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SCIENCE FOR THE PROFESSIONS

**Analysis on fashion design entrepreneurship:  
Challenges and supporting models**

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## **Abstract**

Entrepreneurship in the fashion industry is a substantial issue since the fashion business landscape consists of many small actors that compete on the fashion market. On their way to a distinct position in the textile and fashion world, many fashion design entrepreneurs, who start up an own label, are confronted with personal challenges and a multitude of external obstacles. These companies need a structured venture launch and strong business foundations to survive the always troublesome first years of a new entrepreneurial venture. To run a sustained venture within the apparel industry may be more complex and demanding than one would believe. In the fashion sector several concepts exist in order to support entrepreneurial companies' growth. Three selected supportive concepts received by fashion entrepreneurs at early stage have been examined and analysed. The supportive models are business incubators for creative entrepreneurs, the partnership of a designer and business partner and the concept of an external professional management.

Three main points can be concluded. Firstly, business administration research in relation to fashion has to be increased and applied to the fashion industry. Secondly, the situation at fashion academic education institutions needs to be improved; entrepreneurship has to be seen as an integrated part. And thirdly, fashion design entrepreneurs have to be better prepared and supported in the pre-start-up phase, in the start-up phase and in the growing phase. It would be fruitful to strengthen the whole textile and apparel industry by making it possible for fashion entrepreneurs to gain ground and to achieve a sustained position in the fashion sector.

## **Statutory Declaration**

Hereby I declare that the thesis has been written by myself without any external unauthorised help, that it has been neither presented to any institution for evaluation nor previously published in its entirety or in parts. Any parts of the thesis, which are quoted from or based on other sources, have been acknowledged as such without exception.

Elisa Kurz

27. May 2010

University of Borås, Sweden

## **Acknowledgement**

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**ABSTRACT**

**STATUTORY DECLARATION**

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## 1. Background

*The first chapter presents the introduction, the problem statement, the research questions, the purpose, the methods as well as the delimitations of the study.*

### 1.1 Introduction

The fashion industry is dominated by big players of the industry like Dior, Prada, Gucci, H&M and Zara, populated by star designers like Marc Jacobs, Karl Lagerfeld or Tom Ford and influenced by fashion metropolises like Paris, Milan, New York or London. All these leading companies, designers and fashion cities together drive consumer preferences and the fashion system on a global scale. Globalisation with all its by-products like an increasing number of competitors and saturated markets has changed the economic picture in recent years.

However, there is a great variety of smaller actors that compete in the fashion industry and bring a much fresher feeling into the industry – PR fashion agencies, consulting firms, special apparel service providers and small size fashion design companies. Regardless of size and structure, every company in the textile and apparel industry is in business to generate value by providing consumers with products and services.<sup>1</sup> Value in this respect may have a financially, socially or emotionally implication according to the various goals and vision of the business owners. To run a sustained venture within the textile and apparel industry may be more complex and demanding than one would believe.

The importance of entrepreneurship has been widely recognized and thus, there has been an explosion of research on entrepreneurship. It is a multidisciplinary research field that has been examined closely by several studies (Schumpeter, 1934; Wickham, 2001/2004; Davidsson 2006). This reflects the significance of entrepreneurs as an impulse to economic growth and their essential contribution to the economy. Whereby entrepreneurship in the field of fashion is a topic that has unfortunately not been targeted by a substantial number of authors; the focus lies more in guiding designers in setting up an own business (Burke, 2008; Gehlhar, 2005; Heller 2002/2008; Granger et al 2003; Meadows 2009). Nevertheless, it is essential for a sustained economic growth of the fashion industry to understand the necessity of entrepreneurship as one of the

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<sup>1</sup> Burns, L. D. and Bryant, N. O. (2007) *The Business of Fashion: Designing, Manufacturing, and Marketing*, Fairchild Publications, New York

drivers for innovation and dynamics. Fashion as one of the creative industries has attracted the attention of policy makers, media and academia in the last years. The creative industry is a growing sector and one of the engines of the European economy.<sup>2</sup> It is an essential source of labour, creates entrepreneurial spirit and innovation and thus fosters competitiveness, growth and employment.

## 1.2 Problem Statement

The thesis looks closer at fashion design entrepreneurs. Numerous fashion designers establish their own fashion company right after graduating or after gathering some years of work experience. A number of companies in the textile and apparel industry struggle to set up their companies. On their way to a distinct position in the textile and fashion world, many fashion design entrepreneurs are confronted with personal challenges and a multitude of external obstacles. These companies need a “structured venture launch” and strong business foundations to survive the always troublesome first years of a new entrepreneurial venture. For some, it will be easier to grow, while others will stand on the edge time and again.

Various challenges of entrepreneurs as well as the industry implications will be examined in the thesis. It delivers a description of selected supportive concepts received by fashion entrepreneurs at early stage, which will be detailed out by case study examples. Finally a discussion will examine, which aspects of the presented concepts are beneficial for fashion entrepreneurs and which aspects are disadvantageous. The examined supportive concepts are business incubators, the partnership of a designer and business partner and the concept of an external professional management.

## 1.3 Research questions

The research questions of this thesis can be divided into three main points, which are examined in the thesis:

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<sup>2</sup> Grüner, H. and Kleine, H. and Puchta, D. and Schulze, K.P. (2009) *Kreative gründen anders! Existenzgründung in der Kulturwissenschaft*, Transcript Verlag, Bielefeld

- *What are the challenges faced by fashion design entrepreneurs in their attempt to create a well-established label?*

This first question focuses on the situation of the entrepreneurs when starting a business. The question will be split in two sections: the specific industry challenges and the personal challenges of the entrepreneurs.

- *How can fashion design entrepreneurs be supported in establishing a sustainable position in the fashion business?*

This question concerns concepts, which can make a positive contribution to the creation of fashion design companies.

- *Which are the strengths and weaknesses of the presented concepts, may it be partnerships, collaborations or organisations that support a design company at an early stage?*

In the fashion and textile industry several concepts exist in order to support entrepreneurial companies' growth. It is important to remark that these concepts have a different starting point, focus and intention. The third question goes deeper in the analysis of the concepts.

## 1.4 Purpose

By means of the implications formulated above, the aim of this thesis is to contribute to the research of fashion entrepreneurs to support entrepreneurship in the fashion sector and the creation of new firms.

## 1.5 Delimitations

This thesis can only outline the most important aspects of fashion design entrepreneurs, the cultural implications and supportive concepts with all its positive contribution and limitations.

The research has taken the fashion industry in Germany as an example due to the fact that the fashion industry is structured and has developed in very different ways in different countries and geographies. The focus lies mainly on entrepreneurs that have a university education in fashion or textile design but also entrepreneurs with another background were considered. Additionally the main focus is on newcomers who immediately start a venture after graduating without having work experience

beforehand.

There has been done a preselection of supportive concepts, which will be described in the following of the thesis. Concepts from all over the world have been looked at to get a broad scope of application and a broad scope of benefits, which fashion entrepreneurs receive from the supportive initiatives. It has to be paid attention to the fact that these concepts have a different starting point, focus and intention. The exemplars should serve as a basis for hypotheses and theories. Since the fashion industry is very complex, it is a challenge to seize all aspects in a holistic context and to develop universal patterns.

The thesis does not report the full range of responses of the conducted conversations. Information gathered during the conducted conversations has been used to illustrate theories, to underline certain aspects and to get personal insights. It has to be stated that the discussions reflect personal experiences and opinions and form therefore a subjective perception. Aside from this the sample size of the conversations is limited and therefore cannot give a universal description.

## 1.6 Methods

Empirical information in this thesis was collected through a qualitative approach in order to gain a deeper understanding of the topic. Various conversations were conducted in person, via telephone and only a few via e-mail with fashion designers, industry experts, consultants, institutions, design students and academics. The conversations should be rather regarded as conversations than interviews by reason that the dialogues were an exchange of thoughts, experiences, ideas and opinions. The selection of people was done in respect of the different backgrounds and experiences in the field of entrepreneurship, in the fashion and creative industry. On that account the conversation partners could contribute with various perspectives. The results from the conversations were analyzed and interpreted for further writing on the thesis. Additionally own experiences from the author's fashion design education and fashion network were taken in consideration. Each of the presented concepts is explained in detail by a case study example. The case studies are a possibility to evaluate the different concept in a better way. They were developed with the help of secondary data and conducted conversations. Secondary data comprised literature such as books, scientific magazines, reports and the internet.

## 2. Frame of reference

*In this section the frame of reference for the thesis is presented. It comprises entrepreneurship in general, the creative industry and entrepreneurship in the fashion industry.*

### 2.1 Entrepreneurship

The concept of entrepreneurship has been widely discussed in management and economics literature and results in a vast amount of variant definitions.<sup>3</sup> A universal conceptual framework or generally accepted definition does not exist. An approach to capture the most significant characteristics of an entrepreneur is provided by Wickham (2001), who defined entrepreneurship as “a style of management” and entrepreneurs as a “distinction between the entrepreneur as a performer of managerial tasks, as an agent of economic change and as a personality”. In entrepreneurial research entrepreneurs are defined as market entrants or young firms that have recently entered the market.<sup>4</sup>

The entrepreneur identifies a business idea and creates a new venture. Being an entrepreneur is complex, demanding and requires knowledge, intuition and skill. Since there are individual differences between entrepreneurs, there are various intentions, approaches and goals towards a company foundation. The entrepreneur sets up a business to generate value, whether value can mean a financial, social or emotional outcome. There is a whole complex of factors that influence the start of a new venture. On the one hand, there are personal factors of an entrepreneur like the individual background and attitude. On the other hand, there are external factors such as the socio-cultural, environmental, political and economic variables.

According to OECD-Eurostat: “Entrepreneurship is even higher on the policy agenda today than in the past, as governments look for remedies and ways out of the economic crisis.”<sup>5</sup> Entrepreneurs contribute to society in different ways for instance as creators of jobs and as a stimulator of economic growth.<sup>6</sup> The process of innovation and entrepreneurship are closely connected. Several studies relate innovation and

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<sup>3</sup> Wickham, P. A. (2001) *Strategic Entrepreneurship, A decision-making approach to new venture creation and Management*, Pearson Education, Harlow

<sup>4</sup> Praag, C. M. van and Versloot, P. H. (2007) *What Is the Value of Entrepreneurship?*, Small Business Economics, Springer, vol. 29(4)

<sup>5</sup> <http://www.oecd.org/>

<sup>6</sup> Davidsson, P. (2006) *New firm startups*, Edward Elgar Publishing, Cheltenham

sustained economic growth to entrepreneurship (Zhao 2005; Praag et al 2007). This is not only enhancing the dynamic of the economy but also creating new value.<sup>7</sup> For these reasons the society needs to encourage the constant emergence of entrepreneurs.

However, creating a long-lasting and sustainable business venture is the exception rather than the rule. According to a study done by the U.S. Small Business Association in 2008, across all industry sectors seven out of ten small business start-ups survive the first two years and about half make it to five years.<sup>8</sup> Due to the economic crisis, the number has probably to be reviewed and readjusted.

## 2.2 Creative industries

For several years, the creative industry has been attracting attention in the field of economics, culture and politics. It is a dynamically developing economic sector, for instance in Germany it grows three times faster than the whole economy and reaches a maximum number of entrepreneurs. This positive development is created by plenty of small companies, self-employed people and freelancers.<sup>9</sup> Many countries in the EU experience an economic growth of the creative industries.<sup>10</sup> Often these are newly established or relatively young companies.<sup>11</sup>

Creative industry is often used synonymous to culture industry and can be described as follows: A company is in the creative sector if it creates, distributes or conveys a creative product.<sup>12</sup> The EU defines it as “the arts, media and heritage with all connected professional activities in public or private organisations, including those in neighbouring fields such as design”.<sup>13</sup> It brings “together a diverse collection of business disciplines that have both a cultural and economic impact on European life. Advertising and public relations, architecture and web and graphic design sit beside the performing arts, publishing and software development. The sector also covers music, arts and antiques, crafts and fashion design, as well as film, TV and radio

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<sup>7</sup> Wickham, P. A. (2001) *Strategic Entrepreneurship, A decision-making approach to new venture creation and Management*, Pearson Education, Harlow

<sup>8</sup> <http://www.sba.gov/advo/>

<sup>9</sup> Jackson, T. and Shaw, D. (2006) *The Fashion Handbook*, Routledge, New York

<sup>10</sup> <http://www.eurocult.org/uploads/docs/114.pdf>

<sup>11</sup> Grüner, H. and Kleine, H. and Puchta, D. and Schulze, K.P. (2009) *Kreative gründen anders! Existenzgründung in der Kulturwissenschaft*, Transcript Verlag, Bielefeld

<sup>12</sup> Grüner, H. and Kleine, H. and Puchta, D. and Schulze, K.P. (2009) *Kreative gründen anders! Existenzgründung in der Kulturwissenschaft*, Transcript Verlag, Bielefeld

<sup>13</sup> <http://www.eurocult.org/uploads/docs/114.pdf>

production.”<sup>14</sup> Creativity is of course important in every economically field but in the creative sector it is essential and decisive.

