How to Scale Designer Fashion Businesses

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Contents

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Letter from Sian Westerman

One of the first reports commissioned by the British Fashion Council (BFC) in partnership with London Business School was Commercialising Creativity. Taking insight from businesses that had both succeeded and failed, we drew out common themes as a guideline to designer businesses, CEOs, and future business leaders to help increase the opportunity for creative, design-led entrepreneurs to build stronger businesses.

This report starts from the investor perspective. How do we at the BFC, in partnership with the investment community and potentially Government, help businesses better understand how they create the foundations to scale, become strong investment propositions and take the right money and the right time from the right partners? And what do designer, and indeed other, fashion businesses need to do to access and fully benefit from the resources available?

The appetite from the investment community to help shape the future for British fashion, to share their knowledge and collectively take a view on how businesses can better prepare now for future growth has been extremely encouraging. Equally businesses have been very receptive to sharing their experiences. Thank you to all of those investors that have contributed and to all the fashion businesses that have lent their insight and shared their business highs and lows to help create more opportunities for businesses for the future.

Sian Westerman
President of Business Pillars, British Fashion Council

B. Introduction

I. Overview of the UK Fashion Industry

The fashion industry is one of the most vibrant business sectors in the UK and directly contributed £32.3 billion to the UK GDP in 2017, representing a 5.4% growth since 2016 (a growth rate 1.6% higher than the rest of the economy).[1] As such, the fashion industry remains a major employer with 890,000 jobs in the UK – almost as large as the financial sector.

London is internationally recognised as a global centre of creativity and a home to several of the most sought-after talents in fashion. Iconic British designers like Alexander McQueen, John Galliano, Vivienne Westwood and Stella McCartney have shaped the global fashion industry, questioned the established norms of creativity and inspired new ways of creating fashion. The quality of the education plays a crucial role; London-based fashion schools like Central Saint Martins are considered among the best in the world and have a reputation for nurturing new talent and stimulating new cohorts of fashion designers to uncover and express their potential. London Fashion Week is a catalyst for emerging talent and a place where designers from all over the world come to launch their careers.

While the fashion industry has the design of fashion items at its core, it also encompasses the economic impact of the whole production process, from sourcing raw materials, through design and manufacture to wholesale and retail.[2] The wide impact which the fashion industry has on the economy as a whole is illustrated in the chart below.

Economic Impact of the Fashion Industry

Source: BFC/Oxford Economics, The Value of the UK Fashion Industry

[1] Data from Oxford Economics 2018.
[2] BFC/Oxford Economics, The Value of the UK Fashion Industry.

Amid the strength of emerging talent in the fashion industry and the success many fashion brands have achieved on a global scale, there are still plenty of untapped opportunities in British fashion: many designer fashion brands have not yet reached their full potential to scale.

This is clearly reflected in the fact that the UK fashion industry is largely comprised of relatively small brands; more than 99% of British fashion companies are small-to-medium sized.[3] While there have been great successes in e-commerce and fast fashion in the UK, only a relatively small percentage of UK-based designer fashion businesses have scaled past £20 million in annual revenues. The space upwards of the £50 million mark is even more rarefied for designer fashion businesses. Notable exceptions are Burberry, Jimmy Choo, Mulberry, Alexander McQueen and Stella McCartney. And unlike France – and more recently the United States – Britain does not have major designer houses that could act as consolidators and incubators of creative talent.

There are a number of hurdles designer fashion businesses need to overcome in order to scale. For early-stage designer fashion businesses in particular, complex supply chains covering several regions, multiple distribution channels and a rapidly shifting landscape can significantly limit opportunities to scale. One of the main challenges for young designer fashion companies derives from the long working capital cycle of the industry; designer fashion businesses typically launch two or more collections a year, thereby incurring substantial production expenses, long before they can expect to be paid.

II. Scope of this Report

Creating an environment that supports UK-based designer fashion businesses to sustainably scale is one of the main priorities of the BFC. To this end, we have interviewed a number of designers, investors and banks to understand the opportunities and limitations for growth within the fashion industry, as well as investor appetite to invest in early-stage fashion businesses. Based on our findings, this report addresses the following questions:

- What does it take for UK-based designer fashion businesses to scale? In particular:
  - What mindset does is take to scale?
  - Are the current business models for designer fashion businesses right?
  - At what stage should designer fashion businesses start to scale?
  - Are changes in the landscape forcing a re-think for designer fashion businesses?
  - Is funding accessible to designer fashion businesses?
- What do investors look for?
- What do designer fashion businesses need to consider?
- What can the BFC do to help?

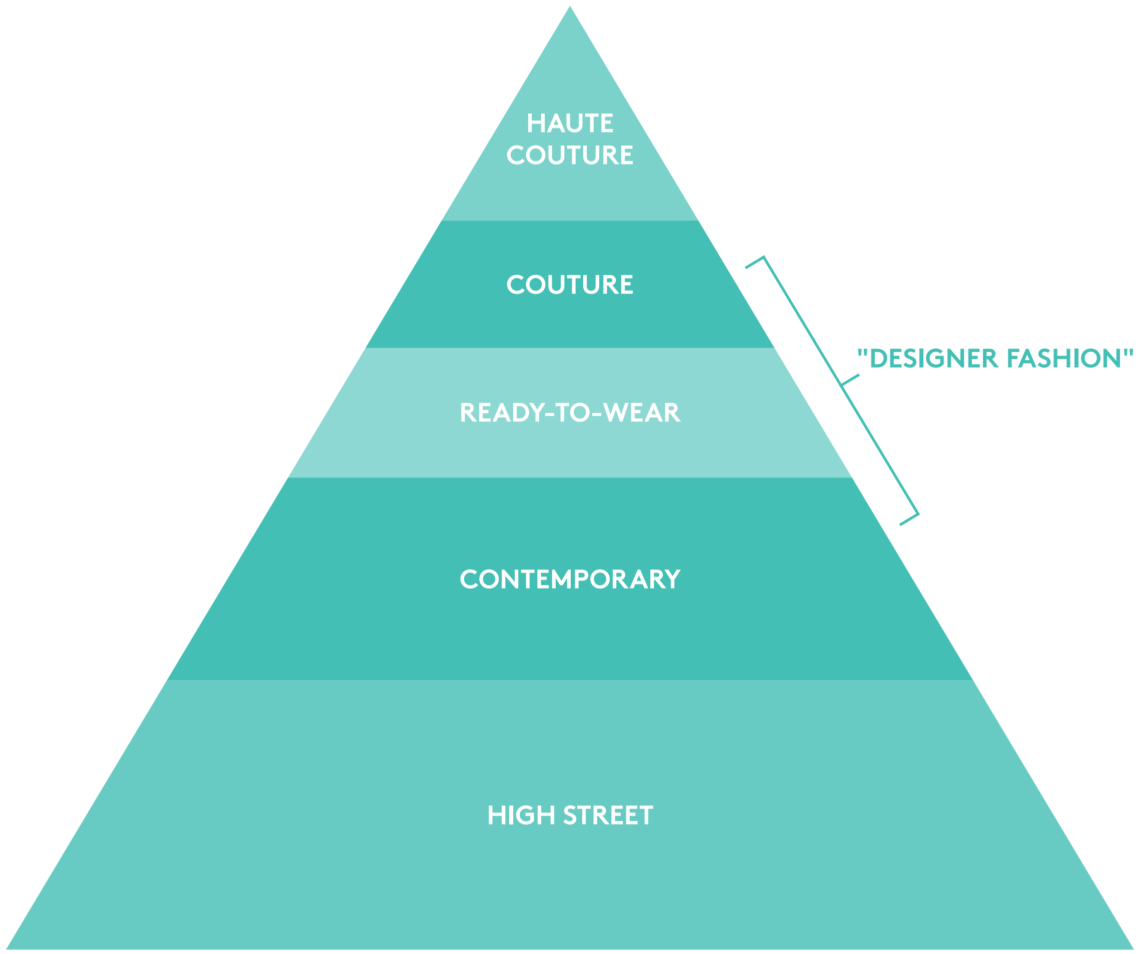
The analysis in this report indicates a number of ways in which the government and private investors can collaborate with the BFC to exploit the full potential of the UK designer fashion industry.

This report specifically refers to the designer fashion industry in the UK, which is at the heart of the fashion industry. Our definition of designer fashion encompasses sales of ready-to-wear collections, the lower end of UK couture as well as the upper end of contemporary fashion,[4] as illustrated in the chart below. In terms of product categories, our definition of designer fashion

[3] https://www.voguebusiness.com/fashion/stephanie-phair-chair-british-fashion-council-bfc
[4] BFC/Oxford Economics, The Value of the UK Fashion Industry.

encompasses apparel and accessories, including handbags, shoes and hats. Many designer fashion brands showcase their collections at London Fashion Week or similar events. That said, the BFC is working towards fostering an inclusive notion of designer fashion, with a focus on both creative and commercial success. While this report focuses on designer fashion businesses, many of the observations will be of relevance to businesses lower down the pyramid.

Fashion Pyramid



C. What Does it Take for Designer Fashion Businesses to Scale?

Creativity and innovation are the cornerstones of British designer fashion. While the strong focus on creativity remains a unique selling point and essential to drive inspiration in the British fashion industry, it has brought about some unintended consequences; the media for instance seem to measure success based mainly on creativity rather than on commercial success.

Designer fashion businesses are often reluctant to compromise creative freedom for the sake of commercial considerations, in particular in cases where the brand carries the designer's own name. The catwalk collections of many brands, even the most successful ones, are often not the drivers of scale and profitability for the overall business. It is apparent that many luxury brands like Burberry supplement their catwalk designer collections with ready-to-wear lines with more accessible prices and designs for a broader audience. These ready-to-wear lines generate higher volumes of sales at lower development costs. Thus, while the catwalk collection line at the top of the pyramid drives aspiration, the lower end of the pyramid or accessories often end up generating the greater share of profit to balance the overall business.

The potential to commercialise a collection should be the key consideration for young fashion designers thinking about starting their own label. The BFC therefore provides grants, support and resources to help designers express their creative talent while understanding the kind of business they want to create or whether they want to focus on design in a larger fashion house.

I. Mindset to scale

Aspiring founders of a designer fashion company need to be very clear on their objectives: are they willing to build a commercial, scalable business with financial targets or does creativity come first? Understanding how to balance business needs and creativity – and being willing to put business needs first when necessary – are crucial for any designer fashion company to scale.

However, the willingness to compromise creativity for commercial success may be counterintuitive and frustrating for many highly creative designers. For young designers aspiring to fully focus on creativity, other career paths than being a founder may be more rewarding. One option is to run a small business that sustains itself through a small number of loyal clients who appreciate the designer's artistic integrity. Alternatively, young designers can work in a creative role for one of the big fashion houses, where there are commercial teams who can take the extremes of creativity and turn them into a more commercial success.

