International Journal of Science and Research (IJSR)
ISSN: 2319-7064
SJIF (2022): 7.942

Entrepreneurial Ateliers: Case Studies in Fashion to Assess Innovative Business Models and Sources of Seed Capital

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Abstract: ***This paper argues that businesses in the fashion industry need to take note of the functioning of their business model in conjunction with the various sources of seed capital that exist in order to achieve growth. The first part highlights the need for investment opportunities and cash inflow in the fashion industry. It relies on statistical evidence about the fashion industry in the West and highlights why most firms are unable to achieve economies of scale. In the second part, the paper builds on that evidence and lays down various factors that make a business more investment-worthy: business model, management skill, credit restrictions, etc. The third part uses case studies to highlight the veracity of the analyses made hitherto. It also underscores the role of globalization and the transnational nature of capital. It concludes by noting how businesses need to focus on certain factors to make their business more appealing to various classes of investors and the importance of doing that in the contemporary world.***

Keywords: Fashion Industry, Investment, Product, Cash Flow

1. Introduction

Business dynamics and investment opportunities are the nuts and bolts of any enterprise. As external factors determine whether the enterprise will flourish or not, an understanding of the same is important for anyone who hopes to start a business someday. Adequate investment in a company – far from increasing the cash flow – can also be decisive for the company's future. Larger business dynamics prevalent in the market not only determine how the company will use its extant cash flow but how that cash flow will interact with other factors in the market. Therefore, while adequate investment is a necessary criterion for an enterprise to be successful, a good understanding of the business dynamics of the sector in question is also essential.

A look at the fashion industry amply illustrates this point. According to Schwartz (1962), the "fashion industry has lagged conspicuously behind other industries in taking advantage of the 20th century technological revolution." (p. 34). It is only since World War II that new manufacturing techniques and marketing plans have arrived on the scene to increase the annual sales of the companies (p. 34). But in the nascent stages of the industry, there were a lot of factors that inhibited this growth. As Schwartz himself capitulates:

The major factor inhibiting the growth of firms in the fashion field has been a lack of capital. There have always been a great number of small manufacturers because it takes comparatively little capital and equipment to open a shop … Some firms never get far beyond this stage (p. 34).

Firms, therefore, need to acquire both capital and the skills to manage it for them to be able to grow. One can also observe such trends in the shoe industry. Burkhead (1968) reaches the same conclusion as Schwartz when he analyses the need for capital and the knowledge of how to manage it, as recounted below:

The shoe manufacturing industry is characterized by many small companies. In 1966, an estimated 800 manufacturers operated about 1,000 plants … There are many small companies because capital requirements are low. Economies of scale are not substantial because labor costs are a high percentage of total costs. (p. 41).

Burkhead (1968) goes on to assert that investment considerations are perhaps the most important factor for a company in the shoe industry to think about. A company needs to consider market-share growth and have a substantial marketing effort. It needs to adapt to the rate of technological advancement in the industry lest competition from imports exist upward pressures on the wages that further obstruct the growth of the company (p. 45). Such activities are capital-intensive and require that the entrepreneur know how to handle the investment attracted.

In recent years, the clothing sector has become extremely competitive. To be competitive, suiting styles and product lines must be changed frequently. The distinctive blend of creativity, innovation, and economic relevance, thus, makes the fashion sector stand as a riveting focal point for business dynamics and investment potential. Consumer preferences, cultural changes, technical improvements, and sustainability concerns all drive ongoing change in this dynamic industry. Fashion is a potent tool for self-expression and a window into societal changes, cultural values, and fashion trends.

This paper attempts to answer questions such as what makes a business 'investible', and how fashion houses adapt to investment changes in the market and engage in a brief overview of what kinds of business models exist in the industry in an attempt to highlight key insights that can then be extrapolated to the firms working in the fashion industry. The paper then moves on to discuss area-specific case studies and provides insights into where the investments came from and what attracted investors from various parts of the world to invest in these areas. Trends are also highlighted with an eye to the future of the industry. The paper finally concludes by providing consumer-centric insights focused on corporate social responsibility.