The creative industry is characterised by two aspects regarding its contribution to the economy. Firstly, the creative sector is knowledge intensive, that means a specific talent or a high qualification is required. Secondly, it is work intensive, which means the sector depends less on capital or technology investments. As a result a high number of workplaces can be created within a short time.<sup>15</sup>

The design sector as a whole is among the most important sub-segments of the creative industry, because of its dynamics of growth and quantitative size. In the next chapter, the focus will be shifted from the creative industry to entrepreneurship in the fashion industry as the centre of attention.

### 2.3 Entrepreneurship in the fashion industry

As Renzo Rosso, creator of Diesel, stated: “Fashion is inspiration, creativity and intuition. But it is also organisation, strategy and management. These two apparently contrasting sets of elements have to come together to ensure the success of a business idea.”<sup>16</sup> Like in any other industry, entrepreneurship in the fashion industry combines the creation and management of a venture with the specific aspects of the industry, in this case fashion.

As mentioned above, entrepreneurs make a relevant contribution to the economic growth and the dynamics of the economy. (Davidsson 2006; Zhao 2005; Praag et al 2007). It is significant to look at the concentration ratios of big players and small companies of the apparel industry, in order to analyse the economic impact of small actors in the fashion business. Especially the fashion industry is dominated by small businesses. In the UK, for instance, the top 15 businesses generate 25% of the outcome as a percentage of the total. Compared to the number of other industries like the dairy industry, where the top 15 businesses generate 57% of the total outcome or the pharmaceutical industry, here the top 15 businesses gain 74% of the total

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<sup>14</sup> <http://ec.europa.eu>

<sup>15</sup> <http://www.eurocult.org>

<sup>16</sup> Saviolo, S. and Testa, S. (2002) *Strategic Management in the Fashion Companies*, Etas. RCS Libri, Milan

outcome.<sup>17</sup> It is visible that the apparel industry consists of many small firms that contribute to the industry output. Consequently the small actors of the fashion industry hold relevance in terms of their economic power and dominate the fashion business landscape. This is not only true for the UK but also for many other countries. In Germany micro businesses in the design industry generate 75% of the total business volume.<sup>18</sup> The European Enterprise and Industry Commission defines micro businesses as companies, which employ fewer than ten persons and whose annual turnover is under 2 million euro.<sup>19</sup>

Additionally to the economic relevance, the cultural contribution to society of the fashion industry has to be considered. The economical performance has to be enlarged by the “cultural rate of return”. It is the cultural revenue companies create, which stands in contrast to the economical revenue. Fashion as a part of people’s social life and as an object of cultural value accounts for the well-being of people and serves at the same time the basic need to wear clothes. Fashion is embedded in people’s minds in their leisure and working time as a way to express identity.

Innovation is a main factor in the scope of entrepreneurship and is first and foremost important for the fashion industry with its complex economic, cultural and aesthetic dimensions. Fashion design entrepreneurs innovate inside these dimensions with creativity and constant change. As Dickerson (2003) stated to the point: “The constant in fashion is change.”<sup>20</sup> According to Schumpeter (1934) innovation is hard to copy and Drucker (1985) pointed out that there is the need for continuous innovation.<sup>21,22</sup> Both statements are true for fashion entrepreneurs who must be continuously innovative in their sphere of activity; fashion can be copied but not innovation. A fashion design entrepreneur is the key person that manages the entrepreneurial process and sets up a business to integrate their design ideas into the marketplace.<sup>23</sup>

The fashion design branch as a part of the creative sector consists of a high number of individuals, who set-up a micro business or who are self-employed. 80 per cent of

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<sup>17</sup> <http://www.statistics.gov.uk>

<sup>18</sup> <http://www.kultur-kreativ-wirtschaft.de>

<sup>19</sup> <http://ec.europa.eu>

<sup>20</sup> Dickerson, K. G. (2003) *Inside the Fashion Business*, Pearson Education, New Jersey

<sup>21</sup> Drucker, P.F. (1985) *Innovation and Entrepreneurship: Practice and Principle*, Harper Business, New York

<sup>22</sup> Schumpeter, J. A. (1934) *The Theory of Economic Development*, Harvard University Press, Cambridge

<sup>23</sup> Burke, S. (2008) *Fashion Entrepreneur, Starting your own fashion business*, Burke Publishing, UK

creative entrepreneurs are in this category with no ambitions for further growth.<sup>24</sup> Leadbeater et al (2005) further pointed out that many want to stay small, because they want to maintain their independence and the focus on creativity.<sup>25</sup> Therefore the creative sector has rather a small-scale nature. The total number of self-employed people in Germany is ten per cent, whereas in the field of design are 50% self-employed.<sup>26</sup>

However, a sizable number of fashion design companies, confronted with various challenges and obstacles, struggle on their way to start a business. Only five per cent of around 2.000 fashion design graduates, who leave the approximately 85 German fashion schools year after year, are successful in creating an own business.<sup>27</sup> Only a few fashion entrepreneurs are capable of making it through the first years and many do not succeed in reaching a stage of retention. In this context retention can be specified as gaining a sustainable position in the fashion business. A sustained and lasting position of a company may be achieved by a structured venture launch, which implies a goal-orientated and prosperous company foundation.

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<sup>24</sup> <http://www.statistics.gov.uk>

<sup>25</sup> Leadbeater, C. and Oakley, K. (2005) Why Cultural Entrepreneurs matter, in: *Creative Industries* by John Hartley, Blackwell Publishing, Malden

<sup>26</sup> <http://www.kultur-kreativ-wirtschaft.de>

<sup>27</sup> <http://www.faz.net/>

### 3 Fashion design entrepreneurs

*The challenges of a fashion entrepreneur can be differentiated between specific industry challenges and personal challenges. The fashion design entrepreneur as the heart of the company has to balance creativity and a hard fact managerial approach, as well as to consider industry related aspects.*

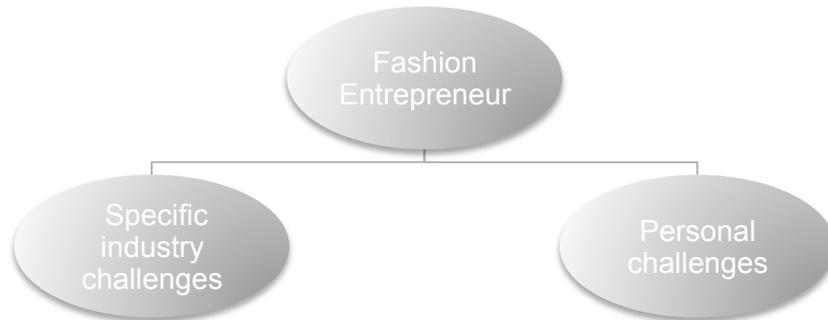


Figure 1 Challenges of a fashion entrepreneur, self-illustration

#### 3.1 Specific industry challenges

The fashion industry has certain structures, mentalities and processes, which lead to specific characteristics of this sector that have an impact on fashion entrepreneurs. The variety that exists in the fashion industry has to be emphasized. There is an infinite amount of different products, operation methods and individual requirements. This has of course also consequences for fashion design newcomers. According to Burke (2008) entrepreneurs do not operate in a vacuum, they work within a company, within an industry and within a particular market sector. The industry specific challenges are split into five categories:

- Industry conditions
- Economics of the industry
- Early finance
- Governmental support
- Fashion clusters

##### 3.1.1 Industry conditions

Stone (2008) wrote in her book: "Fashion is, in many ways, like a river. A river is always in motion, continuously flowing – sometimes it is slow and gentle, at other times rushing and turbulent. It is exciting and never the same. It affects those who rest on its shores. Its movement depend on the environment."<sup>28</sup>

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<sup>28</sup> Stone, E. (2008) *The dynamics of Fashion*, Fairchild books, New York

To be an entrepreneur in the fashion sector is not easy. It demands a lot from fashion start-ups, as it is hard to overview the entire industry. The fashion designer Karl Lagerfeld expressed it in this way: "I make, I unmake, and I remake. There are other careers. You can work behind a desk or counter. It's a safe bet. If you want social justice, be a civil servant. Fashion is ephemeral, dangerous, exciting and unfair."<sup>29</sup> The fashion industry is an unpredictable and hypercompetitive market with short product life cycles.<sup>30,31</sup> It is a subjective market with the need to be cutting-edge and relevant in terms of the creativeness (as Jones 2008 cites Crewe and Beaverbrook 1998). Subjective in the sense that fashion is based to a great extent on individual preferences and the taste of people.

In addition, the fashion sector can be seen as a saturated and volatile market.<sup>32</sup> To gain market share fashion companies have to take customers of their competitors. The fashion companies have to focus on the unique selling proposition of the products and on the differentiation from competitors. A fashion company needs an innovative business idea and a unique design language to capture the attention of customers that have an infinite choice of different products from upcoming fashion companies. As Bruce et al (2002) expressed: "Design matters. In a world where customers have increasing choice about what they buy and from whom, what makes them choose one product or service over another? In a word it is design."<sup>33</sup>

### 3.1.2 Economics of the industry

#### Seasonality

One of the most powerful elements in fashion is time. Apparel is developed for different seasons, special events and for different times of the day (Jones, 2005). High fashion designers are working according to the traditionally fashion industry calendar, which is divided into two major seasons – spring/summer and autumn/winter.<sup>34</sup> The whole fashion industry has arranged its business around this standard, it is visible for instance in the timing of fashion shows, which take place two times a year. Fast

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<sup>29</sup> <http://okanaganfashioninstitute.ca>

<sup>30</sup> Saviolo, S. and Testa, S. (2002) *Strategic Management in the Fashion Companies*, Etas. RCS Libri, Milan

<sup>31</sup> Wendy, M. (2008) *Fashion designers as business: London*, Journal of Fashion Marketing and Management, Volume 12, Issue 3, Emerald Group Publishing Limited, London

<sup>32</sup> Jones, S. J. (2005) *Fashion Design*, Laurence King Publishing, London

<sup>33</sup> Bruce, M. and Bessant, J. (2002) *Design in Business, Strategic Innovation through design*, Pearson Education, Harlow

<sup>34</sup> Jones, S. J. (2005) *Fashion Design*, Laurence King Publishing, London

fashion companies have changed, however, the fashion landscape since they develop annually more than ten collections.

Every company has naturally its own fashion cycle, whereby fashion design entrepreneurs mostly follow the international rhythm presenting two major collections a year to be part of the fashion business on a professional base. Managing the cash flow is especially a challenge in the fashion industry with its seasonal schedule. Due to the seasonality, the forecasting of the order volume is another challenging aspect. If a designer is new on the market, it is difficult to indicate how many clothing pieces will be sold.

Establishing a sustainable company is hard since developing and producing a collection has to be pre-financed. A fashion designer gets the revenues back when selling the clothes but the next collection has to be started already in the meanwhile. Designers have to pay for the production costs of the clothes upfront.<sup>72</sup> Thus, a critical overlap of costs can emerge for the entrepreneurs, for a time the costs are higher than the earnings. As a fashion designer of a label in New Zealand pointed out: *"For us it was very difficult to sell only twice a year, you get only paid twice a year. But you have to accept that, this is how it is."*<sup>35</sup>

#### Margins - Production

Another challenging aspect is the production process, as stated by several of the experts contacted in the context of this research. Young fashion design ventures have often problems in finding an adequate production partner to produce their collections. At the beginning it may be possible to produce in-house but at a certain stage of growth there will be the need to outsource. Designers have to be aware that to outsource the production means higher cost, uncertainty and a higher risk. A designer of a label in Berlin stated: *"When producing our first collection, everything, you could imagine, went wrong."*<sup>36</sup> At the beginning the production volume is small, which means that the production of each single piece is much more expensive since there are not economies of scales. Consequently, the margin is significantly lower.

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<sup>35</sup> Oral reference, conducted in the time period from April to May 2010

<sup>36</sup> Oral reference, conducted in the time period from April to May 2010

Additionally it is a challenge to forecast the sales volume. A designer argued: “*At the very beginning I thought it would be easy to sell 600 pieces but it was really hard to achieve this.*”<sup>37</sup>

Another problem presents the small amount of remaining manufacturing companies in most of the western European countries such as Germany, as expressed by the entrepreneurs contacted in the context of this research, and the UK (Jones, 2005). Sometimes these domestic companies are the only possibility to produce a very small quantity of garments; bigger clothing manufacturers may be more difficult to enter. Moreover, the domestic production companies offer the fashion entrepreneurs a better control over the production process. The fashion designers are able to visit the domestic production company easily and communicate in their own language.