II. Designer fashion as a scalable business model?

Designer fashion is a highly competitive industry dominated by large luxury conglomerates like LVMH and Kering, which benefit from economies of scale, strong brand equity and sufficient cash to maintain their brand position. That said, the failure rates among UK-based designer fashion businesses are lower than ever and there are several examples of young designer businesses that are achieving scale. The crucial factors to scale include the following:

- *A point of view:* Designer fashion businesses need to be able to articulate their unique value proposition and their product fit for their target customer. Sophia Webster is a designer fashion business that has a clear point of view. Her brand stands for colour, fun and youth and is famous for its instantly recognisable designs.
- *Brand awareness:* Any fashion designer business needs to build brand awareness. Customers will pay higher prices for a strong brand. A strong brand will also attract a wider audience.
- *Product across spectrum:* Designer fashion businesses that have scaled tend to have in common that they also offer products at entry-level price points, such as accessories, t-shirts and jewellery. For instance, Gucci's revenues are driven by leather goods and sneakers. Also, we understand that Vivienne Westwood's commercial success is driven by a very successful handbag and jewellery business sold mainly in Asia.
- *Team capabilities:* Businesses need to think about bringing the right talent into their organisations. There appears to be a shortage of business managers among early-stage

business as creative founders often run the operations themselves. Designers need to understand the value of teaming up with business people who can manage and scale the company. Traditionally, many designer brands that have set strong and early foundations for growth have been run by duos, such as Alexander McQueen and Jonathan Akeroyd, Stella McCartney and Frederick Lukoff, Nicholas Kirkwood and Christopher Suarez, Christopher and Tammy Kane, Yves Saint Laurent and Pierre Bergé, and Tom Ford and Domenico De Sole.

- *Robust business model:* Businesses need models that enable them to generate positive cashflows, especially if they are looking to scale fast.

An example of a brand achieving scale is Gabriela Hearst's eponymous namesake company, which is based in the United States.

Case Study: Gabriela Hearst

Since 2015, Hearst has built a ready-to-wear business based on sharply tailored silhouettes rendered in ultra-expensive fabrics, with a focus on sustainability.[5]

Gabriela Hearst has built a strong luxury brand that underscores the connotations of wealth and quality associated with the Hearst family. She has made sustainability a significant part of her brand, communicating transparency around the provenance of her materials and production process. The designer has applied rigour not only to her brand-building process, creating signature stitching and hardware as early as the first season, but also in the way she sources material and approaches sales.[6] As for the brand's product mix, bags represent 50%, clothes make up 30% and the remaining 20% are shoes.

Just three years after Gabriela Hearst launched her label, the company is profitable and generates over $10 million in sales revenue.[7] In September 2018, the designer hired former Bottega Veneta Americas president Giuseppe Giovannetti and chief executive officer of Tomas Maier as the brand's first chief executive.[8]

In addition, Hearst has built a compelling marketing strategy around restricting distribution, limiting the availability of her popular handbags, in particular, the "Nina" bag. About half of her business was direct-to-consumer before the opening of her first-ever store in New York in November 2018. The flagship boutique is the only physical place in the world where Gabriela Hearst handbags are available to purchase.[9]

In terms of funding, Gabriela Hearst started out with some financial support from friends and family, which was enough to fund the business in the early stages. In 2019, LVMH Luxury Ventures, an investment arm of LVMH took a minority stake in the business. LVMH Luxury Ventures, which was launched in 2017, typically invests between EUR 2 million to EUR 15 million per deal.[10]

[5] https://www.businessoffashion.com/articles/news-analysis/lvmh-takes-minority-stake-in-gabriela-hearst
[6] https://www.businessoffashion.com/articles/news-analysis/lvmh-takes-minority-stake-in-gabriela-hearst
[7] https://www.gabrielahearst.com/2019/january/LVMHLuxuryVenturesTakesMinorityStakeinGabrielaHearst.html
[8] https://www.bloomberg.com/news/articles/2018-12-20/gabriela-hearst-s-flagship-builds-a-sustainable-fashion-brand
[9] https://www.businessoffashion.com/articles/news-analysis/lvmh-takes-minority-stake-in-gabriela-hearst
[10] https://www.gabrielahearst.com/2019/january/LVMHLuxuryVenturesTakesMinorityStakeinGabrielaHearst.html

One of the main challenges for young fashion companies derives from the long working capital cycle of the fashion industry; designer fashion businesses typically launch two or more collections a year, each time incurring substantial production expenses upfront – long before they can expect to be paid by their customers.[11] In addition, unsold stock and markdowns create a substantial cash-flow problem for fashion brands.

Sample cash flows throughout the working capital cycle

For young fashion businesses in particular, scarce resources and limited control over the value chain will pose significant constraints on the opportunities for growth.

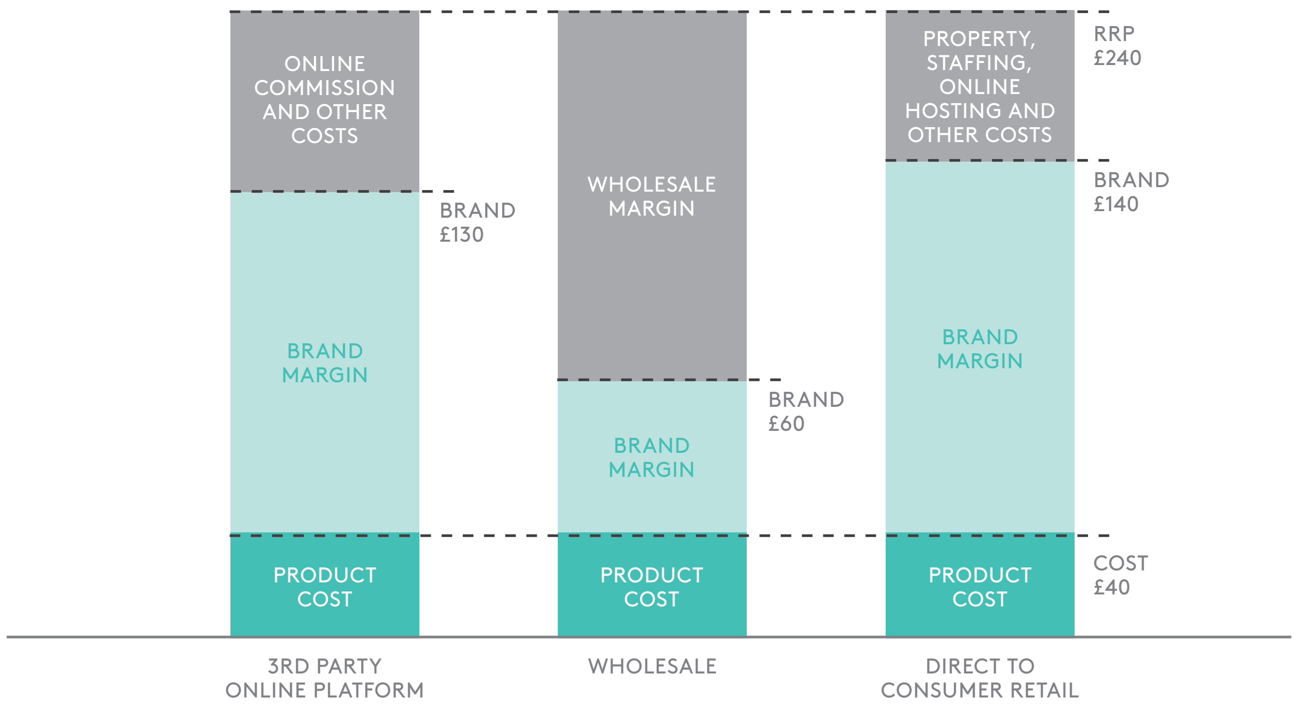
- *Supply Chain:* Unlike large conglomerates, small fashion brands do not benefit from economies of scale in the supply chain. Moreover, whereas brands in Italy and France tend to share production services, UK fashion brands tend to work in isolation thereby creating a highly competitive environment and costly supply chain. This is an additional challenge for small designer fashion brands that are often loss-making in the beginning. Where a company decides to manufacture in the world, how their products are manufactured – whether piece-by-piece or in bulk orders – and on what scale are important factors that can impact costs and potential for consolidation and growth.
- *Distribution:* On the distribution side, many brands rely heavily on wholesale. Wholesale channels can serve as effective marketing tools by giving brands access to a broad audience without the capital expenditure and risk required to open their own direct-to-consumer stores. In particular, some wholesalers pay deposits on orders thereby mitigating the effects of the long working capital cycle. However, the advantages of wholesale are offset where brands are forced to commit to guaranteed sell-throughs. In addition, wholesalers derive relatively high margins off every sale made and limit any direct relationship between the brand and the customer.

[11] BFC, Commercialising Creativity Report, https://www.britishfashioncouncil.co.uk/uploads/media/62/60256.pdf

Distribution Channels: Benefits and Costs/Risks

	WHOLESALE	3rd PARTY ONLINE PLATFORM	DIRECT-TO-CONSUMER
MINIMISING PRODUCTION RISK	+ +	– –	– –
BREADTH OF AUDIENCE	+ +	–	– –
LOW CAPEX	+ +	+ +	– –
CUSTOMER TOUCH (DIRECT RELATIONSHIP)	– –	– –	+ +
HIGH MARGINS	– –	+	+ +

Margin Difference across Channels



When choosing the right distribution channels, brands need to think carefully about all these factors: margins, risk of production, visibility and customer touch. As a general rule, brands should aim from the beginning to strike an equal balance between wholesale (NET-A-PORTER, MatchesFashion), online platforms (like Farfetch), as well as their own retail channels (including physical stores and e-commerce), by selling roughly a third of their merchandise through each channel.

- *Marketing:* A good marketing strategy is key for designer fashion businesses to succeed. Marketing activities can quickly become expensive and exceed the revenue generated from wholesale. Many young fashion designers feel pressured into spending on traditional methods like fashion shows and PR agents to grow their brand exposure and awareness. These traditional approaches need to be supplemented with innovative marketing activities, such as working with influencers, digital marketing and direct-to-consumer models. Designer fashion brands should thus aim towards a comprehensive approach to marketing, beyond traditional models. Brands should be assessing each approach in terms of the effect it will have on brand awareness, sales generation and collateral material for other channels.

