fit within the grade but we don’t make any aesthetic judgment; it’s just that they have to have that price point.”

Mary Katrantzou

Mary Katrantzou has only been in business for six years but has achieved global recognition. Her brand is stocked in 260 stores across 57 countries worldwide. She has won numerous prestigious awards including the Swiss Textile Award in 2010, British Fashion Award for Emerging Talent: Womenswear in 2011 and the Young Designer of the year at the Elle Style Awards in 2012.
CASE STUDY 01/
IN CONVERSATION WITH MARY KATRANTZOU

Starting a business
Textiles run in my family so it is something that I have always been intrigued and inspired by. I became interested in the way that printed textiles can change the shape of a woman’s body, and fashion allows me to bring all my influences together to inform my designs. It was when I did the MA at Central Saint Martin’s that I became determined to launch my own label. My peers were planning shows and fully blown businesses — so I just thought, ‘why not me too?’ I started my business on completing my graduate degree. In the beginning I had to learn very quickly. I had no idea that your entrepreneurial skills have to be as strong as your creative ones! I have had a lot of support in London; there is such a great network of people there to help you when you start out, Centre for Fashion Enterprise (CFE), The BFC/Vogue Fashion Fund and BFC NEWGEN supported by Topshop, a nurturing team that you can go to for help.

When I first started my business I was nervous about delegating and letting go of control but I quickly learnt the importance of delegation, finding the right people to work with and learning from my mistakes. Personally, I think trial and error is so important. The most difficult thing aside from that is managing a team.

Growing the brand
I didn’t anticipate that the brand would become as big as it has in such a short time. It has taken a lot of hard work and my team and I have remained very focused. I started in a small studio with two interns. Now we have a large team of around 40 employees.

Learning about different markets is really important. I used to be against travelling, but when your business grows you have to be prepared to explore certain markets, grow relationships, interact with the customer base, develop relationships with wholesale accounts. We launched our own international e-commerce site last year. We have also just launched our first Resort collection. We are now sold in 57 countries. It confirms that I am carving out my place in the fashion industry, and my journey of building my own brand is on its way.

Dealing with retailers
The first ready-to-wear collection debuted at London Fashion Week in 2009. Despite a small collection of nine dresses, we managed to pick up 15 prestigious stockists including Browns, Joyce and Colette. We are now sold in over 260 stores worldwide so what we look for is a great mix of brands and we work with boutiques who really believe in what we do and support us.

When I first started one of my best decisions was to go with the BFC London Show Rooms to Paris. It meant that I had direct contact with the buyers and direct feedback on the range.

Fullfilment is obviously of huge importance when it comes to retailers. The initial period when you are trying to please everyone is the most difficult. Then you learn to say no to things that aren’t possible, not taking orders if you don’t think you are ready to fulfil them.

Financing the business
Finances were hard at the beginning of course because I was literally starting my business from scratch! I had to write to a lot of people to ask for funding. Even now, sponsorship is a key factor for us financially. I think we are very lucky in that London is so known for its creativity that it is possible to launch a business from nothing. You don’t need an ad campaign or a show right from the beginning. The fashion press in London and the amazing businesses in place to support emerging designers are pivotal – the CFE provided us with a small studio to work from in the beginning and we did everything there. The Swiss Textile Award was one of the first awards I won and the financial support was amazing because it came at a stage when the business was growing. I couldn’t have got to where I am now without the support of the BFC NEWGEN Scheme. It gave me the platform to showcase my work to buyers and press and allowed me to show at London Fashion Week, which is invaluable.

Advice for emerging designers
It is important to stay true to your vision and what you want to create. Be open-minded, and learn from your mistakes. I think it’s important to persevere and have the strength of your own conviction. It takes time, and a lot of hard work, and you need to be determined. It is important to have fun in what you do and allow yourself to become immersed in your subject. I am lucky that while my designs are extremely technical in their engineering, the subject matter allows me to evolve or reinvent a notion, using objects or ideas from art or design that a woman would not be able to wear if it were real.

“I think we are very lucky in that London is so known for its creativity that it is possible to launch a business from nothing.”

Mary Katrantzou
3.1 / Brand identity

Although forming a brand takes time, the designer’s vision has to be clear from the start. The vision gives direction to the brand and allows designers to keep a consistent identity. A brand strategy helps to select initiatives that fit the brand and create consistency between brand identity and brand image.

Most retailers agree that successful designers are those able to develop a brand identity that allows them to have a unique point of view and allows everyone else to understand what the brand represents and how the brand can be identified. Creating a collection and building a brand are different concepts; a collection is an exercise of creativity that should fit with the brand identity and reinforce it.

