

A guide to running a business in the **Fashion Design** sector.

The Creative Industries Innovation Centre (CIIC) supports the business of creative enterprise. The CIIC is part of the Australian Government's Enterprise Connect program, and is supported by the University of Technology, Sydney.

This Forensic Report summarises the insights drawn from our interactions with this sector. Overall, the CIIC has worked with more than 800 creative enterprises (2009-12).

Talking point

Is it time for fashion design companies to radically rethink the 'bricks and mortar' retail model?

A fashion design company in Australia is often a fusion of four businesses with elements of design, production, wholesale and retail. This can make them particularly difficult businesses to manage. Retailers, fashion designers, wholesalers and manufacturers no longer have clearly delineated functions. For example, fashion designers are opening pop up shops, retailers are creating their own fashion labels, and manufacturers are becoming online retailers.

For fashion design graduates with little business management training, the complexity of business operations is all the more difficult.

Led by passionate and determined creatives, CIIC's clients in fashion design are skilled in creating strong, desirable brands. However, as this CIIC Forensic Report reveals, many business principals spend too much time "doing the business" rather than running it, which makes weaknesses in strategy and systems commonplace.



Fashion Design

\$1.8m

Annual turnover

1.2%

Profit before interest & tax

11

Employees

10

Years in business

A typical CIIC client in the Australian fashion design sector has an annual turnover of \$1.8 million, with a profit before interest & tax of 1.2%. It employs 11 people and has been in business for 10 years, with a higher concentration of labels in Sydney, followed by Melbourne and Brisbane.

Pressure points

Challenges specifically impacting fashion design businesses:

↓
-2.3% p/a

According to IBIS World, the overall clothing retailing industry has performed poorly over the five years through to 2012-13, contracting at an annualised 2.3%.

Battle for marketshare

Small to mid-sized fashion design firms are being squeezed from below by young, lean operators, and from above by international labels such as Zara, Topshop and Uniqlo.

Online shopping

Digital technologies have intensified the competitive environment.

Gloomy consumer sentiment

A notable decline in retail spending is dampening profits.

Disintermediation in the supply chain

Many retailers are bypassing fashion design firms to deal direct with suppliers or freelance fashion designers.

Skills shortage

Changes to Fair Work legislation have led to a shortage of skilled seamstresses, pattern-makers and cutters employed in-house as manufacturing moves offshore to low-cost countries.

Lack of strategic thinking

Too much time spent 'doing the business' doesn't leave enough time for strategic management, business development, B2B sales, human resources and IP management.

Financial mismanagement

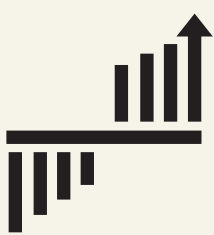
Many fashion design companies are also grappling with high operating costs; poor cash cycle management; high debts; liquidity issues; and poor financial systems and procedures.

Rising production costs

The high Australian dollar, high wages and Fair Work laws often necessitate offshoring production.

Steps towards sustainable growth

The CIIC has identified the following steps to help fashion design businesses exploit market opportunities and achieve sustainable growth:



Retail revenue growth is forecast to improve over the next five years as consumer debt reduces and spending rises. As the outlook for the global economy improves, this should support a rise in consumer confidence later in the five-year period.

↑ + 1.1%p/a
Over next 5 years

\$12.3billion
2017-2018

IBISWorld expects that Australian clothing retail revenue will rise at an annualised 1.1% over the next five years, to reach \$12.3 billion in 2017-18. Industry revenue is forecast to grow by 2.0% in 2013-14.

Step 1

Revisit your business model

Given the complexity of fashion design businesses, owners and principals should revisit their business model periodically. The CIIC uses the Business Model Canvas, developed by Alexander Osterwalder and Professor Yves Pigneur, to help prepare businesses of any size to understand and develop transformational business strategies. (These tools are free and covered by Creative Commons).

Step 2

Create a digital strategy

A comprehensive digital strategy (embracing website, e-commerce strategy and social networking) is imperative – especially one that allows greater customisation by and for the customer.

Step 3

Diversify

Explore potential service/product diversification such as a short-term range for a department store, lifestyle products or home interiors. Businesses with a narrow offering are overly susceptible to adverse events such as a late or early change to a critical season, a major contract cancellation or changes in consumer tastes.

Step 4

Export

Counter a retreat in local markets with carefully selected export markets. Consider different

climates and buying seasons; managing production offshore; managing foreign exchange and import duties; international Trademark and IP management. International work requires an understanding of language and local customs: research regions and opportunities carefully before you leap. The CIIC can provide advice on relevant government export-assistance programs.

Step 5

Improve business efficiencies, quality assurance & IT systems

Profits can be improved through leaner operations, better business intelligence and customer relations, and improved systems for Customer Relationship Management (CRM), inventory and warehouse management.

Step 6

Staff development & mentoring

Poor morale, high staff turnover, lacklustre career paths and workplace health and safety incidents can be improved by developing a general manager role to oversee day-to-day operations. Consider mentoring schemes also.

Step 7

Grow margins by fusing technology & fashion

Textile innovations and advancements in garment engineering (such as seamless knitting techniques or 3D printing) can deliver significantly higher margins than commodity products that compete solely on price.

Summary

In a tight market undergoing significant structural change, fashion design companies in Australia must develop sound strategic and financial planning systems and a formalised approach to business development.

Most importantly, principals need to delegate work and free themselves to navigate their businesses through a rapidly changing business environment.

In an industry where margins are being squeezed by low-cost, overseas labour markets, a decline in traditional “bricks-and-mortar” retail may need to be countered by a move into e-commerce, or a combination of the two.

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