There are further difficulties for small fashion businesses. Due to the small quantities of clothing pieces they are at the back of the queue when it comes to manufacturing. More powerful and larger clients will be in the forefront (Jones, 2005). Abi Williams, British fashion designer of the label Rude, said: “Manufacturers are always going to make stuff for larger clients first. We work with factories that make for Next, so they are always going to put their orders down first and then do ours at the end. Consequently we were two months late on delivery last season and half of the shops returned stuff.”<sup>38</sup> Manufacturers may let down small fashion design companies in the last minute.

### 3.1.3 Early finance

According to the experts contacted in the context of this research, getting finance for their start-ups is one of the major issues fashion entrepreneurs are facing. Difficulties in financing a new venture condition the growth opportunities of a company.

In the fashion design industry it is relatively easy to start up in contrast to other industries. The barriers to entry depend of course on the dimension of the venture, but for a small label it is possible to start basically with a sewing machine, compared to the clothing business where expensive machines are required (Burke 2008).<sup>39</sup>

There are two possible sources of external finance: debt and equity. “Debt is borrowing money from an outside source with the promise to return the principal, in addition to an

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<sup>37</sup> Oral reference, conducted in the time period from April to May 2010

<sup>38</sup> Jones, S. J. (2005) *Fashion Design*, Laurence King Publishing, London

<sup>39</sup> Burke, S. (2008) *Fashion Entrepreneur, Starting your own fashion business*, Burke Publishing, UK

agreed-upon level of interest”.<sup>40</sup> Whereby equity occurs when a company gives away part of the ownership of their business.<sup>41</sup> Sources of external finance can be financial institutions, venture capital, business angels, grants, credit unions and of course friends and family. Early finance for fashion start-ups is very limited and mostly only available for companies in a mature stage. New ventures need an adequate amount of capital to survive. A large number of businesses fail due to lack of enough finance backing the venture.

Fashion entrepreneurs have difficulties in accessing financial support because the business ideas are often considered to be high-risk investments and the margins are low.<sup>42</sup> Additionally the value of a creative product is difficult to measure; the success of a collection depends on a big part on the valuation and personal taste of the customers. Hence it is difficult to indicate the profit of a fashion business. It is hard for a fashion entrepreneur to predict the return on investment, which makes it less attractive to banks and investors. Investors or even business angel investors invest only if they see a large growth potential.

Designers and investors/banks have to understand each other in order to gain a common ground for a business connection. As it will be mentioned in the next chapter regarding the personal challenges of fashion entrepreneurs, fashion designers and business people “speak a different language” which may lead to misunderstandings. Since investors and banks evaluate the business idea and the possibilities of the idea, it is firstly important to have a business plan and secondly to present it in an adequate manner. This seems to be a challenge for most designers. Banks refrain from financing fashion entrepreneurs when they determine that the business and entrepreneurial skills of a designer are insufficient.<sup>43</sup> Banks look at four criteria: firstly the entrepreneur as a person, secondly the collateral, thirdly the return on investment and lastly the certainty in terms of assets.<sup>44</sup> The bank has to be convinced of the commercial success potential of the products, only a small amount of designers succeed in doing that.

In general designers are afraid of owing money to banks. According to Deborah Goodwin, director of the Garment Industry Development Corporation in New York, fashion entrepreneurs usually finance their ventures through personal connections

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<sup>40</sup> <http://entrepreneurs.about.com>

<sup>41</sup> <http://www.businessfinance.com/>

<sup>42</sup> <http://www.entrepreneur.com/>

<sup>43</sup> <http://www.entrepreneur.com/>

<sup>44</sup> <http://www.gruenderhilfe.de/>

such as friends, family and private savings,<sup>45</sup> because it seems less risky. However, starting a company with private money represents a high personal financial risk.

The scale of finance has also to be considered. As one of the industry experts stated: *“An example is, that a micro credit of a bank is around 50 000 Euro, and some of the founders that I met, would have been already happy about 5 000 Euro.”*<sup>46</sup> If these designers do not require such a high amount of money, it may be that the scale of finance has to be adjusted since it may not be suitable for early finance of a young fashion design venture. A relevant question is if entrepreneurs only demand such a small amount of money or if this carries the danger of starting with too little money. According to Sugars (2007), author for the online magazine Entrepreneur, there are six biggest mistakes in raising start-up capital. One of the mistakes is that entrepreneurs “start out with too little money” as a U.S. bank study figured out in 2004. The failure is often caused by their financial calculations, which is mostly based on a best-case forecast rather than a worst-case scenario. These entrepreneurs are too optimistic about their possibilities.<sup>47</sup> The small-scaled nature of fashion entrepreneurs, which will be mentioned in the chapter of the personal challenges, is hence influencing not only the growth of a company but probably also the entire success of the venture.

### 3.1.4 Governmental support

Fashion design is recognised as a sub-sector of the creative industry. In the last years the creative industry as a whole has drawn attention in politics due to the dynamically economic contribution.

In Germany, governmental support for the creative industry is in the early stages but it is far behind the support for other industries such as the technology and engineering sector. A fashion industry expert pointed out: *“In general there is a big offer for people who want to establish a business but not so much for creative people. These supportive programmes vary to the ones in other branches, they are structured in a different way, and many lack a reference to entrepreneurship.”*<sup>48</sup> Governmental support for creative entrepreneurs is still very limited in terms of the amount of different support initiatives and it is mostly limited in time. An organisation has to apply with a concept for governmental financial support. Then the government has to allow the application

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<sup>45</sup> <http://www.reuters.com/>

<sup>46</sup> Oral reference, conducted in the time period from April to May 2010

<sup>47</sup> <http://www.entrepreneur.com/>

<sup>48</sup> Oral reference, conducted in the time period from April to May 2010

and concede money. A coordinator of a support initiative in Germany stated in a conversation: *“Our support programmes are financed for three years, after this time unfortunately only some of them will be continued.”*<sup>49</sup> With such a short duration these initiatives are beneficial but not sufficient. They do not contribute to a sustainable support system.

### 3.1.5 Fashion clusters

As Burke (2008) pointed out, a fashion cluster is formed when a number of companies that work in the fashion industry gather in close proximity and they further form a critical mass providing work, a pool of fashion industry talents and a fruitful environment encouraging innovation, creativity and competition. It includes supporting industries and services, fashion designers, pattern makers, marketing agencies, publishing, retailers and education institutes that teach fashion skills.<sup>50</sup> According to Burke (2008) clusters encourage cooperation with other companies, facilitate networking and enable useful industry contacts. The businesses in the cluster can be regarded as extended companies that use the common location as a base for a relationship that ease work and offer a learning platform.<sup>51</sup> It is a platform to interact and exchange. For fashion entrepreneurs these clusters present a potentially useful and beneficial environment to start up a new venture. Especially cultural appealing cities, mostly metropolises, attract creative people. Such clusters of creative people lead to an increased desirability of certain regions, in particular for fashion entrepreneurs. A respondent stated: *“For a designer the location of the workplace is crucial, it has to be a creative place where people meet.”*<sup>52</sup> This is at the same time a challenge since clusters stimulate competition. It is a local accumulation of similar operating businesses that compete on the same market. In a cluster, it can be even harder to establish a successful position.

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<sup>49</sup> Oral reference, conducted in the time period from April to May 2010

<sup>50</sup> Burke, S. (2008) *Fashion Entrepreneur, Starting your own fashion business*, Burke Publishing, UK

<sup>51</sup> Curzio, A. Q. and Fortis, M. (2002) *Complexity and Industrial Clusters*, Physica Verlag, Heidelberg

<sup>52</sup> Oral reference, conducted in the time period from April to May 2010

## 3.2 Personal challenges

Several factors can influence and challenge the foundation and growth of a fashion design company: individual network, personality, education, personal background, attitude, role and behaviour of a fashion design entrepreneur. It has to be mentioned that the following is a general reflection and does obviously not apply for all fashion designers. These challenges will be illustrated with results from my research and underlined by literature review. The challenges are split into seven categories:

- Set of skills – Designer's role
- Personality – Behaviour – Attitude
- Business skills
- Education – Specialist vs. generalist
- Communication – Network
- Designer as the brand
- Small-scaled

The statement from one of the fashion designers is characteristic and explains the situation of an entrepreneur to the point: *"I compare the formation of a company with a pregnancy. You think you know what you have to expect and how it will be but in the end when you experience it, everything is totally different."*<sup>53</sup>

### 3.2.1 Set of skills – Designer's role

Jackson et al (2006) argued that designers must be multi-skilled.<sup>54</sup> The tasks of a fashion designer vary of course from company to company but as an entrepreneur, a fashion designer needs a large set of skills. It is a leave-taking from the traditional designer role into the balancing act of two elements - creativity with business skills and art with commerce.<sup>55,56</sup> Firstly, the design part consists of the aesthetic and technical product development process. Secondly, the business part includes the business strategy and management of the label. Fashion design entrepreneurs have to be aware and in charge of all the different fields of the business:

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<sup>53</sup> Oral reference, conducted in the time period from April to May 2010

<sup>54</sup> Jackson, T. and Shaw, D. (2006) *The Fashion Handbook*, Routledge, New York

<sup>55</sup> Burke, S. (2008) *Fashion Entrepreneur, Starting your own fashion business*, Burke Publishing, UK

<sup>56</sup> Bruce, M. and Bessant, J. (2002) *Design in Business, Strategic Innovation through design*, Pearson Education, Harlow

- Research (market research, trend research, consumer behaviour)
- Product development (aesthetically, qualitatively and technically)
- Sourcing
- Production
- Marketing
- Distribution
- Sales
- General management (business strategy, direction of the brand, positioning, pricing, corporate identity)

It seems to be one of the most challenging tasks to be capable to balance and manage the two different elements. Jones (2008) cites in her article Yohji Yamamoto: “Fashion consists of both commerce and creation. You need to find the right balance, if not you cannot continue. Although I will always defend a very pure creation, I should not forget that I am responsible for the jobs of the 500 people working for Yohji Yamamoto.”<sup>57</sup> Fashion designers have chosen their profession due to the creative and artistically sphere of activity. Founding an own label is often considered as the highest creative goal a fashion designer can achieve. In day-to-day work as an entrepreneur, design is only a fraction of the whole. Much more time consuming are all the other aspects that have to be managed, which requires a large commitment of time and energy. A great stamina and openness is needed to accept this fact and to get along with it. If a company consists only of one person or a small team, lack of time is an eminent challenge. Designer Paul Smith stated: “The biggest mistake of beginners leaving the school is to believe that they are able to establish a label right away, with all the different fields which are connected to it. The creation of an interesting collection is only one aspect among several others, which are necessary to build a successful brand.”<sup>58</sup>

In the research for this thesis it emerged that the designers often feel overburdened by the enormous number of different fields of activities. A designer has the possibility to outsource certain fields of responsibility but it has to be mentioned that to hand over certain tasks to specialists like the pattern making process, requires financial capital. And as it was shown before, this is a burden for small fashion design labels. A designer

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<sup>57</sup> Jones, S. J. (2005) *Fashion Design*, Laurence King Publishing, London

<sup>58</sup> Jaeger, A. C. (2009) *Fashion Inside – Macher, Models, Marken*, Thames & Hudson, London

duo, who are founders of a small label in Berlin, expressed: *“We think it is the best to outsource as much as possible to give a part of the responsibility away. If you are not sure about things, so many mistakes can happen. And if the mistakes happen to others it is much easier for you because you have a contract. This is of course more expensive but at the end it is better for you.”*<sup>59</sup> Even if these entrepreneurs said that they do not like to give away too much work, they were aware of their limits and recognised the significance of outsourcing certain fields of activities.

And the founders continue with a specific problem the label was faced at the beginning: *“The production is really a big problem for us. It is not easy to communicate everything in a way that the production company understands. We have not enough experience in doing business for example with a production company. On the first invoice, they had listed only one absolute amount of money. How much each single work performance cost was not visible and how this amount of money was calculated.”*<sup>60</sup>

In general creative people tend to be into doing everything on their own. It seems not easy for designers to give away parts of their work. A fashion designer from Sweden said: *“I think it is normal for designers that we want to do all the tasks by ourselves, we want to have the control over everything, this has a lot to do with passion and the personal connection to the products.”*<sup>61</sup> If a label is reaching a certain size, it is naturally to outsource as much as possible in order to be able to concentrate on the essential aspects. The director of a fashion incubator told from her experience within the incubator: *“A lot of designers want to do all the different tasks by themselves but that makes it inefficient. When you are very small, you do not have to outsource yet, but if the business grows, eventually this is not possible anymore, there is no time to have control over everything.”*<sup>62</sup> Designers may feel a loss of identity when turning tasks to others.