One brand said that there are some common questions you should ask to help focus your brand and position. What does the brand stand for? What is its USP? How do you communicate to the customer that the brand is unique with respect to other brands? Where does the brand come from? Who is the customer you are talking to? Are you talking to them in a language they understand?

Once designers have established their USP and clarified their vision, consistency between product and strategy becomes essential to strengthen brand identity over time.

3.2 / Marketing plan and budget

Marketing activities, together with communications, are key to building the brand. A marketing plan is needed initially to understand who customers are and how to approach them. From their first collections, most designers implement marketing activities including catwalk, look books, photo shoots, sampling, website, promotional trips, events and, later, advertising.

Established fashion brands, with dedicated marketing staff, prepare an annual marketing plan. Some of the interviewed brands quantified their marketing investment between 10% and 30% of their annual turnover.

“Young designers need to understand what they are and why they are starting their own businesses. If they do it, it is because they really believe that they have something to say that cannot be said in the context of Paul Smith or Oscar de la Renta or Dior.”

Vanessa Friedman
Fashion Director of The New York Times
3.3 / PR and communication

PR agencies are seen by designers as a fundamental partner in brand building and many successful DFBs have partnered with them within the first three years of starting the business. It is commonly agreed that DFBs should approach this external partner once the business has developed a commercial in-store visibility and a turnover of £2-3m, however many build partnerships earlier particularly those that host shows and presentations during fashion week.

Designers assert that PR represents one of the most relevant expenses for their business and they agree on the payback in terms of brand equity. PR agencies support them with full-time resources focused on the implementation of promotion and communication activities and offer a consolidated network that a fashion business could not access otherwise. Access to the most important retailers and editor-in-chiefs are an invaluable resource from PR for some designers, especially at the early stages of their business.

PRs frequently assume the role of mentors, providing business advice that goes beyond their PR role. Partnering with PRs in multiple locations has helped many designers to build the brand’s international exposure and partnering with the same PR agency across locations help designers to have a consistent brand communication. The more the brand grows, the more the challenges shift on how to stay relevant and keep press attention. A good PR agency or strong in-house resource is crucial.

3.4 / The relevance of social networks

The digital channel can be an easy and cost-effective communication tool to build a brand profile. Websites display content, communicate the brand’s story, and give information about products, editorials, activities and events. The brand’s control of their website guarantees a consistent brand experience. The BFC is working to help designers build their online presence.

Social networks are now the main platform for connecting with customers with a very limited initial investment. Sharing ideas and content is one of the most effective ways with which to engage customers and raise brand awareness. The majority of emerging British designers have implemented a brand presence on Facebook, Twitter, Instagram or Pinterest within three years of business.

However, social networks help raise brand awareness if they are constantly updated with engaging content and communication relevant to the brand. Therefore, DFBs should dedicate specific resources to deliver their messages and keep a vivid relationship with their audience.

Social networks are also a tremendous source for gathering data about the customer and understanding what the customer likes most. Thus brands can adapt their visual communication on the website and in stores as well as with the product itself to better address the customers’ preferences. In this sense, many global brands such as Burberry have perfectly integrated these platforms within their communication strategy.

If use of social networks is combined with an active website and includes an online sales section, there is the chance to re-direct the dense traffic of social networks into website traffic and turn them into online sales.

“PR should start organically. You cannot launch a designer or a brand with PR alone. To build a sustainable business designers have to create first a product that is unique and desirable for their target customer. Successful businesses start with designers who have a clear vision, a strong work ethic and a truly special product building personal relationships with key stores, press and even directly with their customers. PR and Communications are useful tools to support a designer and bring their work to the attention of a wider audience only when their business can support this attention.”

Daniel Marks – Director and Partner, The Communications Store
Manufacturing is a critical component of fashion businesses and it is necessary for designers to have a good understanding of the processes involved. One of the major concerns for any fashion designer is where to source production, how much it will cost and how to fund that production.

4.1 / Sourcing manufacturers

For most designers, finding a cost-effective manufacturer in the UK is a challenge, and the main reason seems to be the scarcity of specialised manufacturers due to the tertiarisation2 of the UK economy. However, manufacturing in the UK has several advantages over offshoring. First, the closeness of UK manufacturers provides designers with speed to market. Secondly, it’s possible to monitor production easily and respond to problems quickly. Lastly, manufacturing in the UK enables British designers to leverage the history and heritage associated with the ‘Made in Britain’ label as part of their USP.