Case Study: Molly Goddard

Molly Goddard started her brand in 2014 and presented her first collection off-schedule during London Fashion Week. Since then she has been highly commended for the presentation of her work and now signature tulle dresses. Molly Goddard was awarded the NEWGEN sponsorship from 2015-2018 and won the prestigious BFC/Vogue Fashion Fund Award in 2018. In 2019, she was awarded the BFC Fashion Trust.

Molly Goddard has never taken on investment to date and has instead grown her brand steadily through reinvesting profits, thereby growing her wholesale business at c. 60% year-over-year growth in 2018 and 2019. From the beginning, she has managed to keep the cost of production low by using affordable materials (tulle) and managing a cost-effective supply chain, occupying a studio in a converted factory in East London. In addition, she managed to agree on fair payment terms with wholesalers.

Growth comes through the brand's network of approximately 50 wholesalers around the world, increasing the number of wholesale accounts as well as growing with existing stockists by providing new product categories, exclusive items, and mid-season activities. The primary effect of this strategy is that Molly maintains full creative control of the brand and doesn't need to compromise her vision for investors or other shareholders.

III. At what stage should designer fashion businesses scale?

Scaling often means driving revenue growth to expand the size of the business for the longer term rather than maximising profits in the short term. In order to achieve fast growth fashion businesses must therefore reinvest profits into every part of the business and distribution channel.

In addition, designer fashion may take investment to achieve their growth objectives. Designer fashion businesses thinking about taking equity investment to scale should be aware of the implications this will have on their business. Early-stage brands receiving equity investment are put under enormous pressure to grow quickly within a set timeframe. Given the perceived high risk profile of fashion businesses, investors will typically expect to generate a very high return (10x) within no more than 10 years. However, this is too short of a time frame to realistically grow a fashion business since building a strong fashion brand and a loyal customer base takes time.

When early-stage businesses obtain investment too soon they often end up using equity funding to finance working capital instead of using the investment for growth. While this approach allows some brands to satisfy the growth expectation in the beginning, brands tend to plateau somewhere around the £15-20 million revenue mark. The reason for this may well be that young designer fashion businesses often miss out on building a robust enough brand before embarking on a path to growth. This is exemplified by the time, which megabrands such as Burberry or Chanel have spent to nurture their heritage and brand story, before scaling.

It is apparent that early-stage fashion brands need additional support in order to become ready for scale and to be guided through the process.[12]

IV. Are changes in the fashion landscape forcing a re-think?

In addition to the above-mentioned structural challenges, the fashion industry is going through fundamental changes. These changes may be forcing a re-think of current business models.

Digital trends are changing consumer habits

Consumers expect new products straight off the runway (see-now-wear-now) and have become used to engaging directly with brands online and on social media. Brands and retailers are looking at ways to close the time lag between fashion shows and the collection's arrival in stores, and many are adopting a see-now-buy-now model.

FENTY, the new luxury fashion brand by Rihanna and LVMH, is an example of a brand that captures a new approach to designer fashion: the brand will be distributed online and through pop-up stores and will operate outside of the traditional seasonal fashion schedule, retailing via multiple incremental releases on a "see-now-wear-now" model. Releases will include special edition pieces that are available for limited time frames.

Designers should consider the implications this may have on their product range; for instance, supplementing their seasonal range with a timeless range could help fashion businesses to amortise production costs over several seasons. Fashion businesses also need to think about their distribution models, for instance, whether opening their own e-commerce channel is right for the business.[13]

Sustainability and Purpose

Today's consumers, in particular millennials, increasingly voice concerns about sustainability and ethical production standards. In addition, consumers expect fashion businesses to convey clear messaging and purpose throughout their channels.

With more and more designers moving away from fur, London Fashion Week was the first major fashion show to announce to go fur-free in September 2018. Ethically mindful designers like Stella McCartney have championed the concept of circular fashion, which the industry at large, including fast-fashion houses like H&M, are increasingly adopting. Circularity is aimed at reducing the negative impact on the environment and encompasses practices such as maximising resources across the value chain, minimising waste and re-purposing old clothes so that they can be worn again instead of thrown away.

Sustainability is a key priority for the British Fashion Council who support businesses to move to more sustainable practices through Positive Fashion.

Young designer fashion brands should adopt sustainable practices from the beginning and consider ways to incorporate circularity into their value chain and communication. One way of doing this could be to supply their products to the sharing economy, to fashion rental companies like Rent the Runway or Armarium.

[12] Cf. Section F on Recommendations for Designers.

[13] The Designer Fact File sets out the implications of setting up an e-commerce business under the following link: https://www.designerfactfile.com/CurriculumArea/Sales?topicid=14

Customer First

The digitally savvy consumer is more engaged than ever and has access to information almost at the same level as an industry insider. Brands therefore need to meet the customer's high expectations with regard to quality, price and retail experience and be able to build a personal relationship with their customer.

Galvan London offers their customers the possibility to customise dresses from previous, current or future collections. To this end, Galvan visualises the dress and the price the customer is willing to pay and works backwards from there to create it. In addition, Galvan offers add-on tailoring services that come with the delivery.

Young designer fashion brands should start out by putting their customer first starting from product development to sales. In terms of marketing strategy, it may be right for some designer fashion businesses to allocate their marketing spend on digital tools and engage with customers directly on social media. For other designers, traditional marketing activities, like fashion shows, can serve as a powerful seasonal marketing tool that can speak to both trade and consumers through creating content during the show which is released throughout the season. Designer fashion businesses need to ask themselves which type of marketing activity best suits their customer.

V. Accessibility of funding?

Despite the wealth of creative talent in Britain, talented fashion designers often lack the necessary resources – in particular working capital – to set their businesses up for commercial success. Addressing these challenges and finding the appropriate solutions to financing the growing business could decrease the failure rate of many young businesses.

Fashion brands looking to grow can, at different stages, turn to angel investors, equity crowdfunding, venture capital, private equity and luxury conglomerates as a means for raising money in exchange for equity in the business.[14] Financial and strategic investors can provide equity capital and contribute valuable expertise. Examples of brands having pursued such partnerships include Stella McCartney, Victoria Beckham and Jimmy Choo. However, successful investment partnerships in fashion are scarce since most fashion businesses rarely meet the rigorous investment requirements investors are looking for.[15] Early-stage businesses aspiring to obtain equity investment should be aware that this will require selling a stake in their business and thus giving up ownership and some elements of control, meaning they will need to meet not only their own goals but also those of the investor.

Early-stage fashion brands are advised to look to banks instead and fund working capital requirements with debt financing until they are ready for equity investment. That said, debt financing is often not always readily available to early-stage fashion companies, which usually lack brand equity and physical assets to provide sufficient security. Ultimately, the banks need to be convinced that the brand is able to pay back the loan. This requires a business model that enables the company to generate positive cash flow. Trade financing can be a helpful tool but can be quite risky as banks can withdraw committed capital at any point in time.[16]

[14] See Appendix which sets out the different types of equity investment.

[15] See Section E on what investors look for in fashion businesses.

[16] See Appendix or different debt and trade financing options.

Thus, there appears to be a funding gap that businesses need to overcome until they are ready for investment. The true bottleneck is getting businesses to this stage. In other words: there is no shortage of capital but a shortage of businesses that are ready for investment.

Access to funding at all levels under £100 million were identified as part of this report. Further research is necessary to look at intervention opportunities to support increased investment in businesses turning over £20 million to £100million.

D. Designer Fashion from the Investor Perspective

From an investor's perspective, designer fashion is perceived as a risky industry to invest in:

- It can take many years as well as significant capital resources to build a strong designer fashion brand with a dedicated following. Most big luxury players have started small and spent decades building and strengthening their brand before expanding their product offering or reaching global scale.
- Consumers expect newness, and their tastes can change very quickly. The success of a high fashion brand can therefore significantly fluctuate over time. For investors with a limited investment horizon of typically no more than 10 years, there is a real risk of coming in at exactly the wrong point of the cycle.
- There is strong competition in the market from luxury conglomerates, which make up most of the luxury industry's growth. At the same time, the conglomerates' appetite to acquire brands appears to have diminished, limiting the number of exit opportunities for private equity investors in particular.

In light of these difficulties, it appears that the higher up a brand sits within the fashion pyramid the higher the perceived risk. The data suggests that fashion is not more risky than other creative sectors and not all designer fashion brands are off the radar of potential investors. Several designer fashion businesses have managed to reach a level of sales and brand traction attractive to investors, such as for example Gabriela Hearst (LVMH Luxury Ventures), Victoria Beckham (Neo Investment Partners), Nicholas Kirkwood and J.W. Anderson (both LVMH), Sophia Webster (Business Growth Fund), Roksanda (Eiesha Bharti Pasricha) and Emilia Wickstead (White & Blue Capital).

E. What Investors Look for in Fashion Businesses

Any potential investors will want to see indicators that show that a business has the potential to scale, a path to profitability and attractive exit opportunities. The main points are summarised below:

- **Brand Strength:** One of the key attributes investors look for in brands is brand strength. To this end, the brand needs to transcend the product. Strong brands contain a lifestyle element; this is what creates desirability or even a cult following. Palace is good example for such a brand. Brand strength translates into brand equity and represents a financial value for investors. Some investors consider brand equity a more important indicator of future success than revenues.
- **Customer traction:** In addition to keeping an eye on the company's finances and path to profitability, investors will look at a number of non-financial metrics. They will value a high percentage of repeat-customers, strong consumer engagement and low product return rates. Brands with low repeat rates and high return rates are indicators of customer dissatisfaction and will likely deter potential investors.
- **Direct-to-consumer business models:** Investors are increasingly looking for fashion businesses with direct-to-consumer strategies – whether through physical retail, e-commerce, or a combination of the two. Investors may take a more cautious view on brands that are overdependent on wholesale and in particular if they only work with one wholesaler. Unlike a pure wholesale model, a direct-to-consumer model allows the brand to own the relationship with the customer, learn about who they are and what they want from a brand. It also requires a well thought-through digital customer acquisition strategy. The Fold is an example of a direct-to-consumer business that maintains complete control over its consumer touch across all stages of the sales funnel. The Fold received investment from private equity investor Active Partners in 2015.

Case Study: The Fold

Polly McMaster founded her brand The Fold in 2011 after completing her MBA at London Business School. From the start, The Fold was established as a true direct-to-consumer contemporary fashion brand with an online e-commerce business and most recently a new retail location in London opened in Spring 2018. The ability to maintain this distribution model has allowed the brand to own the relationship with every single customer and remain the only distributor of their products.

Over the years, The Fold, known for its elegant dresses at relatively affordable price points, has developed a loyal customer base of professional women measured by a significant repeat rate of existing customers on top of new sales. The business maintains a diversified marketing approach including direct mail, digital, PR, and word of mouth to generate brand awareness and convert new customers.