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<sup>59</sup> Oral reference, conducted in the time period from April to May 2010

<sup>60</sup> Oral reference, conducted in the time period from April to May 2010

<sup>61</sup> Oral reference, conducted in the time period from April to May 2010

<sup>62</sup> Oral reference, conducted in the time period from April to May 2010

### 3.2.2 Personality – Behaviour – Attitude

Schumpeter (1934) argued that a strong personality is needed as entrepreneurs face opposition from different sources. Founding and managing a business requires hard work, persistency and the ability to cope with uncertainty. The whole attitude of an entrepreneur such as the approach towards the concept and progress of a new venture is crucial for the development of a company. It influences the company culture, the spirit of enterprise and the self-motivation.

Some designers argued that they feel no other possibility on the harsh fashion labour market than self-employment. They mentioned that the aesthetical direction of the brand is an essential criterion for choosing an employer. One fashion designer with a label in Berlin has put it this way: *"If the aesthetical direction does not fit to my own sense of artistic style, I prefer not to work for a company at all. It is too difficult to get a job at one of my favoured designers."*<sup>63</sup> Henry (2007) mentioned the notion "accidental entrepreneurship". Creative entrepreneurs often set up their own business because it is the only way to work.

Creative people set up a business in a different way, mostly without extensive and complex market studies and operational structures.<sup>64</sup> As a director of a fashion incubator stated: *"Many designers do not regard themselves as entrepreneurs or even as owners of a business. It is more of an art project, designers create something that is representing them and this is what they want to communicate. As a consequence, it is more difficult to plan the result of the work."*<sup>65</sup> Alexandra Shulman of the British Vogue shares this view: *"Many designers see themselves as artists' und that's how they think. But fashion is a business. An artist does not have to care about marketing but a designer. A designer has to sell his cloth."*<sup>66</sup>

Creative minds are highly involved in their work, have strong personal values and are driven mostly by their internal motivation. Passion and commitment are essential characteristics to describe the relation to their work. It is a close connection of product and creator. According to Brown (2007) the emotional attachment of a creative entrepreneur to his/her idea is often bigger than in other sectors. On that account the

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<sup>63</sup> Oral reference, conducted in the time period from April to May 2010

<sup>64</sup> Grüner, H. and Kleine, H. and Puchta, D. and Schulze, K.P. (2009) *Kreative gründen anders! Existenzgründung in der Kulturwissenschaft*, Transcript Verlag, Bielefeld

<sup>65</sup> Oral reference, conducted in the time period from April to May 2010

<sup>66</sup> Jaeger, A. C. (2009) *Fashion Inside – Macher, Models, Marken*, Thames & Hudson, London

emotionally impact of failure is very high. Designers have to be convinced about their creative output and be proud of the own products but at the same time, this presents a danger since it could influence a clear, objective and realistic view on the business idea and the management of the company. Markus Lupfer, German fashion designer, expressed the importance of being able to overlook all aspects of the business in a clear and objective way. In his opinion, creativity comes from having a clear vision (Jones, 2008).

Therefore emotional spirit has to be connected with rational spirit. It shows that starting a sustainable business is partly dependent on the personality and the behaviour of a fashion designer.

In the conversations with fashion designers and industry experts, it turned out that generally fashion designers have a lack of business skills. It gains importance when fashion designer actually set-up an own business. Whereby it is naturally due to the focus of their education on design. Additionally and even more parlous, they lack interest for economic topics. A designer duo, who run a label since one year in Berlin, stated: *"Right now we are applying for a grant programme. For this application we need among other things a business plan. Now we have to write it, a friend is helping us. If we would not have to, we would have not done it."*<sup>67</sup> This label is only dealing with the business plan because they have to. An industry expert stated: *"It is not only for the bank but for themselves, they are also learning a lot by creating a business plan."*<sup>68</sup> The formulation of a business plan is only an example for the lack of interest of business skills in general. It presents an enormous problem because awareness and attention for economic issues is absolutely essential when running a business. This allows the question what the reasons are for the disinterest and missing concern? Is it based in the education system or in the personality of creative people?

### 3.2.3 Business skills

The conducted conversations illustrate the lack of entrepreneurial and business skills as a main challenge for fashion designers in becoming an entrepreneur. While they are often very confident about their creative work, they lack confidence entering the world of business. Management, marketing, accounting and financing have to be considered as weak points of fashion entrepreneurs. The level of business skills and the ability to

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<sup>67</sup> Oral reference, conducted in the time period from April to May 2010

<sup>68</sup> Oral reference, conducted in the time period from April to May 2010

manage the business side vary from one individual to another. Naturally it develops and increases by gaining experience.

According to McRobbie (1998) designers generate a sense of tension between themselves and the business world. As a main characteristic of fashion entrepreneurs various respondents expressed that designers think in a different way. An industry expert stated to the point: *"It is like talking two different languages. It is an industry where two different worlds clash."*<sup>69</sup> A fashion designer from Sweden answered to the question if it would be beneficial for her to be more business minded: *"For me, it would be a lot easier, it would be the best to enjoy to talk to strangers about your work. Business people use all these words that I would never use. They do not feel natural to me, but it is good to practise and to know this language, too."*<sup>70</sup> A culture entrepreneurship consultant stated that entrepreneurs do often not have a relation to economic issues. They have an idea, passion and enthusiasm, but if it comes to create a business plan and a business concept, which is absolutely essential, it gets difficult for them. A designer, resident of a fashion incubator, said in a conducted conversation: *"I think you cannot be super creative and handle all the collection, you would need three educations to handle everything by yourself."*<sup>71</sup> John Wilson, former chief executive of the British Fashion Council, believes that fashion institutions need to prepare their students more for the commercial world: *"I think we do have a problem that we produce wonderfully creative people who obviously want to go on and make their own collections and get out into the big wide world of fashion but really have got very little business strength behind them and very little finance."*<sup>72</sup>

#### 3.2.4 Education – Specialist vs. generalist

It is an ongoing debate in entrepreneurship literature on whether students can be taught to be entrepreneurs or not. Bates (1995) pointed out that those entrepreneurs who have experienced entrepreneurship in their education, tend to do better and their firms survive longer than their counterparts who lack formal education.

In the design field various education systems exist. Designers are educated two to four years either at universities, fashion colleges or academies and there is a relatively high

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<sup>69</sup> Oral reference, conducted in the time period from April to May 2010

<sup>70</sup> Oral reference, conducted in the time period from April to May 2010

<sup>71</sup> Oral reference, conducted in the time period from April to May 2010

<sup>72</sup> <http://www.businessdynamics.org.uk/>

number of autodidacts, who learn their skills on the job or as a hobby.<sup>73</sup> Therefore it is not possible to draw a general conclusion. The presented findings only allow a limited generalisation. Hence the focus will be on business founders who studied fashion design.

Even if for many designers it is natural to set up an own company, there is little preparation from the education system. According to all respondents, business and entrepreneurial skills have received any or little attention in their education due to fact that the aesthetical and apparel specific skills are the main focus. It can be put into question whether designers have to be business experts or to which extent they need business skills to run their business. It is a matter of being a specialist versus a generalist. But it is out of question that designers have to be aware of the business aspect and have to be able to handle it. A realistic view on the industry is often not communicated from fashion institutions as a conversation partner of a supportive concept argued: *“Decisive is the education of the designer. (...) Many designers do not know that there are little chances on the market and which qualification they need in order to start a business. (...) Sense for reality and communication of real life experience is needed.”*<sup>74</sup>

Creativity and entrepreneurship are often seen as two different aspects, as a controversy. Accordingly creativity should be seen as free of entrepreneurial constraints. “Cultural entrepreneurs need to develop a mix of creative and business skills, often at different stages of their career. Education institutions are often too flexible to deliver these skills as and when the entrepreneurs need them.”<sup>75</sup> Burke pointed out the importance of working experience: “The process of how to integrate their design ideas into today’s marketplace is something that is often only learned by years of experience in the field.”<sup>76</sup>

The question rises how much is in the hands of the educational system, where does the responsibility of an education system start and where does it end? An important point made by a designer: *“While studying we did not realise what would be essential later on when we would start a business.”*<sup>77</sup> Often fashion entrepreneurs do not realise

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<sup>73</sup> <http://www.modepalast.com>

<sup>74</sup> Oral reference, conducted in the time period from April to May 2010

<sup>75</sup> <http://www.timeshighereducation.co.uk/>

<sup>76</sup> Oral reference, conducted in the time period from April to May 2010

<sup>77</sup> Oral reference, conducted in the time period from April to May 2010

they need business skills until long after they have left their education and started a business.

### 3.2.5 Communication – Network

According to Burke (2008), networking can be defined as the ability to connect with a broad range of contacts with the aim of sharing useful information and resources. The relationship is usually mutually advantageous and collaborative. It is preferably a win-win situation.<sup>78</sup> A well-grounded network is essential in every industry but especially in the fashion industry the interaction and communication of people is very important. This can be a challenge for young fashion designers whose network is often very limited. It may take a certain time for a new entrepreneur to build up a network. Through a network of relevant contacts, it is possible to get useful information, to gain access to important contacts and share knowledge. Especially at the beginning a relevant and broad network is very helpful to start up the label. The statement from one of the fashion entrepreneurs is characteristic: *“I think to be a successful fashion designer, it is 10% talent, 90% network.”*<sup>79</sup> A designer duo of a young label in Berlin explained the benefits of their network: *“The whole photo shootings and preparation of our booklets would have not been possible without a network of people who do these things for a very small amount of money or for free.”*<sup>80</sup> At best the network influences the set up of a new venture in a beneficial way.

Bull et al (1993) defined three stages of network concepts of small firm communities. The first stage are the networks in terms of membership and linkage, secondly the dynamics within the network of relations between members. The third stage is the competitive advantage. Small firms benefit from a particular network due to the location of the network. Therefore, a network has different characteristics and benefits.

Networking can be a problem for a number of creative entrepreneurs when dealing with business partners. In particular when interacting with the counterparty, some designers are incapable of communicating with business people in the right way in an appropriate business language. A manager of a support programme stated: *“I see that the designers are very often not able to communicate with producers and that producers*

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<sup>78</sup>Burke, S. (2008) *Fashion Entrepreneur, Starting your own fashion business*, Burke Publishing, UK

<sup>79</sup> Oral reference, conducted in the time period from April to May 2010

<sup>80</sup> Oral reference, conducted in the time period from April to May 2010

*have often to adjust to the designers.”*<sup>81</sup> According to Heller (2002) designers are dependent on the environment: “The minute you depend on creativity for a living, you cede control to somebody else’s judgement. The client, the environment.” Designers should know how to communicate and how to take their ideas to the marketplace. The most challenging task for a resident in a fashion incubator is being a sales person: “*You have to sell yourself - to sell yourself to a completely stranger, you have to show and increase your integrity.*”<sup>82</sup> A fashion designer described their biggest problem on the way to set up their label: “*We had big problems in selling our clothes - to describe the uniqueness of the pieces. All the buyers are looking for a story. You really have to prove yourself at the beginning but you get better every day. It is a constant learning process.*”<sup>83</sup>

When communicating about business issues, there are always two parties involved. Not only the designers, but also the other side has to be considered. According to Bruce et al (2002) barriers for integrating design is among others the design illiteracy on the side of business people.

### 3.2.6 Designer as the brand

At the same time, a designer has to stand behind and represent the label.<sup>84</sup> This means the fashion designer stands for the brand twenty-four-seven and as a result incorporates the brand. A director of a fashion incubator explained it like that: “*It is not you and the business, you are the business.*”<sup>85</sup> The linkage of founder and business implicates a close emotional connection. The tight relation carries the inherent danger of being not rational enough.

Especially in the fashion industry, the publicity and awareness of the designer’s name and the associated design language is more present than in other branches. Brands’ and designers’ names became of particular importance in the 2000’s century.<sup>86</sup> It is quite a challenge to create not only an interesting collection and good products but also to communicate the aesthetics of the products and to connect the personality successfully with the collection. The founder and fashion designer of a small business is at the same time a spokesperson for the label.