4.2 / Cost of production

Costs also tend to be high because of the small quantities that DFBs require as they can’t benefit from economies of scale resulting in high individual production costs. UK production can be expensive and price competition from overseas manufacturers has led to many moving part or all of their manufacturing overseas. However, producing overseas can be challenging as the need to monitor production and the associated costs may not be justified if the quantities produced are too small.

4.3 / Funding production

Very few manufacturers offer credit and payment terms to emerging businesses. Cash-poor fashion businesses have to pay a deposit to fund the production long before receiving money from retailers. Some designers make a contractual agreement with a single manufacturer by offering a small stake in the company. This ensures that the manufacturer does not lower production because of cash flow constraints and the predictability of delivery increases. In some cases the manufacturing partner may also bear the sampling, raw material and production costs.

4.4 / On-time delivery

Receiving product on time from the manufacturers is a problem for a number of DFBs as it often translates into late deliveries to retailers. There are two main reasons why DFBs usually face late deliveries:

— Production is seasonal and mostly concentrated over two seasons. This compounds the pressure within the manufacturers’ operations as during peak seasons manufacturing capacity is stretched
— Size of the orders and designers’ limited bargaining power. Manufacturers are often reluctant or unable to work on small orders especially during peak seasons or they may charge designers a surcharge for small orders, putting pressure on the designer’s margin.

Additionally, in cases of poor cash-flow management and late payment to manufacturers, designers might incur further delays as manufacturers may hold production until any outstanding payment is made.

2 The progressive shift of the UK economy from ‘manufacturing’ to ‘service’
Two inspiring examples of success

Great designers are not born, they are made. Self-made. Mostly. But there is something more, something special, secret and everlasting that adds a distinct signature to every designer’s success story. In this section we researched and explored the magic ingredient in the success of two great designer brands: Stella McCartney and Jimmy Choo.

--- A Unique Point of View

Having a unique brand proposition makes your product stand out and allows you to connect with the audience in unprecedented ways. Stella’s story demonstrates how a simple, moral approach allowed her to tap into her customers’ psyche and attract them to her work. Stella sells a sense of moral satisfaction to her customers, and people love her for it.

Stella McCartney is one of the most influential fashion designers in the world. She is a committed vegetarian and extends her philosophy to her products. She has built an extremely successful business by changing people’s perception of eco/sustainable fashion by using organic materials to create luxurious products. She is a supporter of PETA and has made it a tenet of her business that all her products are vegan.

Stella McCartney’s products are never tested on animals. She has decided not to enter the Chinese market with her perfumes, as Chinese law requires all body products, including fragrance, to be tested on animals. They do not use leather, skins, or furs in any of their products or even licensed products.

Avoiding leather causes difficulties in production, as many industrial techniques that are used for leather manufacturing are not suitable for non-leather. Therefore, most of the steps to produce bags and shoes are executed by hand by skilled artisans. The production of non-leather shoes and bags can cost them up to 70% more than any other brand. Despite this increase in cost, Stella doesn’t believe in marking up for the consumer.

The team at Stella McCartney makes great efforts and use scientific research to study and test a range of textiles to produce fabric that looks luxurious. Because of the innovative materials used and the scarcity of the blended materials created, the products that Stella creates are a true luxury. Stella McCartney is a part of the Ethical Trading Initiative, which enables its members to trade ethically and make a positive difference to workers’ lives.

Stella powers all her stores, offices and studios in the UK using wind energy provided by Ecotricity, a company that invests the money its customers spend on electricity into clean forms of power.

--- Embracing Social and Digital

In this time and age, for a business not to be on the world wide web may be practically a cardinal sin. Having a website and sending out mailers is passé, brands of today have long started using Facebook and Twitter to engage in real-time with customers.

Jimmy Choo has already raised the bar in the communications jungle by reimagining the way the current social media platform is being consumed by business.

Jimmy Choo is one of the world’s most loved shoe and accessories brands. They were a pioneer in the art of celebrity dressing and were among the first to bring shoes and handbags to Hollywood — the red carpet proved to be the ideal runway for brand. The brand's reputation as a celebrity favourite helped to fuel its rapid expansion.

Jimmy Choo’s marketing has not only limited itself to the regular social media platforms, but has also used well publicised social media events to boost brand awareness and sales. In 2010, Jimmy Choo launched the ‘CatchaChoo’ campaign. Using social media platforms, Jimmy Choo’s customers were able to participate in a treasure hunt for the new trainers. Jimmy Choo employees hid the trainers at different locations around London using FourSquare and sent real time updates to their followers on Foursquare, Facebook and Twitter. The person who reached the venue in time won a pair of trainers in their size. The hunt lasted three weeks and the trainers were found by the winner in Covent Garden. To deepen the relationship with customers, Jimmy Choo hosted an in-store event for the rest of ‘CatchaChoo’ followers.