In addition, because the brand sells principally through their online platform, they are able to reach customers globally outside of the UK. By creating a beautifully designed and easy to use customer experience including being able to buy in different currencies and ship products outside of the UK, the business has expanded in the US as well as through Europe.

The Fold is a successful example of a business utilising its direct-to-consumer strategy to maintain complete ownership of the brand and by interacting with its customers at every step of the sales funnel from marketing and PR, distribution, sales, and experience of the product.

- **Backable founder and management team:** Investors value founders who have the ambition, work ethic and resilience to succeed. Founders should have confidence in their business, be focused on maintaining the integrity of their brand, and be good sales people not only to customers, but also to employees, investors, and the industry at large. As the company grows, creative founders should consider partnering with individuals who contribute other areas of expertise, such as management, operations and finance. Investors can help with growing the team, filling the necessary gaps and finding the best candidates to hire.

- **Control over working capital:** Investors want to see that a brand is managing working capital and stock levels successfully to maintain production levels. Fashion businesses obtaining equity financing should already be in a position to use the investment to grow the business – and not to bridge working capital needs; short term debt financing may be better suited for this need.

- **Digital, low-cost acquisition strategy:** Having a strong brand following on social media is important. Investors look at how customers engage with the brand, as consumer engagement can be a predictor for sales for a young business, where not much information might be available yet. Investors want to see that a brand has developed a community of followers organically rather than through paid acquisition. An early adopter of digital and social media, Sophia Webster developed a strong following on Snapchat and Instagram early on. Her brand received investment from the British Growth Fund in 2016. Having a strong social media presence is not only essential to a direct-to-consumer strategy, but also to community building.

- **Low Capex:** Private equity investors in particular like to invest in companies with low capital expenditure requirements. Fashion businesses should consider how they can adopt a commercial approach on sourcing samples, materials and fabrics that is cost effective, for example by choosing fabrics that already exist (rather than creating new fabrics from scratch). Brands should also consider bringing in merchandisers from the start. For highly creative designers, thinking carefully about the budget can in fact enhance creativity as it requires focus and attention.

- **Differentiation and focus:** A successful brand needs to develop a competitive advantage, something that sets it apart from competitors. Investors tend to dislike brands that lack focus and have no clear customer proposition. In addition, investors are increasingly careful about investing in brands that do not emphasise ethical sourcing and good provenance as these issues are becoming increasingly important to millennial customers. Gabriela Hearst, for instance, managed to build a strong brand that stands for ultra-expensive fabrics and sustainably-sourced materials within only three years since her brand's inception, before LVMH Luxury Ventures acquired a minority stake in her business. Whether it is a strong celebrity following, a specific product focus or ethically sourced production – it is important to have a clear and unique customer proposition and to be able to articulate that. A brand's understanding of its existing customer base and addressable market is an important indicator to potential investors.

- **Path to profitability:** Being able to produce at a cost that allows a brand to maintain a good margin and unit economics is key. As a business grows, investors can help scale the supply chain and build relationships with suppliers. They care to know whether a brand maintains good relationships with their suppliers and whether they have optimised production levels and costs to generate a profit from their sales.

- **Exit Opportunities:** Investors consider businesses that will have attractive exit opportunities in the future, for example selling to a conglomerate of brands, a private equity firm, or an IPO. While equity investors look for a sale to profit on their investment, strategic investors will look for synergy opportunities in areas such as supply chain, distribution networks, and administrative management and using their scale to create value.

Investor Perspective: Perceived Strengths vs. Weaknesses

PERCEIVED STRENGTHS	WEAKNESSES AND RED FLAGS
+ Brand Strength	- Overdependence on wholesale network
+ Direct-to-consumer business	- No control over working capital; too many SKUs and stock pile
+ Backable founder and management team	- No emphasis on purpose and provenance as these issues are becoming increasingly important to millennials
+ A brand that understands working capital and stock constraints	- Lack of focus (doing too many things but not well)
+ Digital, low cost customer acquisition strategy	- Low margins
+ Low Capex	- High return rates
+ Customer traction, high repeat rates and longevity	
+ Differentiation and focus	
+ Clear path to profitability	
+ Exit opportunities	

Case Study: Sophia Webster

Sophia Webster started her shoe brand known for fashion-forward, playful designs in 2012. After graduating from the Royal College of Art in fine arts, she worked with Nicholas Kirkwood and Christopher Suarez (the CEO of Nicholas Kirkwood) for two years as assistant designer. Nicholas Kirkwood and Christopher Suarez saw her potential and backed her by providing working space, introductions and helping her position her product.

Sophia Webster's brand has a clear point of view. It stands for colour, fun and youth and is famous for its instantly recognisable shoe designs. The designer has a strong commercial CEO in Bobby Stockley, who is also her husband. Sophia Webster chose a manufacturer in Brazil (instead of Italy) to help create her footwear line at the right price point and built strong connections by travelling extensively.

An early adopter of digital and social media, Sophia Webster developed a strong following on Snapchat and Instagram since the brand's inception. In terms of distribution, the brand operates with a mixture of channels: its direct-to-consumer (online shop) channel, wholesalers and two retail brand-owned stores. The first store in Mount Street in London occupies a small retail space, keeping the costs low.

Sophia Webster received £4 million investment from the British Growth Fund in 2016. While fundraising, the designer was very clear on what she was looking for in an investor. As part of the investment, the British Growth Fund introduced the team to Peter Williams (former CEO of Selfridges and former non-executive director of ASOS) who was later appointed as non-executive chairman of Sophia Webster.

F. Recommendations for Designers

Designer fashion businesses raising equity investment for the first time should start the process early and give themselves at least 12 months to get ready. The following section provides advice at every stage of the process of raising equity investment. In addition, the Designer Fact File[17] on the BFC Website contains useful information and practical tools for early-stage fashion companies, including checklists and a sample business plan, to develop the relevant business skills across the value chain.

I. Before raising investment

Before turning to investors, there are many aspects fashion brands should consider as part of their business strategy in order to set their businesses up for success:

- **Positioning the business:** Designers should think about their key value proposition to position their brand and articulate how their product offering is different from anything else in the market. There are some questions brands should ask themselves: *What does your brand stand for?*
- **Customer:** A brand's understanding of their existing customer base and addressable market is an important indicator to potential investors. *Who is your target customer? How are you communicating and connecting with your customers?* Customer-centricity is a central aspect when defining the customer proposition. Knowing their customer allows brands to make sure their product selection is targeted at them, priced accordingly, and offered in the right channels.
- **Understanding growth ambitions:** Raising equity capital requires thinking carefully about the current state of the brand as well as the short, medium, and long terms goals. Is the brand's goal to scale and grow quickly? Or is the goal to preserve creative freedom and control of the brand? If the latter is the case, equity investment may not be the right choice; it might make more sense to grow the business more slowly and select some helpful advisors to guide through that journey. Moreover, brands need to think about the addressable market from the start: *how much are the target customers willing to pay and what are the opportunities to scale?*
- **Managing cash flow:** Independently of whether a business will raise equity capital, it must manage its cash flow and understand the dynamics associated with maintaining a balanced inflow of cash from revenues (usually twice a year) to offset the outflow from its expenditures (which precedes the inflow and is more constant), while growing the business. Bank overdrafts and short-term loans can be helpful in this respect, but overdrafts are uncommitted (can be withdrawn at any time) and loans may be costly or difficult to obtain without providing sufficient securities.
- **Distribution:** Fashion brands need to think about the right distribution from the very beginning. While relying too heavily on wholesale will compress margins, brands should be careful not to venture into every possible distribution channel at once. Building a distribution channel is a lengthy and costly process and should form part of a well-thought-out strategy.

[17] The Designer Fact File can be found here: https://www.designerfactfile.com

- **Grants and Awards:** Applying for prizes and grants can help early-stage brands gain visibility and industry recognition. This can then help brands obtain financial support, receive mentorship and develop a network of advisors.

II. Preparation and Process

Any potential investor will expect to see properly documented business operations. The Designer Fact File on the BFC website contains detailed advice on how to set up the right business structure.

- **Having the books in order:** Investors will want to see a paper trail of sales records, expenses, payroll, taxes, signed agreements with suppliers, employment contracts, rental agreements etc. Brands should make it a habit to file these documents from the very beginning.
- **Financials:** Fashion businesses are often underprepared to accurately reflect the company's finances in the form of standard financial statements such as the balance sheet, cash flow statement, and P&L.[18] Fashion businesses preparing for investment should consider hiring an accountant who can help build these statements and keep them updated. The Designer Fact File contains specific information and tips under the Section "Accounting".[19]
- **Business Plan & Capital Requirements:** It is key for designers to prepare a solid business plan defining where they want the business to be in the short, medium and long term. One of the crucial elements of preparing a business plan is deciding on a solid business model. This will help clarify the company's proposition and ensure the founders know how to translate their creative ideas into a business that generates revenues. The business plan should include the business's current state as well as a forecasted timeline of capital injections and a comprehensive outlook for growth. Ideally, the business plan will include a 3-5-year plan outlining how much capital the company will need and how it will use it. The Designer Fact File contains a sample business plan that can be filled out online.[20]
- **IP:** Adequate brand protection is essential for any consumer-facing business. From the very beginning, fashion businesses should protect their brand (this can be a name or a logo) and designs (using copyright and design rights). Designers should consider the implications of using their own name as a brand. Investors will want to see what IP protection the fashion company has in place and what else needs to be done to secure these. The Designer Fact File contains specific information and tips under the Section "Legal".[21]
- **Engaging the right management team:** Investors place great emphasis on backing the right management team. Fashion businesses therefore need to consider whether their management team has the right business skills to execute the growth plan. Hiring the right talent can be part of the business plan. Investors will be able to help identifying suitable candidates.
- **Building a network:** Start building a network of advisors and industry specialists you can reach out to. Ask them which investors they recommend and can introduce you to. Referrals are key when finding suitable investors, and the process of building a network takes time.

[18] Further practical information available in: BFC, Scaling the Luxury Business Addressing the Challenges Faced by Emerging Designers in London.

[19] https://www.designerfactfile.com/Tools/Business-Plans

[20] https://www.designerfactfile.com/Tools/Business-Plans

[21] https://www.designerfactfile.com/CurriculumArea/Business-Structure?topicid=4

Brands are well-advised to target up to five potential investors and to focus their efforts on tailoring their proposition to the investment criteria of these investors. Starting early is key – brands usually ask for money when it is too late.