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<sup>81</sup> Oral reference, conducted in the time period from April to May 2010

<sup>82</sup> Oral reference, conducted in the time period from April to May 2010

<sup>83</sup> Oral reference, conducted in the time period from April to May 2010

<sup>84</sup> Stone, E. (2008) *The dynamics of Fashion*, Fairchild books, New York

<sup>85</sup> Oral reference, conducted in the time period from April to May 2010

<sup>86</sup> Tungate, M. (2008) *Fashion Brands, Branding Style from Armani to Zara*, Kogan Page Limited, London

### 3.2.7 Small-scaled

The intention to set up a label may have various reasons, ranging for instance from personal fulfilment, financial self-reliance to artistic freedom, but in the middle of the focus is the generation of value. For a creative person value can be related to a financial, social or emotional outcome. Heller et al (2008) stated that some designers view profit as relative, which cannot always be “translated into dollars and cents” as coming from the connection of art, design and commerce.<sup>87</sup> Sarah-Jane Clarke made it to the Business Review Young Rich List as co-founder of the fashion label Sass&Bide, she stated: “When we started we never thought about making money; and lots of creative people don’t. We wanted to create beautiful things.”<sup>88</sup> In the conversations with different fashion designers and industry experts it turned out that for young fashion designers who set up a company, the business should be profitable but they have not necessarily the expectation to earn a fortune. The non-financial rewards are an essential benefit of the company foundation.

This is a significant aspect, since it could have an impact on the growth of a company. If a business founder does not think big but rather in a small-scale, then the focus does naturally not lay on further growth. McRobbie (1998) argued that in the fashion design industry, economic issues are subordinated to creative and cultural aspects. Most of the designers prioritise the creative over the financial outcome. A person in charge of a support initiative reported from her experience: “*Creative people are less risky, they do not like to take a credit and rather start their business small-sized.*”<sup>89</sup> Some companies prefer to stay small because the fashion entrepreneurs are afraid to burden themselves too much and they are afraid of the fashion industry as an uncertain, fast-paced and unpredictable sector (Leadbeater et al, 2005). The small-scaled nature of the business is a challenge for an entrepreneur. If a young and small company is not yet well established on the market, the founder is confronted with obstacles such as the dependence on a few customers and the missing effect of economy of scale in the production process as already examined in the industry specific challenges.

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<sup>87</sup> Heller, S. and Talarico, L. (2008) *The design entrepreneur*, Rockport Publisher, Beverly

<sup>88</sup> Burke, S. (2008) *Fashion Entrepreneur, Starting your own fashion business*, Burke Publishing, UK

<sup>89</sup> Oral reference, conducted in the time period from April to May 2010

## 4. Analysis

*The analysis chapter presents a description of supportive concepts that encourage entrepreneurship in the fashion design industry. Case studies will illustrate these concepts and in the last part a discussion and evaluation of the supportive concepts will be done.*

### 4.1 Supportive concepts

Three approaches of supportive concepts that foster fashion entrepreneurship are introduced and described in the following paragraphs. Generally, creative entrepreneurs experience three critical stages (Leadbeater et al, 2005). In the first stage, the gestation phase, the entrepreneurs identify an idea and explore how this idea can be applied. The second stage, the growth phase, the entrepreneurs obtain business skills and develop a business plan. A sustained growth of the company is the critical process of this phase. And in the third stage, the expansion phase, a product or market expansion is performed. This is the most challenging stage.<sup>90</sup>

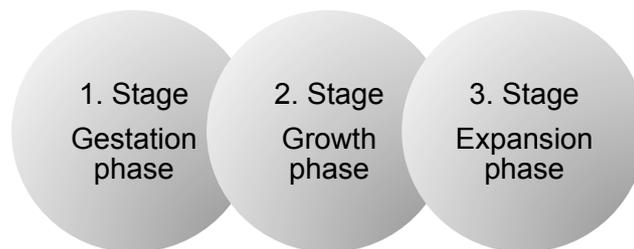


Figure 2 Stages of a company creation, self-illustration

The three stages experienced by creative entrepreneurs in the course of the company foundation can be applied on the presented concepts. Incubators support fashion design ventures in the gestation and the growth phase where a basis for the foundation is provided and where the fashion entrepreneurs develop the business idea and plan. The second concept, the relationship of a designer and business partner, is covering all the stages since the partners are mostly going through all stages together. The presented concept of an external management is taking place in the second and third stage, the growth and expansion phase. The umbrella company is supposed to support the entrepreneurs on the way to a sustainable position in the fashion industry. Therefore it has to be paid attention that these concepts have a different starting point,

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<sup>90</sup> Leadbeater, C. and Oakley, K. (2005) Why Cultural Entrepreneurs matter, in: *Creative Industries by John Hartley*, Blackwell Publishing, Malden

focus and intention and above all that they are not mutually exclusive. The approaches of the concepts depend on different needs of fashion entrepreneurs.

#### 4.1.1 Incubator

Incubators are facilities, which offer support to small business entrepreneurs. According to Kuratko et al (2001) an incubator is an institution with adaptable workplaces depending on the need of the residents that small companies can rent on flexible terms and to a reduced fee. The residents receive financial, managerial, technical and administrative support services. Additionally they have access to equipment and a resource pool of contacts and on this account to knowledge and experience. The tenants pay either a small amount of money or sometimes the service is totally free of charge. The time spent in an incubator is limited from two to five years with the purpose to increase the chances of survival for small start-up companies.<sup>91</sup> After this time the companies should have built up a well-grounded base and be able to work independently in a professional and above all in a profitable manner. Every incubator has its own entry standards and according to them, the tenants have to go through a selection process where the most suitable and promising business founders are chosen.

Incubators differ in respect of the diverse operational structures and incubator types. Decisive is the management and structure of the incubation process, the incubator governance, the financial support of the entrepreneurs and the size as well as the resident capacity. There are five types of incubators, firstly, the public sponsored incubators, initiated by the city economic development department with the main objective of job creation (Dietrich et al., 1996). Secondly, incubators working on a non-profitable base, initiated by either industrial development associations of private industries or community based organisations with the major objective of area development. Thirdly, the university related incubators as spin-offs of academic research projects. Another type is the private sponsored incubator as a private corporation with the aim to generate profit and to contribute to the community.<sup>92</sup> And lastly, there are virtual incubators without physical structures.<sup>93</sup> Some incubators offer their services to full-time residents as well as to part-time outreach members.

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<sup>91</sup> Kuratko, D.F. and Hodgetts, R. M. (2001) *Entrepreneurship, A Contemporary Approach*, Harcourt College Publishing, South Lincoln

<sup>92</sup> Dietrich, F. and Fiedler, H. and Nagy, P. (1996) *The concept of Business Incubators and Innovative Centers*, Weidler Buchverlag, Berlin

<sup>93</sup> <http://www.inc.com/>

To set-up a new venture is a risky and difficult step in the complex and competitive environment of today's economy. Therefore incubators help to reduce the risks for entrepreneurs and to overcome many of the problems entrepreneurs are faced during the start-up phase to achieve sustainable growth. The incubator concept goes back to the foundation of the first incubator in the USA in 1959. It started from companies within the technology sector and was further developed to support businesses in other fields such as companies within the creative and service industry.<sup>94</sup>

Incubators, dealing with the support of creative businesses, are based for instance in Toronto, London, Dunedin, Rotterdam, New Orleans, Borås, Stockholm and virtual incubators such as 'www.designedge.net.au' and 'www.fashion-incubator.com', which will not be examined further in the thesis. Some of them are institutions only for the fashion industry like the Toronto Fashion Incubator; others are active within the creative industry as a whole like the Transit Kulturinkubator in Stockholm. By being part of an incubator, residents can keep costs low and reduce financial risks. It presents a useful and industry related network with a resource pool of contacts where entrepreneurs can gain knowledge and benefit from the experiences of other entrepreneurs and mentors. The mentors have probably already gone through the process of setting up a company or have worked with many entrepreneurs before.<sup>95</sup> As Burke (2008) described, incubators provide a stimulating, networking environment for entrepreneurs to apply their creative ideas and receive immediate feedback.

Various residents of different incubators mentioned that having a workplace is a very important aspect in being a tenant at an incubator. The access to industry contacts and therewith to experience and knowledge seems to be the most important asset of an incubator. But it seems also to be the biggest challenge for an incubator to provide substantially beneficial and helpful business contacts. In the conducted conversations it came up that the eye-to-eye contact from the industry could be improved.<sup>96</sup> As various the types of incubators are, as different are the deficiencies of the incubators. Unpleasant conditions for the residents can be the lack of equipment like sewing machines, the missing possibilities to present the venture such as press days or missing financial support. The structure of an incubator is always dependent on the environment of an incubator such as specific country situations or industry conditions.

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<sup>94</sup> Kuratko, D.F. and Hodgetts, R. M. (2001) *Entrepreneurship, A Contemporary Approach*, Harcourt College Publishing, South Lincoln

<sup>95</sup> Burke, S. (2008) *Fashion Entrepreneur, Starting your own fashion business*, Burke Publishing, UK

<sup>96</sup> Oral reference, conducted in the time period from April to May 2010

The Dunedin fashion incubator in New Zealand for instance acts in a country of entrepreneurs due to the country's geographic isolation.

#### 4.1.2 Partnership of a designer and business person

As mentioned before, design entrepreneurs are confronted with several personal challenges; one of them is the lack of business skills. This challenge becomes less important with the second presented supportive concept. It is the partnership of a designer and a businessperson. When setting up a company, it is an advantageous option to combine two complementary minds because obviously the more partners with different backgrounds start a new venture, the bigger may be the amount of diverse skills.

Some fashion designers have a strong business partner behind the scenes who serves as the foundation of the company.<sup>97</sup> Famous partnerships can be taken as an exemplar for a beneficial business relationship combining a creative and managerial spirit: Tom Ford and Domenico De Sole, Yves Saint Laurent and Pierre Bergé, Ottavio and Rosita Missioni, Calvin Klein and Barry Schwartz, Gianni and Santo Versace, Jimmy Choo and Tamara Mellon as well as Marc Jacobs and Robert Duffy.<sup>98,99,100</sup>

In each of these partnerships one person of the couple can be defined as the rational manager and business minded part and the other one as the creative member of the connection. It may be useful to have a closer look at these partnerships with regard to the successful businesses that they have commonly build up. It is significant that some of these partnerships endure several decades in an industry where change is a constant as mentioned before. Saviolo et al (2002) pointed out the special relationship of the couples, connected in a long-lasting friendship, a civil partnership or through a personal affinity. The biggest challenge is to find such a complementary partner. A fashion design resident of an incubator stated: "*Everything would be so much easier if I would have this perfect partner.*"<sup>101</sup> The working performance of the partnership is crucial for the success and stability of the venture. The challenge hereby is certainly to avoid a struggle for dominance as well as a well-balanced relation of the two persons

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<sup>97</sup> Stone, E. (2008) *The dynamics of Fashion*, Fairchild books, New York

<sup>98</sup> Saviolo, S. and Testa, S. (2002) *Strategic Management in the Fashion Companies*, Etas.RCSLibri,Milan

<sup>99</sup> Stone, E. (2008) *The dynamics of Fashion*, Fairchild books, New York

<sup>100</sup> Gehlhar, M. (2005) *Fashion Designer Survival Guide*, Dearborn Trade Publishing, Chicago

<sup>101</sup> Oral reference, conducted in the time period from April to May 2010

(Saviolo et al, 2002).<sup>102</sup> The designer has to be able to work together with the partner every day and to give up control. As Christophe Lemaire, designer at the company Lacoste, expressed: "You have to be passionate and smart to understand the fashion world. Every exceptional designer was smart and had an own point of view about the society. Or you have a partner who is taking care of the financial and strategically side of the business. But this is luxurious."<sup>103</sup>

#### 4.1.3 External professional management

The third supportive concept, the external professional management, is based on the centralisation of management operations. It is the concept of an umbrella company that has the responsibility for different fashion brands. One single leadership team and overall management organisation is applied on several fashion labels. The central management takes all strategic decisions.

The umbrella company is in charge of the different departments such as the production, PR, purchase, human resources, marketing as well as the financing, accounting, administration and brands' strategy. In this way common synergies can be used efficiently. Additionally, the issue of specialisation can be played out. The responsible person for each single department is specialised and can therefore work more effective than it would be possible in a one man show or with a small team. Depending on the company size and structure, the central management organisation performs different functions and owns either parts of the labels or the entire brands. The business structure allows designers to concentrate on the design process.

The strategy and direction of each label may vary significantly, which has to be considered in the management operations. Any decision taken by the management has consequences on the brand and corporate image (Saviolo et al, 2002) and influences the design process. On that account, the umbrella company has to coordinate the labels as well as to keep them together and at the same time to have an individual strategy for each label.

A mutually understanding and common point of view is necessary. According to Saviolo et al (2002) it is not possible to ask creative persons to be more managerial,

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<sup>102</sup> Saviolo, S. and Testa, S. (2002) *Strategic Management in the Fashion Companies*, Etas. RCS Libri, Milan

<sup>103</sup> Jaeger, A. C. (2009) *Fashion Inside – Macher, Models, Marken*, Thames & Hudson, London

because it would limit their creative potential, but one can expect managers to adapt and to enter into harmony with the creative side of the business. The fashion manager has to approach creative attitudes and cultures. According to Bruce et al (2002) managing design is like managing tension between the performance of design and the performance of managing the process of design. And according to Saviolo et al (2002) managing creativity means leading creativity without deforming it. Integration of management and creativity requires a unique corporate culture and a new model of manager.<sup>104</sup> Fashion design companies need special managers who understand creative people and integrate the business with the creative dimension to avoid a tension between the rational and emotional spirit.