An astonishing 4,000 people participated in the event, which caught the interest of local media, and sales increased by 33%. Positive online sentiment about the new range increased by 40%. Choo 24:7 Stylemakers is a microsite that allows Jimmy Choo customers worldwide to post images of them-selves wearing the shoes at various times of day. Visitors to the microsite can browse by city, shoe style and time of day. Jimmy Choo marketing campaigns are effective because they reflect the brand value in their marketing and understand how audiences consider the product. They organise off-events that create buzz and also ongoing campaigns that engage customers.

* The brands were not interviewed for this research
Sales and distribution

A global sales and distribution strategy starts from Defining market positioning and identifying local and international distribution strategies — offline and online. It is important to build relationships with buyers and set up a strong sales team.

5.1 / Market positioning

Deciding where to market the brand right from the very start is vital. Deciding the stores in which to partner with at the beginning is crucial for the following 2-3 years' positioning and future development of the business.

Market positioning requires careful research. Department stores and independent retailers apply different contractual conditions and, therefore, different levels of bargaining power. Coherent market positioning can be built through a two-steps process:

— Define the brand presence in the local market
— Develop a strategy to expand internationally.

Taking into account these dimensions helps keep a global vision on the brand’s current and expected positioning and can help the brand grow steadily over time according to what the business structure can realistically afford.

An effective retail strategy allows better control over logistics costs, orders, payment conditions, cash flow and all the commercial aspects that progressively become more complex as the brand expands its presence and sales volumes. The more the business grows, the more its structure should be reinforced with sales resources, processes and systems.

5.2 / Getting buyers’ attention

The general criteria driving a buyers’ decision to introduce a new brand include:

— The product uniqueness and fit with the overall portfolio of brands
— Its ‘sellability’ in terms of product fit, price point and price architecture
— The offered category mix
— Press credit
— The level of business structure supporting the brand
— Brand presence in other stores belonging to the same market segment.

No matter what route brands follow to get buyers’ attention, consistent brand DNA integrity across collections and the fundamentals of commerciality remain the key aspects to successfully penetrate the market and win buyers’ appreciation.

“I think what could be improved is the designers sense of place, they need to know how they compare to the competition. Who is going to buy the product? Where you would like to be sold, realistically? Who is likely to buy it? Will it be the right price? These questions have to be answered before picking up a pen to design.”

Anne Pitcher - Managing Director of Selfridges

“Number one is to focus on the shop floor and the Markus Lupfer customer. The product needs to be the right product, but also needs to be an affordable product, and it needs to sell itself on the shop floor. It’s also essential to have the support of PR and press as it is vital for presence and brand awareness, but you can’t rely on that alone, the clothes have to be able to speak for themselves.”

Markus Lupfer - Designer & Founder
5.3 / Contractual conditions

A careful evaluation of the contractual conditions offered by retailers is recommended to set up a healthy and long-term commercial relationship. The biggest challenges emerging designers face are in the following areas:

— Payment Terms
Retailers tend to postpone cash out-flow to minimise risk. Differentiated options of payment terms are applied, from buying a collection with 30, 60 or 90-day payment from invoice date, to 30% deposit, to consignment or discount for early payment which can eat into the designer’s profit margin.

Consignment should be generally avoided or pursued only when there is a strategic angle to it and there should be a back-up plan in case merchandise is returned. Even when pursued, it should be limited to a few retailers/pieces in the collection.

A percentage deposit for emerging designer businesses is a good option. This lets designers pay the deposit required by manufacturers as well as reducing the risk of the retailer canceling the order once production has started.

“If you look at Barney’s compliance manual I believe it’s about 80 pages long. If you don’t apply to all their conditions, you’ll be fined. A forging moment for the company was when we started working with Isetan in Japan, the order was small but so specific in requirement that we quickly adopted those tough stipulations on the understanding that of course there should be the same high standards for each customer.”

Christopher Raeburn — Designer & Founder

— Quality
Quality control before shipment is good practice for designers to maintain high standards. Some have embedded the strictest quality requirements from retailers as their own standard policy, thus setting a top quality conformity system that sets them in good stead for future sales.

— Delivery Time
Ideally, retailers would like to be the first to promote the brand on the market. Given the time lag between ordering the material, producing the collection and shipping it to stores, many designers struggle not only with early but also with on-time deliveries. Late deliveries mean shorter shelf life and can result in lower sell-through. Designers should only accept orders that they can deliver. A number of designers interviewed highlighted how they rely on multiple suppliers to reduce the risk of orders not being delivered on time.