III. Choosing the right partner

During the fundraising process, once a fashion brand has received several offers from different investors, it will have to choose the best offer. There are several factors to consider:

- **Due Diligence:** In the months and weeks leading up to the offer, most investors will perform a thorough due diligence and vet the brand inside out. This process can be time-consuming for the fashion business too as it will be required to provide a lot of information. However, brands should not forget to do their own due diligence too. Important questions to ask are: Does the investor understand the brand? What is the investor's track record? How has the investor helped other brands scale?
- **Aligning goals:** Any brand that decides to give up equity needs to align goals with their investor on what success looks like for the brand; brands should have a clear vision on how to use the investment. A well-defined growth strategy may include building an e-commerce platform, investing in direct-to-consumer channels and digital customer acquisition, expanding internationally, as well as growing the product portfolio through new product lines. Investors will usually set some KPIs for the brand to achieve within a given time frame.
- **Valuation vs. value-added:** One of the most obvious factors brands will consider is how much the investors are willing to invest in exchange for a stake in the company. The valuation provided by different investors can differ widely, in particular for early-stage-businesses, which can often not yet demonstrate tangible results. While it may be tempting to choose the offer with the highest valuation, brands should consider how the investor in question plans to add value to the business. Some investors will provide capital while remaining hands-off; others will be actively involved and want to contribute expertise, advice, and referrals within their own network.
- **Good working relationship:** Brands should look for an investor who truly understands their brand and whom they could see themselves working with for several years. Is there good chemistry with the investor? Are there sufficient similarities or collaborative differences? Investors look for founders who listen and can take criticism.

Case Study: Bora Aksu

London-based, Turkish-born Born Aksu founded his label in 2002, after graduating with an MA in fashion design at Central Saint Martins. After presenting his first collection at an off-schedule show in 2003, Bora Aksu received the NEWGEN award for eight consecutive seasons, which placed him on the official London Fashion Week schedule. To date, Bora has showcased 32 collections.

In the first years since inception, the company operated as a wholesale business, mainly in the UK, with an annual turnover of approximately £200k. In addition, Bora Aksu collaborated with international brands, such as Anthropology, Topshop and Nike, keeping cash flows stable and enhancing the brand's visibility. Known for its ethereal demi-couture dresses, which made up approximately 70% of products (alongside garments that complemented the dresses), the brand launched an accessories line but had to scale back due to production issues.

In 2014, when annual turnover had reached around £700k annually, the designer was approached by Maryling, a Chinese luxury group intent on taking high-potential Europe-based designer fashion companies to Asia and building a strong brand from there before conquering other markets. Convinced of Maryling's vision, Bora entered a 30-year partnership in exchange for approximately 20% of his company's stake. Maryling implemented a strategy focussed on enhancing the brand's creative identity centred on feminine cocktail dresses while also expanding the brand's product line to include accessories and, most recently, kidswear. In May 2019, Bora Aksu opened its first kidswear store in the Beijing SKP department store. In addition, Maryling framed the design process around a specific target customer (professional women looking for young and playful designs), which infused the business with new creative energy.

The partnership allowed Bora – who previously often spent more than half of his time on business-related issues – to focus purely on the creative side of the business. In addition to designing his collections, Bora covers the interiors of his stores and even the mannequins with drawings, a tribute to his childhood passion for illustration.

Thanks to the financial strength of its partner, Bora Aksu has opened 32 high-end stores in Asia in less than five years. Additional store openings are planned for Milan, London and New York. Since partnering with Maryling, the company's revenues have reached over £5 million in 2018.

IV. Making a success of the investment

It is important that the designer fashion company use the funds to deliver the objectives in line with the growth strategy previously agreed upon with the investors. Ideally, the brand will have aligned its growth objectives with that of the investors and agreed on KPIs to be achieved within a predetermined time frame, as part of the fundraising process.

Regular communication with investors is key in order to make the most out of the partnership. To this end, brands can set up regular board or advisory meetings and create a reporting structure that works for all parties involved. Brands can ask their investors for help, advice, or introductions as needed. Good investors can introduce companies to new partners in supply chain, sales, or digital, as well as help them find and hire new talent, and will be actively involved in the next funding round.

G. Recommendations for the BFC

I. Current Initiatives

The BFC currently offers a wide range of support for British designer fashion businesses. Resources and information on BFC initiatives and support are available on the BFC website[22]; the BFC Designer Fact File[23] provides young designers – from explorer to more advanced – with a toolkit to learn the necessary business skills to start a business, with information related to business structure, product, sales, manufacturing, finance and marketing. The BFC directory of service providers enables fashion brands to find contact details of lawyers, accountants etc. In addition, the BFC hosts regular workshops on issues around investment or supply chain. The annual BFC Fashion Forum[24] aims to expose designer fashion businesses to investors and large players to discuss issues relevant to the scaling and sustainable growth of these businesses. Furthermore, the BFC connects select designers with MBA students from London Business School who can provide support on a range of business issues (e.g. writing a business plan).

II. Proposed Future Initiatives for the BFC

We propose the following new initiatives to enhance the existing support provided by the BFC.

Pairing creative with business talent

Designer-led businesses often lack the business skills to successfully grow their businesses. The BFC could further support fashion business by:

- Intensifying its current collaboration between recent fashion school graduates or young designers on the one hand and business students on the other, and building on initiatives such as the LBS Walpole Programme for Luxury Management to "*nurture carefully selected MBA students to become the next generation of future leaders*"[25]: the BFC and London Business School could create a structured business school internship programme centred around designer support for grant applications, meetings with investors, as well as overall management and growth of the business.
- Identifying opportunities to create a BFC-funded Future Leaders Programme for recent MBA graduates to provide selected designer fashion business with the financial means to hire the right talent for a specific period of time and to attract top business talent into fashion businesses upon graduating from business school.
- Facilitating introductions between creatives and business savvy entrepreneurial individuals who can add the necessary business foundations to a creative talent. Specifically, the BFC could extend its Business Support Network and include additional professionals, such as management consultants, and thereby provide designer fashion businesses with access to support from consultants.
- Scaling the existing mentoring and accelerator programmes aimed at early stage start-ups and founders to support more fashion businesses.[26]

[22] https://www.britishfashioncouncil.co.uk/
[23] https://www.designerfactfile.com/
[24] http://www.bfcfashionforum.com/
[25] https://www.thewalpole.co.uk/programmes/programme-in-luxury-management/
[26] For a list of accelerator programmes see Alternative Sources of Funding and Support in the Appendix.

Enhancing education on what success looks like

The BFC could expand its existing resources by:

- Further developing a collection of templates defining what makes a successful business and making these available to early stage brands.
- Encouraging talented designers to pursue the in-house creative route, for example by working within another more established brand to gain experience and further develop their skills before starting their own business.

Connecting the industry

The BFC already leverages its industry network to facilitate introductions and meetings between investors and fashion brands that may seek investment in the future. The BFC could expand its support by:

- Further supporting investors in becoming familiar (and comfortable) with the dynamics and timelines of fashion businesses.
- Creating a digital platform based on the directory of services where industry professionals including brands, investors, and financial service providers can connect with each other or share advice.

Further research

Review the requirement and needs of businesses beyond the £15/£20 million revenue level and access to funding at that stage for growth.

III. Obtaining Government Support

Further support is needed in the following areas:

- Financing throughout the supply chain including at the production level and closing the funding gap within the working capital cycle.
- To be eligible for support through the British Business Bank Start-up Loans initiative, businesses must have been trading for 24 months or less - the government needs to understand that fashion businesses need more than 24 months to reach that stage.
- Develop a government-backed monetary fund that supports start-up businesses in the fashion industry with revenues between £2 million and £15 million, through loans or equity investments, similar to what Bpifrance is doing in France.[27]

IV. Obtaining Support from Investors

- Spend time working closely with industry professionals who can add value. In addition to hosting the annual Fashion Forum, create more opportunities for interaction between designer fashion businesses and investors.

[27] See Appendix for details on government support including Bpifrance.

- Expand the circle of investors with whom the BFC engages. Work closely with them so that they can develop a better understanding of the designer fashion industry.
- Develop a partnership with investors and funds to raise and manage a seed fund for designer fashion businesses, combined with a network of skilled advisors, a pool of resources, and centralised services offered to start-ups.
- Champion investment successes to encourage investors to see potential returns from investing in businesses beyond the £15/£20 million revenue level.

H. Conclusion

Designer fashion businesses in the UK still have room to scale. This requires rethinking traditional business models; today, businesses need to keep up with digital trends and meet the increasing expectations of sustainability and customer-centricity. The BFC can support this by championing a broader definition of designer fashion – beyond runway fashion – to also include direct-to-consumer fashion businesses. Furthermore, this definition should include designer fashion businesses that do not showcase their collection at London Fashion Week because other, non-traditional marketing channels may be better suited to their customer.

Talented fashion designers often lack the necessary resources – in particular working capital – to set their businesses up for commercial success. While fashion brands looking to grow can turn to investors, there appears to be a shortage of designer fashion businesses that are ready for investment. The recommendations for designers in this report are aimed at providing designers with a toolkit to set their business up for success, before and after receiving investment.

In addition to the current support provided to UK-based designer fashion businesses, there are several initiatives the BFC could promote to intensify the current scope:

- In particular, the BFC could identify and create further opportunities to pair creative and commercial talent, enhance the education for creative talent on what success looks like, and foster stronger networks between creative founders and business professionals, e.g. through creating a digital platform for industry professionals.
- In addition, the BFC could work towards obtaining more government support, for example by developing a government-backed fund that supports start-up businesses in the designer fashion industry with revenues between £2 million and £15 million, similar to what Bpifrance is doing in France.
- Finally, the BFC could work towards obtaining further support from its growing network of investors and develop a partnership with investors to raise and manage a fund for designer fashion businesses, combined with a network of skilled advisors, a pool of resources, and centralised services offered to start-ups.

I. Appendix: Overview of Different Sources of Funding and Support

There are many different types of funding with widely differing implications for the funded businesses. Choosing the right kind of financing can have profound and lasting effects on your business. Fashion brands need to be aware of the following distinction:

- **Equity financing** will allow brands to grow fast and provide additional support such as the investors' expertise and networks. However, equity financing will require a company to give up control over the business, at least to some extent.
- **Debt financing** will allow a brand to be mostly in control over how to spend its money (whereas some lenders may impose restrictions). It is an ideal source of capital to fund working capital needs. On the other hand, debt financing will probably not have a lasting impact on the business.

The key questions that a brand will need to ask from the outset are: do you want to scale? and if so: are you willing to share part of your business to bring in a team and partners to scale? In this appendix, we provide an overview of the different sources of financing available to fashion business.