2. Background

The research on industrial organization implies that productivity, together with other predictable characteristics like age and size, is the primary driver of intra-industry firm turnover and firm-level capital investment decisions. In reality, however, enterprises deal with a sizable quantity of transient demand shocks on a daily basis. These shocks may originate from a variety of factors, such as temporary preference shocks or other unforeseen developments that have an impact on the demand of a specific organization. When businesses are faced with credit restrictions and/or when manager/shareholder attitude is impacted by these short-term shocks, the transitory demand shocks may have an effect on firm turnover and investment decisions (Kumar and Zhang, 2019). It is, therefore, important to have control over credit restriction and manager/shareholder attitude for these are indicators that potential investors look out for.

McClure et al. (2022) further elaborate on the features that angel and venture capitalist investors look out for in firms. Early-stage investors, such as angel investors and venture capitalists, are notoriously difficult to find and when they do find a firm, it is even harder to convince them to invest in that start-up. Management is by far the single most important factor that early-stage investors consider. Venture capitalists primarily invest in the firm's management team and their ability to execute the business plan. They are looking for executives who have built businesses that have consistently delivered high returns for their investors. Businesses seeking venture capital investment should have a list of experienced and qualified executives who will play key roles in the company's growth (McClure et al., 2022, para. 5). In order to capture the attention of venture capitalist investors, it is essential to demonstrate that the business will focus on a significant, achievable market opportunity. Venture capitalists typically seek to ensure that portfolio companies have the potential to generate substantial sales of hundreds of million dollars or more. Venture capitalists anticipate that business plans will include a comprehensive analysis of the relevant market size. Market sizing must be presented from the top down and from the bottom up (McClure et al., 2022).

Investment decisions also seem to be aimed at the kind of business model that the firm seems to be following. The fashion industry is becoming more and more complicated, with lots of supply chains, a lot of resources used, products with short life cycles, and a lot of fashion consumption. All of this leads to a lot of social and environmental issues. (Hvaas, 2015, p. 11). Plus, with raw material prices fluctuating, it's getting harder and harder to keep up with fashion trends. (Hvaas, 2015, p. 11). Companies need to think about their value propositions and figure out how to make sure they're not using up resources that could be used for other things. There are also downstream value chain issues, like reuse and remanufacturing, that can make things worse. So, whatever the business model adopted, it must start with the downstream issues first. Brands have faced these challenges through two chief ways: firstly, introducing in-store product take-back programmes for fibre recycling and allowing consumers to often drop off their used clothes in exchange for a discounted voucher. These take-back schemes have recently been introduced by H&M, WEEKDAY, Name It, and PUMA where reverse logistics is managed in partnership with global collection companies. (Hvaas, 2015, p. 13). Secondly, developing resell/reuse platforms to extend the life of the garments and capture the resell value offered by them. For example, the US female brand, Eileen Fisher, has launched its Green Eileen Initiative where donated and used products are sold in Green Eileen second-hand stores alongside upcycling workshops offered to customers. Also, the Swedish brand Boomerang, allows consumers to donate their used clothes in the store and re-sell them in the Boomerang store or upcycle them into other boomerang products. Developing new resell/reuse channels is mainly done by premium & high fashion brands with high-quality products, as this strategy demands the highest quality to retain the value of garments that can be re-buy many times. (Hvaas, 2015, p. 13-14). This shift to reliance on global collection companies and reuse channels is also indicative of the key drivers of globalisation, as pointed out by Tokatli (2007). Such changes in the industry continue to be reflected by existing firms to which we now turn.