— Style Selection – The Edit
Retailers usually require a minimum number of styles to properly represent a collection in-store. There is no standard rule, so buyers’ feedback is essential to understand the store’s needs in terms of sizes, category mix, type of garments. At a more advanced stage, retailers and designers estimated that department stores usually expect an average of 100-120 styles to pick their selection from. If designers’ style offer is too narrow, buyers may struggle to find a selection that represents the collection.

— Number of Collections A Year
Some retailers, especially department stores, might demand four collections a year to establish a regular in-store presence. This is a challenge for new businesses. Implementing more than two collections a year can be difficult as the majority of British designers run parallel collections through collaborations/consultancies. The introduction of pre-collections should follow only once the interest raised by buyers has been tested and the business can realistically support the added product planning and workload.

5.4 / The art of sales

Investing in expert salespeople to deal with buyers, assess what the business can commercially afford and get the best terms and conditions to satisfy both parties are important steps to ensure the commercial success of the collections. Best practices include implementing regular in-store sales monitoring as well as strong sales relationships with retailers to get market feedback, ensure better in-store brand and product support and understand how to engage customers.

5.5 / Online sales

Online sales, directly or via a third party, is an important step for designers to consider in a business plan from the beginning.

A set of associated benefits for a non-structured fashion business include:

— The opportunity to reach a large and established audience of loyal customers
— The reduction of logistics and shipping costs
— The communication and promotion that online stores offer.

There also exist some ‘best practices’ to consider when approaching online sales:

— Typically, colourful and printed products are easier to sell
— A complete range of sizes is a must-have requirement
— Samples and delivered products need to be of the same level of quality
— Garments with shapes that don’t have a standard fit might be challenging to display and sales might be affected.

Traditional retailers equipped with an online ‘branch’ and pure online retailers provide designers with faster opportunities to grow their sales exponentially from the start. All the young designers interviewed were selling through online retailers within three years of business.

Directly owned e-commerce brings enormous advantages to the DBF in terms of full margins, direct access to customers and feedback; and offers the opportunity to sell and manage unsold stock.

Young designers should follow a progressive approach. Starting from selling through established external online retailers, they should add in-house e-commerce once their business can afford it. They could optimise and reduce technology costs by partnering with specialised online platforms that offer the technology, the experience and the support to run mono-brand online stores whilst keeping track of content and sales.

5.6 / International expansion through international retailers

Due to the relatively small size of the UK fashion market, no emerging British designer sells exclusively in the UK, and the vast majority sell in at least three countries within five years of starting their business.

The BFC’s London Show Rooms initiative is an invaluable support to designers. London Show Rooms presents an opportunity to understand the local distribution, customer needs and market conditions.

When thinking internationally, designers should also be aware of the following:

— International retailers explained that to introduce a new brand they usually try to understand if financial backing and infrastructure exist, as building brand awareness in a foreign market typically needs two years
— The way each national wholesale and retail system works can vary from market to market and can be very different from the UK
— Being aware of trading implications such as exchange rates and trademark registration
— Working with partners and local retail stockists help to build brand awareness.

“First, you need to know how can you develop your business nationally. Second, you need to think how to become international and what the options are for you, because there are different options and stages of growth.”

Andrea O’Donnell — Executive Director of Lane Crawford
This chapter explores the different sources of funding and financing that can be tapped into by DFB at different growth stages, as well as best practices of the industry and how young designers can develop a successful financing structure.

6.1 / Nature of the business and cash flow management

One of the biggest challenges for any designer derives from the length of the working capital cycle, which can be broken into two stages:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The production of the collection and the related funding cash out-flow</td>
</tr>
<tr>
<td>2</td>
<td>The sale of the product and needed cash in-flow</td>
</tr>
</tbody>
</table>

Sample of fashion business working capital cycle and cash flow profile

Simplified, the first two collections. In an ongoing business, the cash profile will normally have two low points (two seasons per year). For example, Feb/Mar and Aug/Sep.
6.2 / Financing the fashion business

Given the particular characteristics of fashion businesses, funding is a crucial element for success at each stage of business development.

—— Early Stage Financing

At the very beginning, most designers will rely on funding from personal sources such as friends and family to start their businesses. In terms of bank financing, the traditional overdraft is normally the first tool used to finance working capital. However, there is normally a small borrowing limit so, once the business reaches a certain size, the overdraft is difficult to manage as it doesn’t grow with the turnover. This is when Invoice Financing becomes relevant.