I. Debt Financing

Debt financing involves borrowing a fixed amount of capital from a lender, which has to be paid back later with interest. For a brand needing cash as soon as possible and looking for a relatively small amount to cover short term needs, debt financing is probably the suitable option. While debt financing is a great way to fund working capital needs, early-stage businesses may not get it because they lack assets that can serve as collateral.

In the long term, a founder needs to decide whether to have their business become bigger or whether to remain in its current size because he or she likes the control over the company and the autonomy that it brings. Brands that choose to maintain full control need to be profitable from day one, which also means slower growth. Debt financing may not move the needle past a certain growth stage, but it may help you running a healthy business.

In the following, we are setting out different sources of debt financing by order of investment stage.

Friends and Family

At the very beginning, some fashion companies will rely on financial support from family and friends who are eager to help out. Founders deciding to pursue this funding avenue, should make sure to set out clear terms in writing with their supporters. This includes explaining the high risk involved in investing in early stage businesses, which could mean ultimately losing the investment.

Overdraft

Overdrafts are a very common way of financing small businesses and a readily available source of funding for those with long working capital cycles. Because of the flexibility it gives to working capital, many businesses may opt to have the option of an overdraft in times of need.

However, overdrafts are a very expensive way to finance long term growth, in particular for larger amounts; interest rates charged by banks will usually be considerably higher than for other types of loans. In addition, banks may also charge an overdraft facility fee. Therefore, overdrafts are generally meant to cover short-term financing requirements. There is also a considerable lack of transparency. For customers, the available charges and fees are difficult to compare - with a mix of interest rates, daily fees or monthly fees among banks. Those costs could be high even with a small debt. For example, someone could be charged £5 a day for borrowing £100 on overdraft. In fact, the Financial Conduct Authority is currently planning to revise the current system to make it more transparent to the customers. Under its proposals, banks would set a single rate for going into the red and customers would be able to compare banks for the best deal.

Overdrafts are thus generally meant to cover short-term financing requirements and businesses need to be mindful to balance the benefits (flexibility and accessibility) with the high cost involved. Once a business reaches a certain size, it will have to move on to the next stage of financing.

Peer-to-peer lending

With the many restrictions involved with getting a bank loan for young, asset-light businesses, new technology enabled-solutions have emerged online as a viable alternative to standard back loans. Lenders on such peer-to-peer lending platforms can be businesses, individuals and institutional investors.

The largest peer-to-peer lending platform in the UK is Funding Circle.[27] Businesses can borrow up to £1 million in secured loans and £500,000 in unsecured loans. The loans can be paid back in a time period of 6 months to 5 years. There are no fees for full early repayment, so businesses can pay off their loan in one go and will only pay interest on the time they borrow. The rates start from 1.9% per year (plus fees). Businesses will obtain feedback on their loan application within hours. In November 2018, the British Business Bank committed up to £150m for lending to UK small businesses through Funding Circle. The transaction, under the Bank's ENABLE Funding programme, is designed to accelerate lending to small businesses and is expected to support the growth of more than 2,000 UK firms.[28]

Businesses are typically asked to complete an online form and answer questions about the size of the loan needed, how the loan will be used, and how long you need it for, along with specific company information. On certain peer-to-peer platforms decisions can be made almost instantly and the loan provided in as little as a couple of days. Most peer-to-peer lending options are unsecured meaning there is no need to provide collateral to secure the loan. Businesses need to demonstrate historical revenue streams or collateral to qualify.

The loan is repaid with interest through regular payments for the duration of the loan agreement and you may also have to pay an arrangement fee to the platform. You should note, that interest rates for peer-to-peer platforms can be higher than for loans. Businesses should be mindful that late payments will be penalised. Funding Circle may charge an administration fee of 15% of arrears to any repayments that are more than 7 days late.

Loans

Many smaller businesses benefit from the advantages of financing their business through loans. These are provided by virtually all high-street banks, like Barclays, NatWest, HSBC or Lloyds, or challenger banks like Monzo. Taking out a loan from a credit facility means taking on debt that you need to pay back one day with interest. Often, the loan will be granted on inflexible schedule, meaning that you are penalised for both early and late repayment. Missing payments can set early-stage businesses on a dangerous path. Young companies should be mindful that taking on too much debt can be quite burdensome due to the high interest payments. To qualify for a loan, companies need to show some operating history and revenue streams. Many banks will require brands to provide securities given the high risk of some of these businesses ("secured loan"). However, many fashion brands do not have assets which could serve as collateral. Unsecured loans usually have higher interest rates than secured loans.

[27] https://www.fundingcircle.com/uk/
[28] https://www.british-business-bank.co.uk/ourpartners/wholesale-solutions/

II. Trade Financing

Factoring

Factoring is another common financing method for brands that sell through retailers. Many retailers will pay 30-60 days after receiving an order. By that time, brands will have incurred significant costs for product development, manufacturing and shipping. A factor will advance the brands the order value and collect the money directly from the retailer, thus giving brands access to working capital.

The Retail and Wholesale division at Barclays offers various solutions to fund fashion companies' working capital needs.[29] UK based businesses forecasting credit sales of at least £500,000 per year can obtain advance funding of up to 90% of the value of approved invoices. Barclays also offers financing solutions to enhance the relationship between fashion companies and retailers. Fashion companies can upload approved invoices to the Barclays platform and request early payment subject to a fee for the factoring service. On the payment due date, Barclays will charge the retailer directly.

In addition, the factor can also act as an insurance in case the retailer does not pay as agreed – in which case the factor will pay the brand out of its own pocket. On the flipside, factoring can be costly for brands; many factors will charge a monthly factoring fee even if the brand does not make use of the funding. This puts a strain on seasonal fashion businesses, which often produce two or more seasons a year.

Other institutions offering invoice factoring in the UK are HSBC Invoice Finance[30], HSBC Retail & Leisure Division (specifically for fashion businesses)[31], Metro Bank SME Finance[32], RBS Invoice Finance[33], Bibby Financial Services[34], Aldermore Invoice Finance[35], Close Brothers Finance[36], Hilldun[37], and Hitachi Capital UK[38]. Typical factoring costs for a business turning over £10 million with stable cash flows for 3-5 years and 20% profit margin can be expected to be around LIBOR + 250-300 bps.

Supply Chain Financing

With this type of financing the financier operates as an intermediary between the fashion company and their supplier and commits to pay the company's invoices to the suppliers. This offering can be coupled with a credit facility provided to the fashion company. In exchange, the

[29] https://www.barclayscorporate.com/industry-expertise/our-sector-coverage/retail-and-wholesale/
[30] https://www.business.hsbc.uk/en-gb/finance-and-borrowing/receivables-finance/invoice-finance
[31] https://www.business.hsbc.uk/en-gb/corporate/gb/campaign%20sub%20page/retail-and-leisure
[32] https://www.metrobankonline.co.uk/business/borrowing/products/invoice-financing/
[33] https://www.rbsif.co.uk/invoice-finance.html
[34] https://www.bibbyfinancialservices.com/
[35] https://www.aldermore.co.uk/business/business-finance/invoice-finance/
[36] https://www.closeinvoice.co.uk/
[37] http://www.hilldun.com/
[38] https://www.hitachicapital.co.uk/business-finance/invoice-finance/

intermediary will charge a higher price and – if applicable – interest from the brand. In practice, an intermediary is directly invoiced by the supplier and pays the bill. The brand may repay the intermediary up to three months later. Some intermediaries will hope to convert this type of funding into a more long-term and more lucrative partnership, such as an equity investment.

One such financier is Valkin Trading which offers short-term loans to fashion companies to enable them to pay their suppliers.[39] The companies' products, or inventory, serve as collateral for the loan if the fashion company does not sell its products and cannot repay the loan. This allows businesses to use their inventory as collateral to obtain flexible funding to grow the business. An additional line of credit can be used to purchase additional inventory or to help a business get through seasonal fluctuations in cash flow, among other situations.

III. Equity Financing

There are many different types of equity funding: some investors will mainly provide capital without additional support. Others can help brands hone their business model, understand growth opportunities, navigate the digital landscape or help them manage the business in the long term ("smart capital"). There are number of UK fashion businesses that have sought investment with varying degrees of success.

Raising equity investment, will set your business up on a growth path that will continue throughout the life of your business. This may imply deferring profitability to a later stage and make you dependant on external funds to continue running operations. The most important aspect to consider is that any type of equity investment will require selling a part of the company and giving up control over the business. If your business is still fairly early stage, raising investment often implies having to raise subsequent rounds from more investors – and giving up more control. And ultimately, investors will want to exit their investment through a sale and make a return. There is therefore considerable uncertainty as to who will own part of the business and have a say in it in the long term. Many successful brands have never raised equity investment and are growing by developing their sales and network of retailers.

If you are thinking about obtaining equity financing for your business, the question you need to ask yourself is therefore how much control am I willing to give up? There is no overall 'right' decision - just be aware of the implications of taking on equity investment and maintain the level of ownership and control you are comfortable with.

Below are different types of equity financing by order of investment stage.

Angel Investors

An angel investor is a high-net-worth individual who typically provides capital in the form of debt or equity from his or her funds to a small private business which is owned by someone who is neither a family member nor a friend. Often, angel investors will also contribute to the business's success by offering additional support such as industry expertise and advice. When a business requires somewhere between £15k to £1million, angel investors are a viable source of capital. They can fill the gap between the capital provided by "family and friends" and the next stage of equity financing, often provided through venture capital funds. The majority of Angels look to invest in companies with a strong founder that have a fully-developed business plan and the potential for substantial growth. Notable angel investors in the fashion industry are John Ayton (Orlebar Brown) and Wendy Yu (Mary Kantrantzou).

[39] https://www.valkintrading.com/

Angel CoFund (ACF)

The Angel CoFund[40] is a UK based venture capital fund that co-invests alongside syndicates of angel investors across sectors, looking to fund and scale the best high-potential early stage businesses. Typical first round investments tend to be in the same region as angel investors, often ranging from £100k to £1million. The fund will look for angels that specialise in certain sectors including fashion to help them with due diligence and provide industry-specific support to the business as it scales.

Equity Crowdfunding

Equity crowdfunding is a fairly new process whereby people can invest in an early-stage unlisted company in exchange for a small portion of equity – like an IPO for a small, private company. One of the equity crowdfunding platforms is Seedrs[41]. Entrepreneurs can create their own campaign. The minimum investment amount to be raised is £50k. Throughout the fundraising process, Seedrs provides investment guidance, marketing and PR support. Other examples of equity crowdfunding sites are Crowdcube[42] and Syndicate Room[43]. One of the downsides with equity crowdfunding is that it requires businesses to give up equity to a large number of investors – most of whom are inexperienced. In addition, it is impossible to predetermine the amount of money one will raise and the number of investors who will have a say in the company.