## 4.2 Case Studies

The three approaches of supportive concepts are detailed out by the illustration of examples.

### 4.2.1 Incubator in Borås - Textile and Fashion Factory

As an example for an incubator within the textile and fashion industry, the Textile and Fashion Factory in Borås will be described in the following. The Textile and Fashion Factory was founded in 2007 in collaboration between the Espira Growth Center and the University of Borås.<sup>105</sup> In April 2010 Marielle Boström took over the position of Therese Bengtsson, the former director of the Textile and Fashion Factory. The incubator, in cooperation with the Swedish School of Textiles, is seen as an important asset for the region of Borås. It is financed by the government, the communities and various other partners.

The Textile and Fashion Factory is addressed to anyone working in textile and fashion, embracing textiles and fashion design, fashion photography, fashion journalism and research in smart textiles.<sup>106</sup> The purpose of the Textile and Fashion Factory is to create a customized resource and support service for textile and fashion companies with the aim to help and encourage the foundation of their venture during their time at the incubator. Due to the fact that the incubator is relatively young, there are no

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<sup>104</sup> Saviolo, S. and Testa, S. (2002) *Strategic Management in the Fashion Companies*, Etas. RCS Libri, Milan

<sup>105</sup> <http://www.textilochmodfabriken.se/>

<sup>106</sup> <http://www.textilochmodfabriken.se/>

significant numbers about the development of the companies leaving the incubator.

The incubation process takes normally two years; the time is not strictly limited and can be extended if necessary. The incubator hosts currently fourteen residents, whereby twenty residents are able to stay. The first year is free of charge for the tenants and in the second year they have to pay a fee of 500 SEK (around 50 Euro).<sup>107</sup> Potential residents have to go through a selection process. It starts with the application for an incubator place, sending in an application with a curriculum vita and work samples such as pictures and a description of the business idea. In a meeting, the potential creative resident will be met personally in order to find out more about the type of person, his/her vision and inspiration.

The residents have access to a workplace, equipment, seminars and diverse facilities like a catwalk and photo studio. They have the possibility to meet business and design coaches and gain from a pool of industry contacts. Currently, there are two coaches working at the Textile and Fashion Factory, if necessary they are supplemented by additional mentors helping with specific information and knowledge in order to offer adequate competence. The starting point of the residents when coming to the incubator differs. Some of the tenants have already started the venture and need to find the last loose end whereby others are in the beginning process of developing their business idea further.

Beyond that, the tenants are able to apply for scholarships from the incubator to finance for example parts of the production, a fashion show or exhibition. To present the progress of the venture the residents have to arrange events such as exhibitions or fashion shows. Visions of the incubator management for the future are firstly to establish a closer relation to the industry in the region and to win various companies over to invest money in the Textile and Fashion Factory. Secondly to create a greater awareness for the incubator and to increase the collaboration with the university, the incubator should be the natural choice to approach.<sup>108</sup>

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<sup>107</sup> Oral reference, conducted in the time period from April to May 2010

<sup>108</sup> Oral reference, conducted in the time period from April to May 2010

#### 4.2.2 Partnership of Marc Jacobs and Robert Duffy

The following case study is a description of the business partnership between Marc Jacobs and Robert Duffy. The presented example for a partnership in the fashion industry is characterised by a long-lasting friendship. In 1984 Marc Jacobs and Robert Duffy met at the graduating fashion show of Marc Jacobs at the Parsons School of Design.<sup>109</sup> The complementary minds are on one side Marc Jacobs as the designer and creative person, whereby Robert Duffy is the rational and business minded partner. In 1984 they founded the company Marc Jacobs International.<sup>110</sup> Duffy is taking care of the business strategy and overlooks the whole company, such as the corporate culture to ensure that it is based on a common vision and Jacobs's design language. He is the one who is handling the business related issues and who knows how to commercialise the business in an optimal manner.

Robert Duffy was the one who insisted in collaborating with Louis Vuitton Moët Hennessy (LVMH) in 1997, when Jacobs signed on as creative director of Louis Vuitton and at the same time they sold the majority of their company Marc Jacobs International.<sup>111</sup> LVMH owns 96% of Marc Jacobs International but only 33% of the trademarks, in this way, Duffy and Jacobs maintain creative control.<sup>112</sup> Before the duo took over the position at Louis Vuitton, the company had a stagnant growth of sales. In the course of the time working for the brand, Duffy and Jacobs were able to quadruple the sales.<sup>113</sup> They were not only hired to revive the brand, but also to launch the first prêt-à-porter fashion line. On the one hand, they hold the position at Louis Vuitton, and on the other hand, they are involved with Marc Jacobs International including the brands Marc Jacobs Collection, Marc by Marc Jacobs and Little Marc.<sup>114</sup>

Marc Jacobs and Robert Duffy are working together very closely, they are connected and in contact every day. That requires a close relationship and deep understanding of each other. In a business relationship, it is essential to have confidence and to respect the other person. Robert Duffy accepts Jacobs's creative visions and gives him the freedom to explore innovative fashion ideas, as Jacobs stated: "Robert appreciates what I do. He doesn't try to change it."<sup>115</sup>

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<sup>109</sup> [www.money.cnn.com](http://www.money.cnn.com)

<sup>110</sup> <http://www.lvmh.com/>

<sup>111</sup> [www.money.cnn.com](http://www.money.cnn.com)

<sup>112</sup> [www.money.cnn.com](http://www.money.cnn.com)

<sup>113</sup> [www.money.cnn.com](http://www.money.cnn.com)

<sup>114</sup> <http://www.marcjacobs.com>

<sup>115</sup> [www.out.com/](http://www.out.com/)

Above all, it is important to get along with the weaknesses and all the imperfections of the partner. For their company Marc Jacobs International, the couple works together in an office in New York. The close relationship is not always easy to withstand. Duffy reported: "It's horrible! I'll have all my papers and my notes and my margins and my, you know, audits and my shit on the table and I'll come back and there'll be spinach on my audit. Or he'll take this thing that says 'confidential' and all of a sudden he'll flip it over and start sketching things, and I'm, like, where's that confidential audit that no one's supposed to be touching or looking at? And then I'll find it months later in the design studio."<sup>116</sup> Jacobs has a high opinion of his partner, in the following he analyses him: "He's not just the financial person. Robert is also a creative person who understands the aesthetics and creative choices the design team and I make. He's interested and curious and passionate and adamantly behind me. Even if he doesn't like something, he understands why we've come to a certain conclusion, and Robert will fight with whoever he needs to fight with to get things done so that my - our - vision will come off in the end."<sup>117</sup>

Both had also a hard time in staying together, from time to time they wanted to split up. Especially when they got different offers of employment, but at the end they stayed together as one integral part. Duffy pointed out: "There were very, very difficult times when we each got separate job offers." And further: "I remember visiting Gianni Versace at his house in Italy and he said to me: 'Whatever you do, do not split up. You cannot go through this industry alone and survive.'"<sup>118</sup>

Even if the designer and creative mind of such a partnership is in many cases the well-known celebrity, the strong business partner behind the scenes is mostly the foundation of the company. Robert Duffy's commitment for the company is secondary when looking at the personal care Duffy shares for Jacobs as a person. Through the whole time Duffy supported Marc Jacobs in several cases of drug abuse.<sup>119</sup> Duffy pointed out: "If the company dies, I'll live. If Marc dies, I don't know what I would do. He means so much more to me than any company."<sup>120</sup> And Jacobs argued: "Marc Jacobs is not Marc Jacobs. Marc Jacobs is Marc Jacobs and Robert Duffy, or Robert Duffy and Marc Jacobs, whichever way you want to put it."<sup>121</sup>

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<sup>116</sup> [www.nymag.com](http://www.nymag.com)

<sup>117</sup> [www.money.cnn.com](http://www.money.cnn.com)

<sup>118</sup> [www.out.com/](http://www.out.com/)

<sup>119</sup> [www.money.cnn.com](http://www.money.cnn.com)

<sup>120</sup> [www.money.cnn.com](http://www.money.cnn.com)

<sup>121</sup> [www.money.cnn.com](http://www.money.cnn.com)

#### 4.2.3 External professional management - Icon Fashion Group

As a concept of an external professional management in the fashion industry, the Icon Fashion Group will be presented. The Icon fashion Group is a holding company with the responsibility for the management of different fashion design labels. The management organisation is in charge of the production, PR, distribution, accounting, finances and strategic development of the collections. This business structure allows the designer to concentrate on the design process and to give away the responsibility for the other areas. The umbrella company, with registered office in Zürich, owns shares of fashion labels, from 51% up to 65%.<sup>122</sup> It was founded in October 2007 with the aim to invest in fashion to make it profitable.<sup>123</sup>

It has to be mentioned that the business structure as such was not planned but rather evolved after receiving several requests from labels. The fashion design companies approached the founders Markus Höfels and Jürgen Schnappinger in order to receive financial and management support. The labels, which joined the Icon Fashion Group, are already established companies looking for the next growth step.

In January 2010, the holding moved in a new location in Berlin bringing most of the labels together with the common departments under one roof.<sup>124</sup> The holding is currently responsible for the fashion labels Macqua, Elfen Couture, Sisi Wasabi and Tillmann Lauterbach.<sup>125</sup> Macqua is a label, which creates draped womenswear collections between art and fashion. Elfen Couture offers exclusive apparel for children from four to twelve years old. The label Sis Wasabi creates clothing lines with elements of German traditional costumes. And the brand Tillmann Lauterbach, based in Paris, presents womenswear and menswear collections.

The labels vary significantly in terms of their design language, founder's personality and brand's direction. The umbrella company has to coordinate the diversity and to use common synergies. The great challenge is to use the synergies effectively and to manage the creativity of the designers without deforming it. As Saviolo et al (2002) states: "Effective entrepreneurial managers need to be especially skilful at managing conflicts, resolving differences, balancing multiple viewpoints and demands, and

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<sup>122</sup> [www.iconfashion.ch](http://www.iconfashion.ch)

<sup>123</sup> Oral reference, conducted in the time period from April to May 2010

<sup>124</sup> Oral reference, conducted in the time period from April to May 2010

<sup>125</sup> [www.iconfashion.ch](http://www.iconfashion.ch)

building teamwork and consensus.”<sup>126</sup> Markus Höfels, manager at the Icon Fashion Group, stated in a conversation that the production process for the different labels is especially problematic to coordinate.<sup>127</sup> The challenge to find an adequate production place faced by fashion design entrepreneurs as mentioned before seems to be a challenge for the management organisation of the Icon Fashion Group as well.

Apart from the brand Sisi Wasabi, at all labels the creative founder of the label is still the designer. Whereby the founder of Sisi Wasabi left due to incompatible opinions between founder and management about the future direction of the brand and the offered support. After the separation Zerlina von dem Bussche, founder of Sisi Wasabi, criticized that the Icon Fashion Group was not keeping the bargain be it financially and strategically.<sup>128</sup> Furthermore one label, Odeeh, left the holding company in mid-2009. Under the management of the Icon Fashion Group the label Macqua in 2010 and before the former label Unrath und Strano in 2009 went into bankruptcy.<sup>129</sup> Considering these cases in the short time of operation since the foundation in 2007 and additionally the leaving of the label Odeeh and the founder of Sisi Wasabi, the management seems to be overloaded. This is underlined by the current plan to leave Berlin in the course of this year by repositioning the location of the headquarters back to Zürich and to set the focus more on international labels. The Icon Fashion Group wants to take one step back in order to consolidate the structure of the holding company.

### 4.3 Discussion and evaluation of the concepts

This chapter will examine, which aspects of the presented concepts are beneficial for fashion entrepreneurs. But it will also highlight the disadvantages and threats implied by the concepts.

#### 4.3.1 Incubator

Incubators offer a creative environment to their tenants with the benefit to have an own workplace under one umbrella with other creative people. By this means, they do not have to work at home or to pay high rents for a studio and they are able to communicate and interact with other creative entrepreneurs of the same or similar

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<sup>126</sup> Saviolo, S. and Testa, S. (2002) *Strategic Management in the Fashion Companies*, Etas. RCS Libri, Milan

<sup>127</sup> Oral reference, conducted in the time period from April to May 2010

<sup>128</sup> <http://www.textilwirtschaft.de>

<sup>129</sup> <http://www.textilwirtschaft.de>

industry. In this way, they have the possibility to talk about common problems or worries and learn from the experience of other entrepreneurs.

