Designers for Hire: Big Names Face Uphill Battle to Get Backing

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PARIS - Hedi Slimane, who recently parted ways with Dior Homme, could have as much trouble finding a backer for a signature brand as some men had shimmying into his trim suits and jeans.

Ditto for a host of other well-known and accomplished designers, said to be exploring the launch of their own houses, from ex-Chloé designer Phoebe Philo and Lars Nilsson in Europe to Patrick Robinson in the United States. Even the reclusive Jil Sander is said to be itching to get back into the business and is putting out feelers for financing.

But there are few financial entities targeting start-ups, and available money, while plentiful, typically comes with plenty of strings attached, observers said.

"There is no clearly defined investors' universe for new designer brands," said Pierre Mallevays, founder and managing partner of Savigny Partners, a luxury goods advisory and mergers and acquisitions firm in London. "Luxury conglomerates need to focus on their big brands, private equity funds want established businesses and most hedge funds want sizeable deals."

What's more, strong-willed designers are often very demanding about creative control and can be blasé about secondary lines, accessories and licensing — cash cows upon which many investors insist.

Observers said designers looking to launch a brand typically require a minimum initial investment of $5 million, with a second round of financing in 18 months to two years in the $10 million to $15 million range.

Designers accustomed to working in large organizations with budgets for advertising and lots of creature comforts may need to rein in expectations. Demands for heavily staffed design studios, cars, drivers and other perks are looked upon dimly by investors, who have their eyes firmly on the bottom line.

Slimane, who exited Dior Homme last month and was succeeded by Kris van Assche, had been in talks to renew his contract and launch a signature fashion house, backed by an investment by Dior believed to be in the neighborhood of $50 million.

According to sources, doing a signature brand is only one option Slimane is considering in his post-Dior career, but he is confident in finding ready partners. "Hedi is totally free today to go anywhere he wants," said one source close to the designer. It is understood Slimane has already been approached by retailers interested in carrying exclusive designs by him, although no deals are imminent. "They can't have everything," said Robert Burke of Robert Burke Associates, a luxury consulting firm in New York, of designers looking for deep-pocketed backers. "[Designers] can't expect complete control of the company and they have to be open to going into other categories of business:

fragrances, accessories and second lines. Doing a collection business alone is a long and slow process."

Observers noted the outlook for upstart brands is not entirely grim, however.

Financing is plentiful and the market is hungry for brand names at a time when many of the giants of the industry — Giorgio Armani, Valentino, Ralph Lauren and Karl Lagerfeld among them — are over 65. What's more, designers "have become the new socially acceptable celebrities, combining glamour and desirability with artistic value," Mallevays noted. "A lot of investors want to bank on that."

"It's probably a better time today than in the past," Burke agreed. "There's more interest today from investors in this business than ever before. What we do is manage expectations. [Investors] are used to more stable cash flows than fashion businesses generate."

Designers have a limited choice of dance partners and there are major trepidations about the likelihood of a quick return on their investments.

"There is investor interest, but people are careful because they want a track record and critical mass," said Richard Morgan, vice president, corporate finance, at BNP Paribas in Paris. "If they're not doing $5 million to $10 million [at wholesale], it's very difficult for investors [to be interested]."

"There tends to be very little interest in investing in these kind of start-ups," agreed Abel Halpern, managing partner at HMD Partners Ltd. in London, which has investments in the likes of Sinn Leffers, the German premium women's fashion chain, and previously led the successful turnaround of Escada AG, the German luxury fashion label. "Investing in companies that are start-ups already has a high degree of risk, regardless of the business you are investing in. You don't see that many fashion start-ups that are given $50 million or even $25 million."

Fashion designers must also compete for dollars from more attractive sectors, Halpern stressed. For example, venture capital often gravitates to sectors with technological elements, such as life sciences, information technology, or semiconductors, where a core technology suggests an "objective" predictor of success. Alternatively, start-up investors often like nontechnological businesses with well-defined, scalable operating concepts, such as restaurants or other value-added services, that seek to "roll out" a proven business model. "Investors all look at risk-adjusted rates of return on any investment," he explained. And the fashion sector "in general, has not figured out how to create compelling economics, adjusted for the extreme risk, for a new enterprise investor."

Xavier Mayer, executive director of Morgan Stanley's investment banking division, said leather goods remains the most favored subsector of the industry because of the healthy margins it can offer to investors. Apparel, by contrast, is considered far more risky because of intense competition, fickle customers, capricious fashion trends and products that can go stale easily.

"Let's not forget: Investors invest to make money," he said.

One executive from an investment fund, who requested anonymity, noted that "even people with established businesses are having trouble finding money. There's no such thing as a sure bet."

According to market sources, Proenza Schouler, Narciso Rodriguez and Hussein Chalayan are among well-known designers who have been seeking additional financing to grow their businesses.

Mayer highlighted the need for strong execution in the fashion business. No matter how famous or talented a designer may be, if the products are shoddily made, delivered late and poorly distributed, he or she won't get far. "Having a good product is clearly not enough; the execution makes the real difference," he said. "To start a business, there's so many things that can go wrong. The name doesn't drive you alone. The product and the execution have to be flawless."