Invoice Financing or Factoring allows designers to get an advance against the invoices issued to retailers once the product has been shipped, thus shortening their funding gap. Invoice Financing has the advantage that the facility grows as the business grows. So, as long as designers keep shipping products, they have access to funding. Invoice Financing can be costly because banks or private factoring businesses will charge a monthly standard charge even if the facility is not used. Because of this, the biggest issues for some designers producing only two collections a year comes from having periods of time without shipment where they can’t get financing to pay fixed overheads.

Reverse Factoring allows designers to attach a discount offer to the manufacturer’s invoice so they can discount and advance the cash owed to them by the designers. In order to be able to access this, designers need to have a solid credit profile and therefore Reverse Factoring is only available once the business has reached a certain level.

In the absence of equity investment, a loan or credit line is normally used to fund production. Given the high-risk profile of many early and mid-stage fashion businesses, banks will rarely lend without security. Because most designers lack personal assets to use as collateral, the only way they can access this long term financing is via the Enterprise Finance Guarantee Scheme (EFGS).

The EFGS gives businesses access to funding where security isn’t available and by which the Government will secure 75% of the debt and the bank will secure the remaining 25%, giving designers access to a source of funding unavailable via traditional means.

—— The Next Level

Once fashion businesses are on a growth trajectory, they tend to grow very quickly and their ability to grow is capped by the size of their business structure. This is when most designers will start thinking about finding an external investor.

Angel Investors, Venture Capital and Private Equity Investment

Angel investors, venture capitalists and private equity investors will invest if they can see the potential to scale the business and scope to grow. These investors may be willing to invest in a business model that another type of investor may not consider tried and tested enough and so can be the right strategic partner for some fashion businesses. These investors can also bring know-how, business acumen, operational expertise, commercial rigour and financial discipline to the fashion businesses.

They do expect significant returns and will typically look to get a ten-times return over a five-year period. Such levels of growth are difficult to achieve in such a short timeline in a fashion business. Additionally, the limited downside protection (given the lack of hard assets) makes it difficult for investors to value this type of business.

Private Investors

Sian Westerman, Senior Advisor at Rothschild and business mentor to a number of designers, commented on how fashion businesses can find themselves in a position where they are beyond the seed capital financing but their balance sheet and profit and loss are too small for private equity investors. There is an opportunity here for private investors. Just as Andrew Rosen in the US or Renzo Rosso in Italy are doing, high-net-worth individuals or seasoned industry professionals can invest and also bring their expertise to develop the business.

However, it is not always easy for designers to find these investors. Additionally, given the high risk of some of these businesses, some investors could feel more comfortable taking a portfolio approach and spreading their investment across a number of these investments to diversify their risk.

Fashion Groups and Luxury Conglomerates

Fashion Groups and Luxury Conglomerates are one of the most powerful allies for designers. As well as capital injection, groups such as LVMH, Kering or Labelux provide designers with:

—— Invaluable access to talented and experienced management guidance
—— An endorsement to their talent and ability to reach greater public profile
—— Support in areas such as real estate, insurance, credit collection and financing amongst others

—— The ability to reach economies of scale by leveraging on the groups’ manufacturing capabilities, although synergies can be hard to realise because of the different configuration of small and larger businesses.

The Manufacturing Partner

Another type of investor that can support designers at different operative levels is a manufacturing partner who, in some cases also look after the production and allow designers to place orders without an upfront deposit.

—— Summary of sources of Funding and Financing
Due Diligence
Regardless of the type of investor, designers should do the appropriate due diligence as getting an equity investment will, in some instances, mean yielding majority control and losing significant shareholding and decision-making power. Timing is also key and designers need to be careful to avoid giving away too much too cheaply.

“Designers need to be realistic and well prepared before they go down the road of having any investment discussions. That means having a clearly and concisely expressed positioning for the business, a clear sense of strategy and a business plan reflecting realistic financial ambitions that can be delivered and some evidence of their ability to deliver on promises.”

James McArthur – CEO of Anya Hindmarch

Alternative Source of Funds
In addition to investment, there are other options that can be critical to the financial viability of fashion businesses.

- Not-for-profit support agencies for small businesses, such as the East London Small Business Centre have proved a very valuable ally for a number of designers
- Different types of sponsorship (pure cash, value in kind, budget substitution and partnerships) are usually used to support catwalk, presentations of collaborations and events in which the sponsoring brand can have a return in terms of visibility
- Partnerships and collaborations represent a relevant source for fundraising especially within the first six years of business. For some designers, collaborations represent a chance to learn the strengths of their creative talent and the workings of a larger business

Consulting (either public or in the shadow) allows designers to have a more stable cash in-flow to finance their eponymous brands

- New concepts that leverage the Internet and social networks reach such as peer-to-peer lending or crowd funding can also be an interesting route for designers to secure financing.