At the beginning of a company foundation the network may be very limited, but especially in this critical phase, the networking aspect is very important for fashion entrepreneurs as seen before in chapter 3.2 dealing with the personal challenges. Through the incubator organisation, the network of contacts becomes wider, the residents are able to gain useful information, knowledge and experience from a broad range of contacts: the incubator coaches, the industry relations, the fellow residents and the alumni connections. The incubator community forms a corporate power with the possibility to be more attractive for instance for buyers, investors or the media. The community can reach out collectively and together make a difference. If the fashion entrepreneurs lack certain skills for example technical or business competences, the skills can be extended and compensated by the help of seminars and the incubator coaches. The coaches are an elementary component of the incubator concept. They are the ones who accompany the entrepreneurs on their way and guide the company foundations.

The relation to a university is useful for both sides, the incubator is close to research, a highly knowledge intensive environment and has an everlasting fresh supply of students, whereas the tenants have the possibility to take courses at the university and have additional contact persons. The access to equipment facilitates the daily work of the residents and the acquirement of own equipment is not desperately necessary such as the purchase of special equipment like a serging machine. Financing is a critical point for the fashion entrepreneurs. With respect to the financial challenge, entrepreneurs have the possibility to receive scholarships, which can be used to ease the financial burden.

Whereas in the conducted conversations, the residents of various incubators stated that they have to work besides in order to be able to finance their expenditures.<sup>130</sup> This is not only time consuming and postpones the venture foundation but also draws off the attention and the entrepreneur is not able to concentrate on the company in the same way. Further, fashion design residents criticised the discrepancy between the promised and the perceived service. The support was not always as expected due to understaffing of personnel or financial shortage.<sup>131</sup> Unfavourable aspects for the residents may be the lack of adequate equipment or the missing possibilities to

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<sup>130</sup> Oral reference, conducted in the time period from April to May 2010

<sup>131</sup> Oral reference, conducted in the time period from April to May 2010

connect to useful contacts. The communication among the tenants and additionally to alumni implies an organised and structured network. A fashion design incubator resident from Sweden suggested in a conversation that the incubator, which has no alumni network so far, should develop such a network in order to be able to utilize this resource of contacts.<sup>132</sup> According to its type, the incubator is dependent on the financing organisation; may it be the government, community, university, industry development associations or other industry partners. In this case the incubator governance is restrained to the available finance. The time a resident spends in an incubator is limited and supports the fashion entrepreneurs especially at the beginning. It has to be mentioned that some incubators indeed do not have a strict time limitation but rather arrange it flexible for the residents. The fashion entrepreneurs often have to pay a fee, the amount varies for each incubator, and mostly it is not very high.

(+)	(-)
Creative environment	Incubator dependant on financing organisation
Network	Residents often have to pay fee
Power of community	Time limitation
Workplace	Limited financial support for residents
University relation	Often missing interaction with useful contacts
Extension of skills	
Access to equipment	
Scholarships	

Table 1 Evaluation of first concept, self-illustration

#### 4.3.2 Partnership of a designer and business partner

Setting up a venture with a business partner implies the benefit to be able to share the work. The tasks and duties have to be clearly arranged and coordinated. And it implies furthermore to gain advantage of the complementary skills the business partner brings in the relationship. The business and management tasks can be handed over to the partner so that the designer is able to concentrate on the creative side of the business without having the business issues always in mind. If the relationship is mutually advantageous, the couple works closely together and can discuss certain issues.

<sup>132</sup> Oral reference, conducted in the time period from April to May 2010

Decisions do not have to be taken alone, but can rather be reached collectively. It reduces risks, since two heads are better than one. Mistakes can be avoided and risks can be passed out to two persons. The partner is at best a source of motivation and additionally it is not only a business partnership but also a long-lasting friendship.

The biggest challenge is hereby to find an adequate partner with whom the designer is able to work closely together. It is a challenge to give away control to another person and to accept that the success of the company is dependant on both persons. It would not be efficient to overlook every single step of the partner; rather a trustful relationship is required. The decision-making process may be eventually more difficult, since two persons may have strongly differing opinions. Each business task has to be allocated since there is the threat that the allocation of roles is unclear and this could evoke confusion. A struggle for dominance in the business partnership could insofar cause trouble. If one person tries to control the other one, it could cause bad mood. A common vision for the company is necessary to work in the same direction. The profit of the company will be divided irrespective of the work share.

There is, of course, the eventuality that the partnership does not work out. This possibility has to be considered and clarified beforehand to know how to react in such a situation and to know what will happen to the company.

(+)	(-)
Complementary skills	Big challenge to find adequate partner
Able to concentrate on design	Give away control
Sharing work	Possibility of a break-up
Reduction of risks	Different or changing vision for company
Common decision-making	Sharing of profit
Possibly business partner AND friend	Challenge relationship
Source of motivation	Threat of unclear role allocation – struggle for dominance
	Business partner not omniscient

Table 2 Evaluation of second concept, self-illustration

#### 4.3.3 External professional management

A management team may reduce risks, since specialists are working in their field of expertise and can play out and make use of their knowledge and experience for

instance in marketing or PR. Through the sharing of work, the designer is able to concentrate on the design process. Since several labels are concentrated, the utilisation of common synergies can be valuable such as bargain power in the negotiation with various suppliers in the production process. The fashion entrepreneur may gain financial power by the investments of the umbrella company. Through the financial support, the labels can take the next step of growth and establish an even stronger position on the marketplace. With a competent partner, the designer may rely on the management organisation.

It is quite evident by looking at the external management case study of the Icon Fashion Group that fashion entrepreneurs have nevertheless to watch out. Therefore, the designer should stay informed about essential aspects of the business and be involved in the strategic decisions about the own label. There is the eminent threat that the management group tries either to deform the designer and his/her design language, or that the management follows another direction and vision than was expected by the entrepreneur. The structure of the umbrella company is complex due to the different departments and labels. All operations and processes have to be coordinated. The relationship of management and labels should be characterised by a jointly teamwork as well as guidance and not determined by control and power of decision. Since the umbrella company owns either a part of the labels or the entire brands, it could mean a loss of control for the fashion entrepreneur. The financial commitments may be very high and have to be seen as long-term investments. The management has to consider that fashion is a high-risk industry, which could mean a risky investment. And a crucial aspect of the concept is the relationship of management and designer. Tensions between the two parties are possible and could lead at worst to a separation.

(+)	(-)
Team reduces risks	Threat to deform designer
Able to concentrate on design	Tension in relationship
Sharing work	High financial commitment – long term
Utilisation of common synergies	Complex structure
Competent partner	Fashion industry – risky investment
Financial power	Loss of control and liability

Table 3 Evaluation of the third concept, self-illustration

## 5. Conclusion

*The conclusion comprises recommendations, the reasoning, practical implications and suggestions for further research.*

### 5.1 Recommendations

The recommendations in this thesis are based on the challenges fashion design entrepreneurs are faced, on the respondents' opinions and on the examined supportive concepts. Due to a great variety of individual personalities, needs and conditions, it is hard to find generic solutions for an optimal structured venture launch of a fashion design entrepreneur. At best fashion entrepreneurs are supported at different stages: at education institutions, by post-academic programmes, at incubators and by other accompanying systems. Additionally the financing aspect has to be considered.

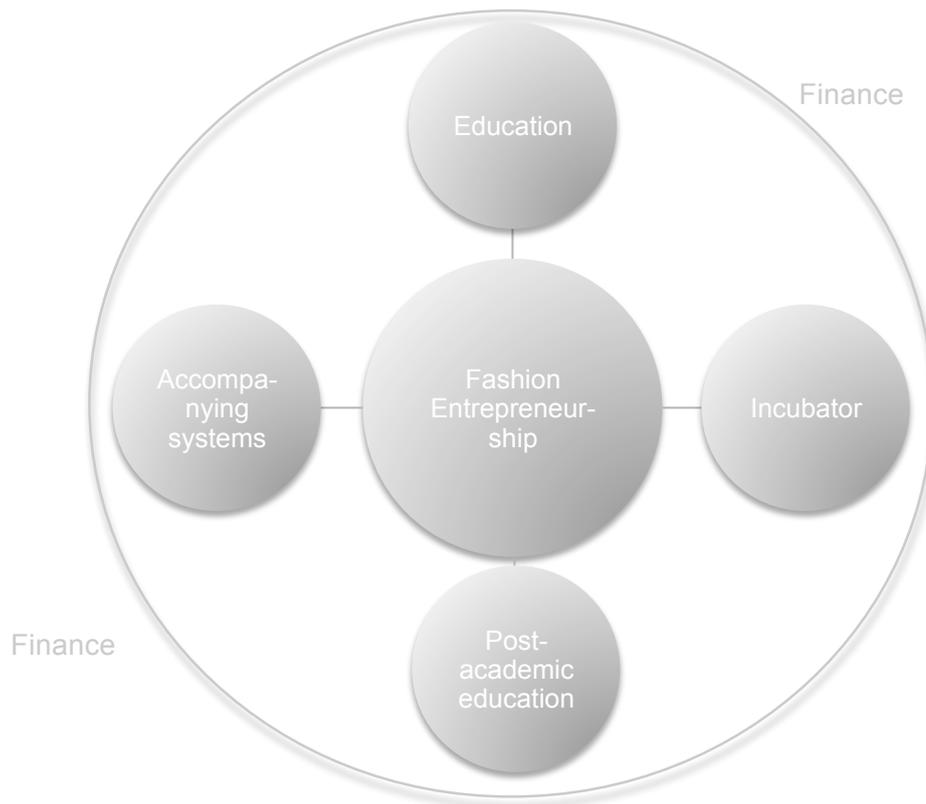


Figure 3 Supportive system, self-illustration

## Education

### Basic Level of business skills and optional courses:

The academic education of a fashion entrepreneur should not only consist of teaching facts, knowledge, as well as skills but also attitudes and guidelines for entrepreneurial behaviour. In order to encourage entrepreneurship in the fashion industry, adequate methods of teaching and training are necessary. Even if for many designers it is natural to set up an own company, there is little preparation from the education institutions. A basic level of business and entrepreneurial knowledge needs to be taught at fashion design education institutions to save design entrepreneurs from making mistakes that could be prevented. At best, education programmes should offer optional courses in entrepreneurship for the students that already know or take in consideration to set up a business after their studies. These courses should be optional, because not every design student will start a company but rather may work as an employee. Since some students decide to start a business not until they have finished their education, additional offers, such as post-academic courses, are required (read below).

### Adequate teaching material and raise awareness:

Moreover, teaching material related to business aspects is only aimed at business students and is not relevant and specific enough for design students. It would be helpful for these students to explain certain management and business facts with fashion industry related examples, such as the business plan for a fashion label. As mentioned before in the chapter about the personal challenges, various fashion entrepreneurs lack of interest in business concerns. The education institutions need to raise the awareness for essential management and business topics, especially for potential fashion entrepreneur students. The students have to understand what is connected to a company creation, to learn how to behave and why management and business skills are important. And the fashion institutions have to make clear that it is absolute essential to know these issues. This could be approached, for instance by alumni who could be invited in order to talk to current students and present their own experiences with their business foundations. It would be helpful for current students to learn especially about the negative experiences and hindrances they were faced.

#### Realistic picture:

Often education institutions do not successfully integrate theoretical knowledge with practical implications of a company creation. Universities should pay more attention to link the design contents in the courses with the actual and realistic situation in the fashion sector. The whole fashion industry, and especially most of the education institutions for fashion design students create a wrong or one-sided image about the profession of a fashion designer and the industry situation. The real situation differs very often substantially to the communicated image of a fashion designer. For this reason graduates miss a realistic approach to the working environment in fashion. The students have to be taught that commerciality and saleability of the products is essential. As a way to change this, a closer relation to the fashion industry could be established as well as business skills training and entrepreneurial simulation in semester projects could present a more realistic view. Some universities offer courses for business students with an integrated business management game. These business management games create a link between business management theory and practice. It is a simulation of a realistic company model and provides students the possibility to gain practical experience in a risk-free environment. Fashion design students could also benefit from such a business management game.

#### Encourage partnerships:

Through a partnership of a designer and business partner complementary skills can be matched. Already at university, communication and interaction of creative students with business students need to be enhanced. Collaborations of different study programmes, for instance design students with fashion management students, in projects and courses are a way to bring them together. In this way universities could facilitate the big challenge to find an adequate business partner by encouraging partnerships of a designer and business partner. Possibly, it would lead to the foundation of a common company based on a partnership.