Venture Capital

Venture Capital investors provide early stage equity funding to potentially high-growth private companies. Venture capital – in particular in the early growth stage – is the riskiest type of investment. Venture capitalists therefore typically seek to invest in companies with ambitious plans, like market domination or global expansion. As a result, venture capital is provided to highly scalable businesses. Venture capital firms that have actively made investments in fashion businesses include Felix Capital (Anine Bing), Venrex Capital (Orlebar Brown, ADAY), Active Partners (The Fold) and Imaginary (Heist, Reformation, Everlane) amongst others. Venture capital investors aim for high returns, typically a ten-times return over a three-year investment period. The very early-stage VC funding, the so-called A Series, will typically fund on average between £1 and £3 million to finance the company for up to two years with the objective to turn the company into a revenue-generating business. After that, the same VC fund or VC funds will decide whether it wants to invest further capital with the goal to turn the business into a profitable business. Later stage VC investments can amount to £20 million. VC investors will seek to exit by selling the company to a financial buyer (for example a private equity fund), to a strategic investor and via an initial public offering (IPO).

Private Equity

Whereas venture capital firms tend to invest in young businesses, private equity firms often invest in more mature companies that already generate stable cash flows. Often, private equity funds will want to acquire a majority share in the company. Most private equity funds will typically hold on to their portfolio companies for three to seven years. After this period, they will seek to sell the company to another private equity firm, to a strategic investor or via IPO as an exit route. One private equity fund that is active in the fashion space is Carlyle, which acquired a stake in streetwear brand Supreme in 2017 (reportedly roughly 50% for around $500 million). Before that, Carlyle was known in the fashion industry for its investment in Moncler, which eventually resulted in an IPO of almost $1 billion.[44] Another private equity fashion investor is Permira, which

[40] https://www.angelcofund.co.uk/
[41] www.seedrs.com
[42] www.crowdcube.com
[43] www.syndicateroom.com
[44] https://www.forbes.com/sites/nathanvardi/2013/12/16/the-puffy-coat-billioniares-ipo-soars/#135c579a22b7

jointly acquired Valentino and Hugo Boss for $1.2 billion in 2007 and sold the companies off for a combined price of $2.5 billion in 2015, making a 2.3x return.[45] In 2018, Blackstone exited its investment in Versace (a 20% stake in the business for which it paid about $287 million in 2014) after four and a half years when the company was sold to Michael Kors for an enterprise value of $2.1 billion. This price would seem to value Blackstone's stake at $424 million.[46] More recently, UK based private equity company Piper sold its stake in tailored swimwear brand Orlebar Brown to Chanel[47]. The terms of the transaction were not disclosed.

Family Offices

Private high-net worth individuals can provide an additional source of financing. They can also contribute their expertise and network to grow the business. Business woman Eiesha Bharti Pasricha has invested in labels Roksanda and Jonathan Saunders. Family-backed investment company White & Blue Capital has several fashion investments including Emilia Wickstead.[49]

IV. Strategic Investors

Historically, big fashion conglomerates – like LVMH, Kering (and more recently Tapestry) –used to be highly attractive partners for young British luxury fashion companies. As an example, Kering invested in Alexander McQueen, Stella McCartney and Christopher Kane. LVMH invested in Nicholas Kirkwood and J.W. Anderson (minority investment). The luxury houses offered expertise, a strong network, operational support and access to shared resources providing ample opportunity for young fashion businesses to reduce costs and scale. Designer-led brands in particular stood to benefit from the perceived, associated status of being part of a luxury group. Moreover, big luxury houses presented a potential exit route for private equity investors.

Today, however, luxury conglomerates seem to have less of an appetite to invest in small luxury fashion companies. Today, the likes of LVMH seem to only be investing in luxury fashion companies through their venture arms, such as LVMH Luxury Ventures taking a minority stake in Gabriela Hearst early this year. The route of selling to a strategic investor therefore appears to be less accessible than it used to be.

[45] https://www.businessoffashion.com/articles/news-analysis/hugo-boss-2-7-billion-return-biggest-permira

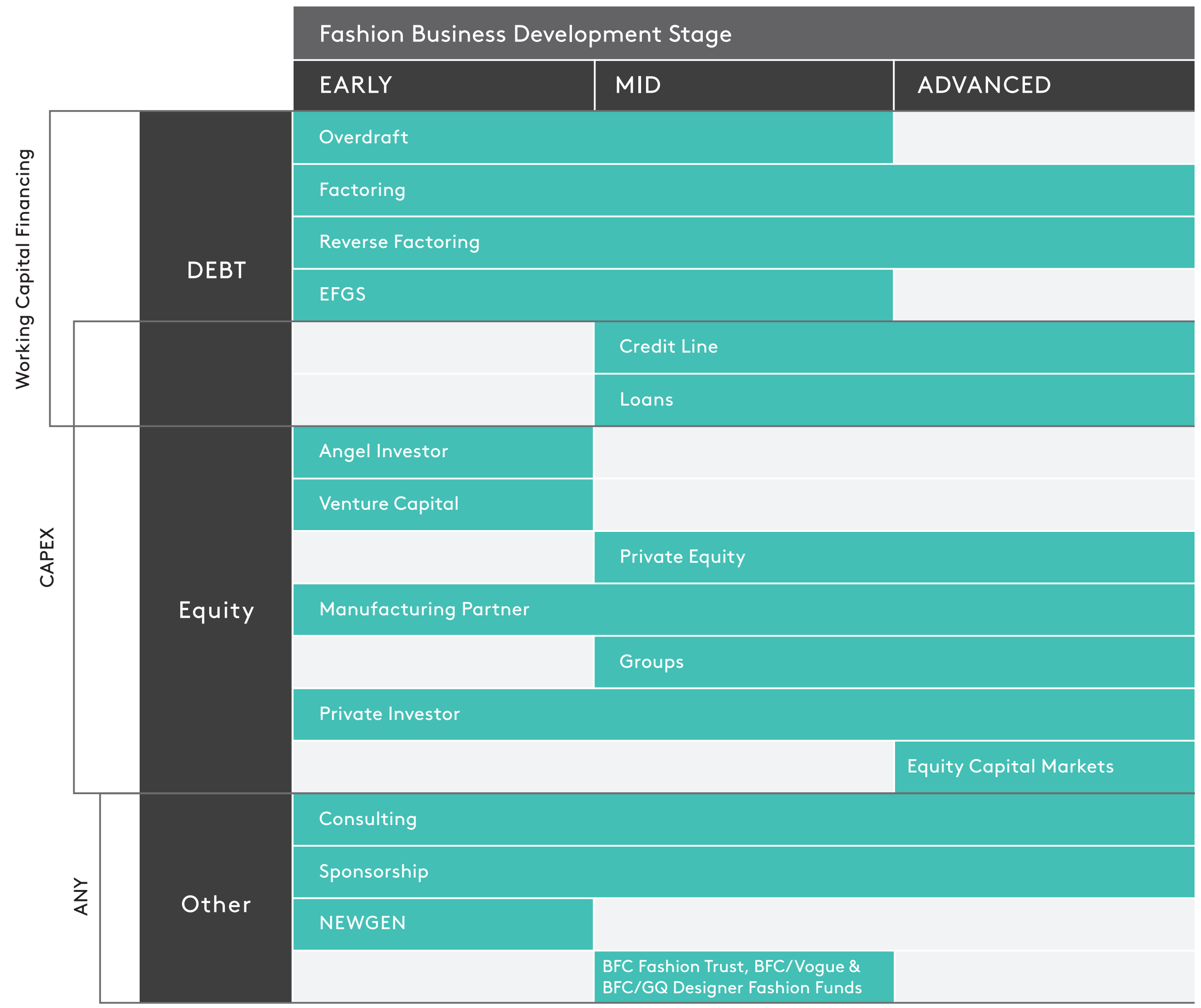
[46] https://pitchbook.com/news/articles/blackstone-cashes-in-on-versaces-21b-sale-to-michael-kors

[47] https://www.businessoffashion.com/articles/news-analysis/chanel-acquires-orlebar-brown

[48] https://www.ft.com/content/2e4ba50a-c0d5-11e4-9949-00144feab7de

[49] http://www.whiteandbluecapital.com

Different types of funding depending on investment stage



Source: BFC Commercialising Creativity Report

V. Alternative Sources of Funding and Support

There are a number of sources to fund and support emerging brands, each with their own sets of requirements.

1) BFC Grants

NEWGEN is a BFC grant open to menswear, womenswear and accessories businesses based in the UK with a minimum of two stockists (this currently cannot include own store or webstore). Businesses must be under three years in business to qualify. These businesses will typically be turning over £50k to £500k and employ up to three employees. NEWGEN recipients receive regular mentoring and financial support to develop their businesses as well as their profile as part of this support scheme. Since its inception NEWGEN has launched the careers of 249 designers. With this grant, the BFC typically supports up to 20 designers each year.[50]

[50] More detailed information on the application process is available under https://www.britishfashioncouncil.co.uk/business-support-awards/NEWGEN.

The **BFC Fashion Trust** supports UK businesses at the next stage of development with grants of up to £100k (averaging £30-50k). Applicants must have been in business for three years. The businesses' product categories must include womenswear ready-to-wear, handbags and shoes. The typical turnover range is £501k to £1 million and seven to ten employees on average. This grant offers business support through financial grants, funding and mentoring. Grants are tailored to specific business needs and are awarded to fund specific key areas of expansion. These can include practical solutions, such as introducing new capsule collections, producing additional samples sets or developing a digital presence. The grant money cannot be used for the employment of staff or agency fees. Since its inception in 2011, the BFC Fashion Trust has awarded over £2.5 million to 47 designers including Christopher Kane, Emilia Wickstead, Mary Katrantzou and Nicholas Kirkwood. In October 2017, HSBC one of the world's largest banking and financial services organisations, was announced as the BFC Fashion Trust's official partner. With the Fashion Trust, the BFC typically supports 8-10 designers each year.[51]

2) Larger Scale Grants

Businesses at a slightly more advanced stage will typically turn over £1.1 million to £6 million, with an average team size of 11-20 employees. The BFC has set up two grants, one for womenswear and one for menswear:

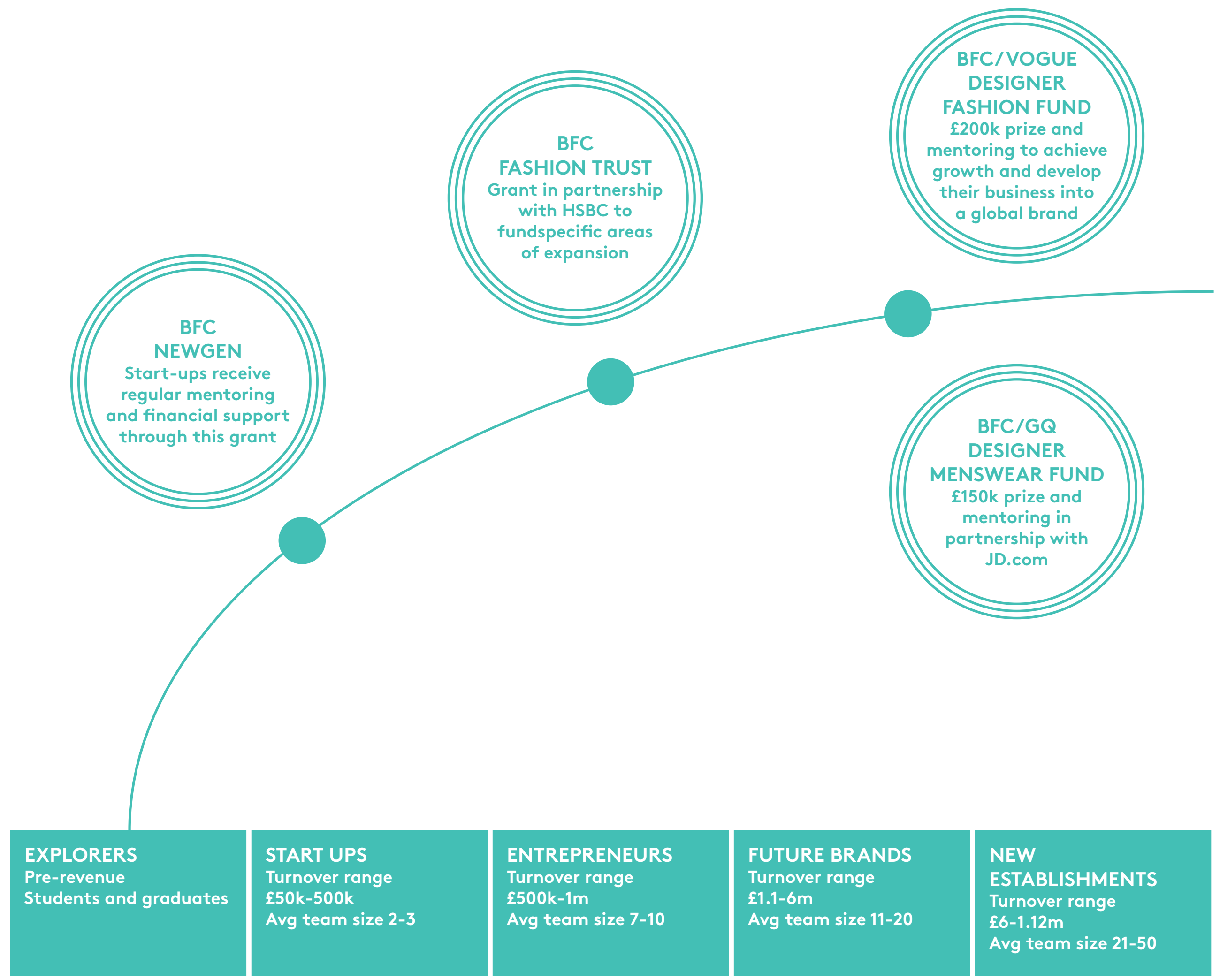
- The **BFC/Vogue Designer Fashion Fund** supports womenswear and accessories brands. The fund aims to discover new talent and accelerate growth over a twelve-month period through mentoring and awarding a cash prize of £200k. Applicants should have an established designer business which has the potential to achieve real growth with additional resource and specialised support; design duos are permitted to enter. Shortlisted applicants are invited to submit a five-year business plan focusing on areas for growth and how the prize money will help develop their business into a global brand. For its 10th year anniversary in 2018, the Fund was awarded to Molly Goddard to help bring new knowledge and the finance to put towards a new team member and advisors on areas such as accountancy, merchandising, business strategy, international growth, retail and e-commerce. The 2019 fund was awarded to Wales Bonner.[52]
- The **BFC/GQ Designer Menswear Fund** provides UK-based menswear designers with financial support of £150k and access to high-level business mentoring and professional services. Each year, a panel of industry experts selects and shortlists up to eight businesses based on their contribution to the creative reputation of the British fashion industry, their commercial achievements to date and their five-year growth plan. The shortlisted designers take part in a mentoring programme that provides them with access to mentors from global fashion brands, opportunities to meet with media and advice on how to maximise the opportunity for global growth. After the mentoring period, the shortlisted designers represent their business plans and showcase their most recent collection to a panel. The winning designer must demonstrate a clear vision for their business and how the Fund will contribute to their growth with a focus on creating a global brand. The Fund is currently supported by leading Chinese e-commerce company JD.com, Inc. as part of a two-year sponsorship deal. Winners of the Fund include Craig Green, E. Tautz and Christopher Shannon. The 2019 fund was awarded to A Cold Wall.[53]

[51] More detailed information on the application process is available under https://www.britishfashioncouncil.co.uk/business-support-awards/BFC-Fashion-Trust

[52] More detailed information on the application process is available under https://www.britishfashioncouncil.co.uk/business-support-awards/BFCVogue-Designer-Fashion-Fund.

[53] More detailed information on the application process is available under https://www.britishfashioncouncil.co.uk/business-support-awards/BFCGQ-Designer-Menswear-Fund-supported-by-JDcom-Inc.

BFC Grants & Awards at Every Stage



3) Accelerators

The **Centre for Fashion Enterprise** (CFE)[54] offers a variety of accelerator programmes providing London-based fashion businesses with tailored mentoring and business guidance. Each programme caters for businesses at varying stages of their development from entry into the market to preparing for investment. Successes include Erdem, Peter Pilotto, Mary Katrantzou, Marques Almeida and Craig Green. The CFE is part financed by the European Regional Development Fund (ERDF).

Farfetch Dream Assembly is a 10-week accelerator programme for start-ups in the e-commerce space[55]. The selected start-ups will take part in a series of workshops, inspirational talks, and mentorship meetings. They will also be invited to specially curated networking events external to Farfetch, providing opportunities to meet the wider fashion tech community of investors and brands. The current cohort will be comprised of seed-stage start-ups which have a specific focus on sustainability.

[54] https://fashion-enterprise.com/

[55] https://www.dreamassembly.com/en/

NET-A-PORTER launched the Vanguard in 2018, a programme to develop emerging fashion designers.[58] Season on season, NET-A-PORTER's expert team of buyers will seek up to four brands. Selected designers benefit from mentorship and sessions that concentrate on buying, business strategy, Marketing & PR, social media, tech and advice on entering new markets and territories.

Founders Factory is at the forefront of the UK tech industry and is focused on launching and scaling start-ups across a range of sectors.[59] The accelerator provides £30k funding and will grow existing businesses through a bespoke six-month programme, whilst the incubator will build completely new businesses focused on addressing key issues on the continent. The Founders Factory team can also support young businesses in the fundraising process by providing detailed advice on what seed-stage investors would be looking for and by making introductions to investors. Last year, M&S and Founders Factory launched Founders Factory Retail, a joint venture partnership focused on developing and scaling start-ups in the retail space.

The Trampery is a London-based social enterprise offering shared workspace and support for entrepreneurs and creative businesses.[60] In addition, the Trampery runs a variety of programmes for entrepreneurs across different sectors and stages of business growth. These include the Trampery Pathways, a 3-month support programme aimed at individuals in the creative sector looking to start a new business, launch new products or hire new staff. The alt.barbican programme is a 6-months accelerator programme in collaboration with the Barbican for innovative artists working at the intersection of art and technology.

VI. Government Support

The UK government has established some investment schemes to help young businesses through tax reliefs for investors and through government funded business loans.

Enterprise Investment Scheme (EIS)

To offset some of the risk involved with investing in early-stage companies, the UK government offers tax reliefs on eligible opportunities in the form of the Enterprise Investment Scheme (EIS). In order to qualify for EIS, a company needs to be small and unlisted, meaning total assets cannot exceed £15 million and it cannot employee more than 250 employees. The benefit for investors is receiving an income tax relief of 30% and paying no capital gains tax on any profits from an EIS investment. This is a great incentive to give investors for your business, so check to see if you qualify.[61]

Seed Enterprise Investment Scheme (SEIS)

This UK government-led tax relief functions similarly to the above EIS but applies to even smaller companies generating no more than £200,000 in assets and having less than 25 employees. The benefits for investors are similar but include an even greater 50% income tax relief.[62]

[58] http://www.ynap.com/news/net-a-porter-introduces-the-vanguard-a-program-to-develop-emerging-fashion-designers/

[59] https://foundersfactory.com/

[60] https://thetrampery.com

[61] The government provides information under https://www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme.

[62] The government provides information under https://www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme.

British Business Bank - Start-up Loans

The British Business Bank established the Start Up Loans Company in 2012, with a mission to help new and early-stage UK businesses access affordable finance and mentoring support. The Start Up Loans programme provides finance and support, through mentoring and advice, for businesses who struggle to access other forms of finance. Successful applicants can borrow £500 to £25,000 and receive mentoring. To be eligible, founders must be UK residents; businesses need to be UK based, show a viable business plan and have been trading for 24 months or less. The loan is unsecured so there is no need to put forward any assets or guarantors to support an application.[63]

Government support in France: Bpifrance

The French government has developed Bpifrance[64], an investment group focused on supporting start-ups and young companies. It has partnered with the French Fashion Institute (IFM) to focus on funding specifically French fashion brands. Their fund "Mode et Finance" invests with long term intentions as a minority stakeholder into small-and-medium-sized French fashion, luxury, and beauty businesses. These businesses must have a turnover of over EUR 500,000 a year, have strong potential to develop internationally, and a multidisciplinary team including management as well as creative teams. The recipients can incorporate categories including apparel, accessories, handbags, perfume, jewellery, watches and cosmetics. The brands Finsbury, Horace, Lemaire and Roseanna have been recipients of this kind of investment.

In addition, Bpifrance has recently announced a new accelerator programme for fashion and luxury brands. The 12-months programme will be directed at businesses turning over EUR 2 million to 10 million with at least 10 employees and 3 years in business. These businesses can be fashion brands, contractors, manufacturers and makers. Bpifrance is selecting 30 businesses to start the first accelerator programme in September 2019. The aim of the programme is to help businesses scale by teaching strategic, marketing, commercial, finance, and management skills as well as providing the companies with expert advice.

[63] Detailed information is available under https://www.british-business-bank.co.uk/finance-hub/start-up-loan/.

[64] http://www.bpifrance.com/