Grants and awards
Grants and awards are instrumental for the success of most of the UK’s most relevant DFBs at different stages:

1. NEWGEN sponsored by Topshop and NEWGEN MEN sponsored by Topman, offer designers financial support to showcase their collections in presentations or catwalk shows, offering an important introduction for young UK-based designers to international press and buyers. NEWGEN also provides business and mentoring support through the BFC and its partners.
2. BFC/Vogue Designer Fashion Fund provides one British-based designer with £200,000 and access to high-level mentoring to assist talented British designers with the potential for commercial growth to make the transition from a developing creative business to a global fashion brand. The BFC/GQ Designer Menswear Fund supported by Vertu gives £150,000 + £50,000 in professional services to a menswear designer with similar criteria.

Case Study 03 /
Spotlight on
Nicholas Kirkwood

Since first launching his eponymous collection in 2005, Nicholas Kirkwood’s growth has been remarkable. He has won numerous awards for his collections of ‘architectural’ footwear including the BFC/Vogue Designer Fashion Fund in 2013. We interviewed his CEO Christopher Suarez to identify the pillars of Nicholas’ sturdy success.
— Get ready before you take the plunge
Nicholas Kirkwood completed foundation training at Central Saint Martin’s in fine arts, which allowed him the time and exposure he needed to discover his true calling. While studying for his degree, Nicholas started working for Philip Treacy, where he learnt about the industry and studied the market. Nicholas hadn’t decided on footwear until after working at Philip Treacy, when he noticed that while his customers had good style and great clothes, they wore simple shoes. Nicholas realised that there was a gap in the footwear market.

Nicholas decided to attend Cordwainers College in Hackney, which offered a course in shoe design and making. After completing the first year, Nicholas decided to focus solely on his work at Phillip Treacy where he spent a year and a half getting ideas together to launch his own collection.

— Mentoring
While working for Phillip Treacy, Nicholas gained understanding of the market. Phillip nurtured a strong work ethic. He was a huge inspiration for Nicholas and taught him the importance of attention to detail and excellence and how to approach running a business. This had a significant impact on Nicholas’ career and also shaped his approach to talent management within his own business. Nicholas and Christopher mentored the shoe designer Sophia Webster and helped her launch her own line. This not only affirms his belief in mentoring but also his belief that collaborative effort in the industry strengthens the overall ecosystem, helping it to grow and prosper.

— Having the right business partner
Nicholas met his business partner Christopher Suarez at a trade show in Paris. Before working with Nicholas, Christopher was working as a Branding Consultant for a number of shoe designers, helping them find the best way to enter the market. Together, they have expanded their business, from a basement flat to an office on Mount Street. Christopher helps Nicholas define how they approach the brand. They go through all of Nicholas’ designs together and freely exchange ideas before making a decision. Over eight years of working together, they both understand what makes the other tick.

— Brand management
One of the most important steps towards building a successful fashion business is to create a DNA for the brand. Nicholas and Christopher have always done a lot of market research to come up with products and market strategies. They realised that working with a lot of retailers before having the right production capabilities could harm a brand. Therefore, they were selective in which retailers to work with initially. This strategy helped them make the brand stronger.

— Finding a reliable manufacturer
Choosing the right manufacturing partner is one of the most important decisions in the design business. It is one of the first things that a designer should do. After his first collection, Nicholas identified the factory for producing his second season collection even though he did not have any orders yet. It is critical to find a manufacturer who achieves the right balance between understanding the designer’s vision and delivering on time. Finding the right factory does not happen overnight. After working with several manufacturers, Nicholas settled on a factory that had a great understanding, both of the craft and the technique. This was a turning point. The first season that Nicholas used this particular factory was the breakout season for them — it helped them produce the platform structure, which then became characteristic of Nicholas’ designs. This won Nicholas the AltaRoma award given by Italian Vogue.