3. Discussion

In recent years, the firms that have combined fashion and technology have emerged as the most lucrative sites for investment opportunities as well as a broad base of talents that can capably handle the investment. Such growth has been made possible with the rise of digital clothing in the virtual realm. Forerunner Ventures, a well-known venture capital firm that has invested in the likes of Glossier, Warby Parker, and others, has raised $500 million in its fifth fund. E-commerce fintech firm Clearco has raised $215 million, while Redrice Ventures has a £50 million fund dedicated to investing in luxury and retail technology. Clerisy, a growth equity investment firm, was established by ex-executives in the fashion and beauty industries. The French fashion and technology sector is experiencing unprecedented levels of funding and rapid growth (Mcdowell, 2021, para. 6).

The extent of globalisation has also impacted local business growth when businesses combine investment with the right strategy and understanding of business dynamics. The influence of Asian investors on Africa's cotton, textiles, and apparel industries could have a huge impact on the continent's industrialization and growth. Southeast African countries are trying to industrialize and create their own cotton, textiles, and apparel value chains, and the interactions between Asian investors, especially Chinese investors, and African companies are getting more and more intertwined (Xiaoyang, 2014, p. 1). In April 2013, Dahong Textile announced its intention to invest in Tanzania's Shinyanga Province, with the establishment of a Ginnery and a Spinning Mill. The Chinese textile company found Tanzania's low cotton price and low labor costs to be particularly appealing. Furthermore, the company plans to demonstrate and transfer advanced cotton plantation techniques to Tanzanian agriculturalists in order to enhance the quality and output of cotton (Xiaoyang, 2014, p. 9).

Nitori, a Japanese company, has declared a $100 million investment to establish a "full-scale textile industry" in Tanzania, which is expected to generate thousands of jobs and enhance the country's export potential (Xiaoyang, 2014, p. 10).

The press coverage of Zara in the early 2000s was unusual, partly due to its rapid expansion into foreign markets and partly due to its unique business model, which allegedly prevented it from becoming entangled with a multitude of suppliers (Tokatli, 2007, p. 31). It had been reported that Zara sourced 40% of its fabrics from Inditex's company Comditel (in which Comditel accounted for nearly 90% of the total sales of Inditex); and manufactured complex products internally (e.g., tolerating lower capacity utilization) and outsourced simple products, including sweaters in traditional colours (Tokatli, 2007, p. 31). Furthermore, by retaining some of its production capacities in Spain, the company was less likely to be accused of exploiting cheap labour in developing countries. The decision-makers of Zara considered that it was more cost-effective to produce closer, rather than cheaper, as this would enable them to quickly cancel lines that were not selling, thus avoiding the inventory backlog and clearance sales that had been a major drag on competitors' profits, particularly in periods of impending recession (Tokatli, 2007, p. 31).

Thus, all over the world, fashion firms are able to attract investment by focusing on effective management, paying attention to credit restrictions, and tweaking their business models. Further, they are able to attract investment not only from local angel investors or venture capitalists but also from those investors that are located on different continents. The experience of Tanzanian firms indicates that attracting investment and talent from halfway across the world is not a remote possibility in today’s world anymore. Such lessons are important moving into the future for firms need to realise that opportunities for growth come not only from within their borders but from outside as well. Firms can effectively do that when they model themselves after those that have already done so in the past so as to project themselves as investment-worthy.

4. Conclusion

Businesses that can effectively identify and interpret these fluctuations in consumer preferences can take advantage of new trends and serve a variety of clientele. New designs and collections are continuously being introduced in the fashion business, which has quick product development cycles. For a business to thrive in this industry, it needs to pay attention to the advantages and drawbacks of its business models, be attuned to the rapidly interconnected nature of the world, the changing preferences of the customers, and the credit restrictions, if any, facing the business. The most important requirement for a business to thrive in this business is to have top-tier management that can handle the inflow and allocation of capital. Every company needs a distinct point of view, but in the fashion industry where there are numerous brands in every product category, this is even more crucial. There is a widespread idea that this must primarily centre on the product or design, but there are a ton of additional ways to stand out. The examples given of businesses in Tunisia and global brands like Zara illustrate this point very well. Therefore, this paper has argued that it is extremely important for brands in the fashion industry to understand business dynamics and focus on investment opportunities.

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