Apparel-based businesses are also capital-intensive and offer a brief window of opportunity to break through. "Investors get nervous [about] a business model that relies on full-price sales of your first, second and third collections," Halpern noted.

That said, investors often presume that accessories and other easily licensed categories are the answer for making apparel-based businesses immediately more profitable, he continued. The logic is that products like handbags generate higher productivity per square foot and are less seasonal and perishable than clothes.

However, the success of handbags is intricately tied to brand awareness, prestige and signature hardware that only established and large-scale designers enjoy. "If you are a weak brand, you can't do a fragrance [either]," he said. "How many new brands have developed a signature handbag in the last decade? Not that many." "Building a brand takes a huge amount of time, especially when the competition is stiff," Mayer said. "You're constrained to have a limited marketing profile, unless you have a name like Tom Ford."

Observers agreed that wealthy individuals, or midsize manufacturing-based conglomerates, are the most likely candidates to consider getting behind new designer brands.

"I would guess that the total amount invested by private equity and hedge funds in private fashion companies — whether start-ups or established players — is so small that it would not even register as a percentage of the total," Halpern said.

BNP Paribas' Morgan noted Diesel and Gibò, both Italian companies, have shown some interest in young brands with their investments in Martin Margiela and Viktor & Rolf, respectively. Other midsize manufacturers with designer brands in their stable include Marchpole (Jean-Charles de Castelbajac), Onward Kashiyama (Joseph) and Redwall Group (Alessandro Dell'Acqua), he added.

Echoing other observers, Carine Ohana, partner in Ohana & Co., a boutique mergers and acquisitions firm in Paris, said individuals or small-scale groups are probably the best hope for start-up brands. Small designer companies are typically "inefficient for the structure" of large conglomerates, difficult to integrate and possess a different culture, hierarchy and discipline, she said.

Ohana noted that historically, some "industrial groups" have had trouble integrating smaller designer brands, including Chanel, which shuttered Isaac Mizrahi in 1998, and LVMH, which sold Christian Lacroix in 2005 to Falic Group.

Still, "backers that have industry knowledge are better," she stressed.

Mallevays agreed: "A designer's main line needs to grow and be visible, but you can lose a lot of money if that segment of business is not under adult supervision."

Noting the emergence of entertainment moguls as fashion investors — consider Harvey Weinstein's recent equity stake in Halston — Burke predicted a new group of financiers geared to smaller and start-up brands is bound to emerge.

Burke noted that Ford's approach to launching a signature brand in his post-Gucci career could be a model for others to follow. Ford forged licensing pacts with beauty giant the Estée Lauder Cos. for beauty and Italy's Marcolin Group for eyewear, which generated brand awareness and royalties ahead of his apparel launch earlier this month with Ermenegildo Zegna. "Licensors are trying to pick the names for the next five years," Burke noted. Most investors are looking to own at least 50 percent of a designer's brand, as Gucci Group did in 2001 when it launched the Stella McCartney fashion house, which is slated to reach breakeven this year, aided partly by licensing pacts and partnership deals with the likes of Adidas, LeSportsac and Target Australia.

"Gucci [Group] has been very good at launching new designers, or relaunching old brands," Ohana noted.

Burke said many young designers get fixated on having majority control. "For an investor, that's not easy," he said.

Most agreed a partnership is the best route, as many of fashion's biggest success stories involve a striking rapport between a designer and a businessperson, with one of the earliest examples being Yves Saint Laurent and Pierre Bergé, who built a landmark French couture house.

"I don't think an investor can afford for a designer not to be implicated," Morgan stressed.

Mallevays cautioned that each brand has to be handled differently. "The most successful and durable partnerships are when brand and operating control are shared, not wholly ceded nor entirely kept by the designer," he explained. "This is not the same as artistic control, which should remain firmly within the designer's camp."

Observers noted start-ups are done at higher risks and higher costs — with flagships and big marketing — or with less working capital by outsourcing production and doing purely wholesale distribution. "That's how a lot of great businesses got started," Halpern said, adding the latter strategy can take a long time.

In Halpern's estimation, it is probably harder for designers to find backers today than in the Eighties or Nineties, despite a market flush with investment capital.

"The market is bigger, but on the other hand, it's far more competitive, and the large luxury conglomerates exert more powerful control over distribution," Halpern noted. "It's harder to get noticed."

But the promise of finding the next Bottega Veneta, Dolce & Gabbana or Jimmy Choo is what fuels speculative plays, where the odds of success are low, but the payoff can be massive.

"It's a little bit like backing a rock star," Halpern said. "If they're big, they can get really big." Mayer noted that he recently spent some time in Brazil and was struck by the number of promising talents in that market. "I would not exclude a top brand in the next 20 years could be a Brazilian brand. Or it could be that the next Giorgio Armani is a Chinese brand," he said. "Don't forget, when Bill Gates launched his business, it was so new and innovative that only very few people thought it could work."

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