— Making sound financial decisions
Nicholas financed his first collection by saving money that he earned from his job at Phillip Treacy and by doing shoe shows. Nicholas has always had a great understanding of managing finances, especially when they are limited. When Nicholas first designed his collection, he decided to display this collection at the Premiere Classe trade show in Paris with a grant via UKTI. Nicholas made sure that he expanded gradually and kept his capital expenditure under control. In 2010 the company took on a manufacturing partner for 5.5% of the business. This allowed them enough capital to open the store at Mount Street.
Final recommendations

7.1 / Recommendations for British designers

- Identify a definition of success and decide on the kind of model they wish to follow – self-supporting artist or global brand
- Identify clearly the designer’s point of view and articulate a USP to develop a strong brand identity. Envision a long-term strategy and prepare a business plan including annual marketing and communications plan
- Build a professional network and consider their own professional development. The BFC’s Fashion Trust is unrivalled in its focus on building global networks although it is limited to a small number of designers. The British School of Fashion now offers four courses designed to equip designers with business knowledge and skills relevant to the fashion business
- Take a strategic approach to product development. Understand the value chain, handling operations and costs to create a balanced price architecture and look for buyers, sales managers and retailers’ feedback to shape creativity into a saleable product
- The ‘art of sales’ is key. Invest in expert salespeople, implement regular in-store sales monitoring and develop strong relationships with retailers to engage customers and get market feedback
- Develop a sound understanding of the different manufacturing processes to better select suppliers and anticipate potential problems. Set high-quality standards of manufacturing. Pay on time
- Understand the available sources of funding and financing. External business support can maximise the chances of getting the investment the fashion business needs as well as ensuring that this investment comes with the right structure and conditions for the business’ needs.
7.2 / Recommendations for The British Fashion Council

The BFC has developed an outstanding plan to support fashion businesses in the UK. Its contribution and active role within the industry has been universally recognised; here we recommend a series of initiatives.

A. BFC could help nurture the business side of fashion by creating a bridge between creativity and business through:
   1. Encouraging fashion and art schools to provide a more solid business understanding through multiple steps:
      — Supporting designers in developing an appreciation of the business side of fashion while exploring their creative skills
      — Providing designers with stronger education on manufacturing processes, providing specific manufacturing modules and internships
   2. Establishing close relationships with business schools such as the LBS to promote fashion through lectures, involving this community in fashion events and internships to support designers’ businesses.

B. To strengthen general knowledge about fashion as a business and facilitate connections between designers and other stakeholders, BFC could promote dedicated events (eg: annual conferences, serial events, networking sessions, informative campaigns) targeting specific audiences by presenting different angles of fashion businesses. A series of initiatives towards a specific target such as investors could be implemented as follows:
   1. Continuing efforts to develop a systematic approach to link investors and designers
   2. Launching an information campaign to educate the investor community on the specifics of the fashion industry and increase the awareness of its opportunities
   3. BFC could explore connecting groups of high-net-worth individuals and private investors to invest in a portfolio of fashion businesses allowing them diversify their risk in exchange for a longer-term investment.

C. To strengthen the ‘commerciality’ of British fashion businesses, BFC could:
   1. In the UK — promote educational events between buyers and fashion schools to help designers understand how to create a more commercially successful product
   2. Outside the UK — promote the unique ‘British creativity’ identity in developing countries such as the Asian and the Middle Eastern markets.

D. Advocating for a more powerful British manufacturing sector through:
   1. Encouraging the Government to replenish the sector through incentives
   2. Support schools that nurture future specialised manufacturers
   3. Pursue established alliances with associations such as UKFT to create specialised agencies and new networking opportunities to put designers and manufacturers in closer contact.

E. In particular, to support emerging DFB:
   1. The BFC could develop pro-forma documents covering aspects such as accounting, partnerships and collaborations as well as retailers’ terms and conditions for designers with no legal support
   2. Seek the support of retailers to:
      — Share the sell-through risk of young businesses by committing not to apply onerous contractual conditions
      — Agree to take on a board a certain number of young designer brands every season.

7.3 / Recommendations for The Government

A. On the manufacturing side, BFC’s report ‘Future of Fashion – Strategic Considerations for Growth’ highlighted that there is a need for investment in the training of skilled workers and in equipping ageing factories to cope with competitive, larger scale productions. High-end manufacturing facilities that can fill gaps in the market should become a national objective.

B. From a financial perspective, given the fashion industry’s role as an employer for almost 800,000 people and a generator of £26bn annually, the Government should:
   1. Develop a mechanism to incentivise investment in fashion businesses by, for example, giving tax incentives
   2. Develop a mechanism to give a selected number of fashion businesses access to £2m-3m investment to help them scale their businesses
   3. Strengthen the EFGS by allowing designers who have used and repaid their full allowance to re-draw from the Scheme
   4. Finally, from an education perspective, UK schools are recognised for their unique ability to foster the creative aspects of fashion and generate some of the most creative talents in the industry. However, given our assessment of how to become a commercially successful brand, the Government should encourage the business side of fashion education in the art school system and by supporting organisations such as the BFC to provide fashion business-specific training.