#### Industry relation:

A better connection between the fashion industry and design education need to be established, so that the students entering the fashion sector or setting up a business, are aware of the realities in the industry. Already at university the industry relation could be encouraged and may result in a beneficial collaboration as it could mean a second income for fashion entrepreneurs. For this reason, some designers sign contracts with big fashion companies in order to have a secure income to be more

financially independent or to invest in own collections. At the same time, the collaborations provide the prospective designers with practical skills and they gain knowledge how to establish and manage their businesses. Collaborations between young designers and fashion companies have been, for instance, between the label Kaviar Gauche from Berlin with the shoe company Görtz or Stine Goya, London based designer, with the Swedish fashion company Weekday.<sup>133,134</sup>

### Post-academic programmes

Often fashion entrepreneurs do not realise that they need certain skills until long after they have left their education and set up a company. Post-academic programmes are a way to deliver additional skills. The competences need to be delivered in a flexible way and by programmes tailored to the specific needs. The initiatives could be provided by either master programmes or post-academic courses. If a fashion designer plans to set up a company, it would be beneficial for the students to complement the design skills of the bachelor degree with entrepreneurship and business skills learned in a master programme. The Master courses need to be a mixture of basic as well as generic contents and on the other side specific as well as individual support, which help to realise the own ideas. Whereas the post-academic programme should provide tailored learning matters to be able to answer specific question the entrepreneurs is confronted. For the post-academic courses distance learning can be considered.

### Incubator

Mixture of creative entrepreneurs:

In the gestation and growth phase of a company, fashion design entrepreneurs are in good hands at incubators. Particularly incubators for creative people have to be adjusted to the special needs and conditions of the industry. For instance special mentors are required who understand that most creative people need to be coached in a different way due to the fact that they have limited business skills. And therefore they are mostly not able to understand technical terminology. It may be fruitful and useful, if the incubator consists not only of fashion designers, but rather of a mixture of creative entrepreneurs closely related to the fashion sector such as photographers, textile designer, fashion journalism or graphic designer. In this way, the residents could benefit from each other by professional collaborations. The incubator in Borås is an example for such a mixture of different creative residents.

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<sup>133</sup> <http://www.weekday.se/stinegoya>

<sup>134</sup> <http://www.textilwirtschaft.de>

#### Follow-up care:

After residents leave an incubator, support may be still needed. A follow-up care would be beneficial. The former residents know and go back to the incubator, if help is required. It could be considered to charge a slightly higher fee for the post support programme. Some incubators like the Dunedin incubator in New Zealand offer two types of incubator places. They have places for full-time residents and additionally part-time outreach members. Based on that concept, the offer could be developed further. As a follow-up care, there would be the possibility to provide a support service after the regular time spend in the incubator on a part-time basis, as the fashion entrepreneurs need only occasionally help. It would be valuable to be able to take seminars and have a contact person such as mentors or coaches.

#### Relation to industry and alumni network:

Not only in the education but also at incubators the relation to the industry could be strengthened as well as potential be released. A close relationship to the fashion industry could generate firstly collaborations between the entrepreneurs and companies; secondly possible financing partner may be acquired and thirdly it could be an essential source of industry mentors. Especially at the beginning a network of useful contacts is important, residents would take advantage from an alumni network. The alumni network has to be organised and a database maintained by the incubator management.

#### Selection process:

The incubator concept should be the natural follow-up for students leaving a fashion study programme in the case a company creation is planned. Through entry standards, an incubator selects the residents due to certain requirements. Beforehand the applicants should show their qualification and aptitude for being able to survive on the harsh fashion market. While the incubation process, the entrepreneurs should demonstrate their progress as well as the saleability and commerciality of the products. Through a strict selection process the incubator has therefore the possibility to filter promising fashion entrepreneurs. This increases competitiveness and means a natural selection process, as the applicants have to prove themselves.

### Accompanying systems

Accompanying systems are consulting agencies, governmental support or non-profit organisations. These systems offer support to fashion entrepreneurs and potentially accompany the new ventures in the process of a company creation. Through consulting agencies, specific issues or questions may be possible to solve, yet new ventures may have difficulties to finance the consultants' work. In Germany governmental encouragement in the fashion industry focuses mainly on the support of fashion entrepreneurs at the very beginning. It presents in fact a starting point for upcoming designers to get a foot in the door on the marketplace. However, designers who are already in a mature stage with a few years of experience need as well support. These companies have already passed the natural selection process, which takes place on the market. Especially at this point the government need to foster fashion entrepreneurship. Additionally the government needs to raise the awareness for the creative industry internally and externally. Only if the economical and cultural contribution of the creative industry is well-known, it will be paid attention to the industry and financial aid will be granted. With non-profit organisations such as the German design and fashion platforms "Create Berlin" or "Designpool" fashion clusters can be created.<sup>135,136</sup> When becoming a member at one of these platforms, companies can take part at various events and can get help from the organisation's network. These clusters may encourage cooperation with other companies, facilitate networking and enable useful industry contacts. The concept of an external professional management seems at first sight interesting and promising for fashion design entrepreneurs but it turns out as very complex with plenty of obstacles.

### Finance

As mentioned before fashion design entrepreneurs do not regard themselves as entrepreneurs. But they need to position themselves as entrepreneurs in order to present themselves to investors and banks and to facilitate the access to external finance. Their performance in front of investors or bank employees is crucial for accessing financial support. Therefore a relevant and well thought out business plan is necessary. The business plan needs to be an integral part in the education of a fashion designer, who wants to start a company. This should be taught at universities, at incubators and in post-academic programmes. Bank loans should be easier to achieve for creative people and adjusted to an adequate scale of finance.

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<sup>135</sup> <http://www.create-berlin.de>

<sup>136</sup> <http://www.designpool-berlin.de>

## 5.2 Reasoning

Based on the findings the following conclusion can be drawn:

1. Business administration research in relation to fashion has to be increased and applied to the fashion industry.
2. The situation at fashion academic education institutions needs to be improved, entrepreneurship has to be seen as an integrated part.
3. Fashion design entrepreneurs have to be better prepared and supported in the pre-start-up phase, in the start-up phase and in the growing phase.

It would be fruitful to strengthen the whole textile and apparel industry by making it possible for fashion entrepreneurs to gain ground and to achieve a sustained position in the fashion industry.

## 5.3 Practical implications

This research has two main practical implications. On one side for fashion design entrepreneurs (future and current entrepreneurs) and on the other side for the fashion industry as a whole, especially universities, fashion research institutions and communities.

Concerning people longing to become a fashion entrepreneur, the presented research may help to understand the challenges that a fashion entrepreneur may be confronted. In that sense, it may be beneficial to be aware of the challenges and at best be prepared to react according to that. The supportive concepts may be interesting and worth to approach. For current entrepreneurs, this research is an opportunity to look back, review experiences and compare the own experiences with the outcome of the thesis. For universities and research institutes, it could be also interesting for instance to understand the challenges fashion entrepreneurs are faced and which factors could influence a company creation. And for communities it may be of value to examine how a region can be restructured or redeveloped and how the creation of new firms and jobs can be supported.

## 5.4 Suggestions for further research

Several areas would benefit from further research:

- How can different study programmes integrate entrepreneurship in their education?
- How can support programmes be adjusted to the creative industry?
- Comparison and examination of fashion incubators to further develop the incubator concepts especially for the fashion industry.
- Consideration of other support concepts such as subsidy systems in regard to the fashion industry.
- Which role does or can the government play in the support of fashion entrepreneurs?
- How is it possible to apply the concept of an external professional management on young fashion design companies to achieve a sustained success?

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List of contacted conversation partners, conducted in the time period from April to May 2010.

- *Alexandra Nildén – Label Humdrum – resident at the Textil och Modefabriken in Borås*  
Conducted on the 26th of March 2010 at 1 pm.
- *Therese Bengtsson – former director of the Textil- och Modefabriken in Borås*  
Conducted on the 30th of March 2010 at 2 pm.
- *Marielle Boström – new director of the Textil- och Modefabriken in Borås*  
Conducted on the 6th of April 2010 at 3 pm.
- *Tracy Kennedy – director of the Dunedin Fashion Incubator in New Zealand*  
Conducted on the 21st of April 2010.
- *Ben Smith – Label Elusiv – former resident at Dunedin Fashion Incubator in New Zealand*  
Conducted on the 9th of April 2010 at 9 am.
- *Markus Höffels - Icon Fashion Group in Berlin*  
conducted on the 12th of April 2010 at 12 pm.
- *Angela Märting – project coordinator – kultur.undernehmen.dortmund – University Dortmund*  
Conducted on the 13th of April 2010 at 8 pm.
- *Simone Burkhardt, Tim Möllmann – label Burkhardt/Möllmann in Berlin*  
Conducted on the 6th of April 2010 at 6 pm.
- *Karin Viktoria Bjurström – resident at the Transit Incubator in Stockholm*  
Conducted on the 12th of April 2010 at 8 pm.
- *Caroline Wohleber, Lena Deuring – label Yenikolka in Berlin*  
Conducted on the 21st of April at 8 pm.
- *Elina Artis – director of Designpool Berlin and the Gallery Kleidkunst*  
Conducted on the 16th of April 2010 at 12 pm.

- *Tanja Mühlhans - Coordinator for Economic Development in Film, Media and Design, Senate for Economics, Employment and Women in Berlin*  
conducted on the 26<sup>th</sup> of April 2010 at 9.30 am
- *Nathalie Gallert - Culturepreneurship Coach Dortmund*  
Conducted on the 23rd of April 2010 at 4 pm
- *Eike Wendland – founder of Berlinerklamotten*  
Conducted on the 27th of April 2010 at 10 am
- *Linda Worbin – label - resident at Textil och Modefabriken in Borås*  
Conducted on the 3rd of April 2010.
- *Melchior Moss – label Slowmo in Berlin*  
Conducted on the 6th of May 2010 at 10 am.

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### **Appendix**

Presentation of conversation guidelines

Appendix 1:

Design layout for the conversation questions for fashion design entrepreneurs, residents at an incubator

- *Describe your kind of business and business idea*
- *Have you always been thinking in starting your own company? What are the reasons for setting up an own company?*
- *What was the most challenging task you were faced with?*
- *What do you think about your education regarding entrepreneurship?*
- *What is your experience with the “...” incubator?*
- *Why did you choose to go there?*
- *Describe the support you have received so far from the Incubator? What do you appreciate the most?*
- *Which are the advantages of the “...” incubator for you?*

- *How important is the network from your point of view?*
- *What do you think of the location of the “...” incubator?*
- *Is the support individual?*
- *Are you doing other things besides? Studying, Working...*
- *How is the communication among the entrepreneurs in the incubator?*
- *How effective was the supports and has helped to improve your business?*
- *What are some of the problems/needs you face during the start-up?*
- *What could be improved at the incubator?*

#### Appendix 2:

##### Design layout for the conversation questions - directors of an incubator

- *Since when does the “...” incubator exist?*
- *Since when are working for the “...” incubator?*
- *How many people work at the “...” incubator*
- *How many tenants are you able to host? Are there any plans for the future to extend this?*
- *How does the incubation process works?*
- *How long is it possible to stay at “...” incubator?*
- *How many entrepreneurs left the incubator already and are they still in business?*
- *What was the most challenging task the companies are faced with?*
- *How is the support in this case?*
- *How is the communication between the start-up companies?*
- *Does an alumni network exist?*
- *Are there differences between design entrepreneurs and other entrepreneurs?*
- *Does the education play a role?*
- *How important is the location of the incubator?*
- *How much do the entrepreneurs have to pay?*
- *How is the incubator financed?*
- *What would you improve if money would not be a question?*
- *What do the residents appreciate the most?*
- *What are visions for the “...” incubator in the future?*

Appendix 3:

Design layout for the conversation questions - fashion design entrepreneur

- *What is it about to have an own label?*
- *Which other experiences have you made?*
- *Why did you start your own label?*
- *Did you always think in starting your own company? What are the reasons for setting up an own company?*
- *What do you think about your education regarding entrepreneurship?*
- *What was the most challenging task you were faced with?*
- *What are some of the problems you are faced during the start-up?*
- *What do you think of the location where you have set up your business?*
- *Are you doing other things besides? Studying, Working...*

Appendix 4:

Design layout for the conversation questions - industry expert

- *What is your position and which initiatives exist in “...” to support creative entrepreneurs?*
- *How are the initiatives financed?*
- *How do you evaluate the necessity to support the creative industry?*
- *Why do you think there is so little awareness for an entrepreneurial education in the creative industry in Germany?*
- *What is the difference between the creative industry and other branches?*
- *What would be other concepts or initiatives, which could support creative people?*
- *What is your position and which initiatives exist in “...” to support creative entrepreneurs?*
- *What are the biggest challenges for fashion design entrepreneurs?*
- *What do you think about the education of fashion designers regarding entrepreneurship?*



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