WWD

Learning From the Last Generation

By Evan Clark

February 7, 2019

What young brands can learn from the Aughts-era darlings that build big acclaim, but small businesses.

The young designers looking to make their mark on New York Fashion Week face all the usual obstacles.

They have to wrangle the models (making sure they aren't too young), pay for the venue or line up sponsors, attract a crowd and, oh yes, finish their collections.

Implicit in the whole expensive, exhausting enterprise is the promise of getting the right kind of attention from the right people and spinning that exposure into something bigger.

But the odds, already long to start, have only gotten longer as the traditional path to fashion success has broken down and been diverted through a digital jungle of social media, influencers and e-commerce.

Powerhouses on the fashion calendar — like Ralph Lauren, Michael Kors or Coach — have both big brands and big businesses that were largely solidified in a different age when wholesale accounts led to scale, marketing dollars, lucrative licenses, influence and the rest.

But while these firms that set down the roots of their successes three decades ago continue to thrive (with some bumps along the way), Aughts-era darlings like Thakoon, Proenza Schouler, Alexander Wang, Rodarte, Zac Posen and so on found large followings in the industry and among fashionistas but have generally struggled to build businesses to match their brand images.

A decade ago, they were the names to watch — young, hot designers who did everything the industry expected of them and more. They won Council of Fashion Designers of America awards by the armful, their aesthetics were celebrated in all the key magazines, they dressed the right starlets and they put on glitzy, exclusive runway shows that further burnished their images.

They were on a well-established path to fashion success that created a cult of the designer. It was one heavy on artistic achievement and critics' praise, but was rarely compatible with the commercial core of the industry.

That has left many of the generation of designers who found their footing in the last decade at a critical juncture: looking for money, having trouble finding it, and still searching for a business model that clicks with today's retail realities.

"I'm not sure it has so much to do with the designers themselves as much as the industry as a whole taking a lot of very sharp turns," said Robert Burke, chairman and chief executive officer of Robert Burke Associates.

He said there was once a "very specific script for how you built a brand." It started with ready-to-wear and moved to accessories, department store accounts, specialty store accounts, a fragrance license and so on.

"Everyone kind of did the same thing and these designers, unfortunately, kind of hit right at the end where that playbook blew up," Burke said. "The traditional marketing and p.r. changed completely; it had this chain reaction I don't think any of the designers were prepared for and they were at a critical point in their businesses."

As the smaller, up-and-coming brands largely followed the old path forward, category-specific players such as Moncler and Canada Goose made a place for themselves with functional styles and extreme focus, a new generation of Internet-friendly designers came to the fore, and the powerhouse designer names became even more powerful.

"The bigger brands really focused and decided to take major market share," Burke said. "The 10 important brands have become the 10 more important brands."

Gucci, for instance, drove sales of 6.2 billion euros in 2017, up from just 2.2 billion euros a decade earlier — growth that no doubt squeezed out smaller, less recognized brands without the same financial clout.

Designers today have to connect with shoppers much more directly than they did in the past and be more cognizant of having a well-rounded business.

"Being a creative director today is being a businessman," said Olivier Rousteing, Balmain's creative director for nearly nine years, at the WWD CEO Summit in October. "There is nothing wrong with making sure that you love business. We are not just creating clothes for models to walk and to not see them [being worn by shoppers] around the world…Fashion is about being inclusive and seeing people wearing your clothes."

Gabriela Hearst, whose four-year-old business is taking off and who just received a minority investment from luxury powerhouse LVMH Moet Hennessy Louis Vuitton, is also thinking differently and at the CEO Summit laid out two key guidelines for her company: having a long-term view and operating sustainability.

Hearst, following those guidelines, decided not to sell her popular bags through other merchants and recounted when she was given a plan to expand through wholesale sales. Immediately, I thought, OK, we can sell a lot of bags. At the end of the day, we'll be making the same amount of money to be selling double the amount. It just didn't make sense from the natural resources point of view. In the fast pace that we're living of overexposure, I want to be doing this for a long time. I can pace myself to grow. That's part of the philosophy of the company. Growth, control, strategically. I want to be doing this for a while."

That kind of control is hard to come by for most hot brands.

Designers that have struck a chord and are looking to build on their buzz have oftentimes had trouble finding — or keeping — the kind of management who could help them scale their businesses.

"When you look for luxury talent, pretty much all the talent in the U.S. is regional talent, where their experience is in sales and retail," said Jaimee Marshall, executive vice president of executive search firm Kirk Palmer Associates. "The luxury executives in Europe who run the entire business end-to-end often do not have deep American market experience."

Executives who come out of the established European brands are also used to working with significant retail footprints of their own. And the U.S. pipeline for executive talent that knew how to run a business from soup to nuts slowed to a trickle as multibrand giants such as Liz Claiborne Inc. or Jones Apparel Group dwindled and then disappeared.

"They want that perfect combination of taste and complete business skills and there isn't a plethora of that here and it isn't being developed in any meaningful way," Marshall said of American designer companies.

"In Europe, it is common for executives to have a high taste level," she said. "Once you vet that they have the requisite skills, you don't have to worry about their taste. The same is not true in America."

Even so, it's not clear what the requisite skill set is for turning around a business that's big on style but small in reach and not accustomed to reaching consumers digitally. There have been attempts to make a hard pivot, but in a market so rapidly changing, it's been hard to see just what a designer brand can and should become.

For example, Vivian Chou's Bright Fame Fashion bought a controlling interest in Thakoon in 2015 and developed a see-now, buy-now concept that took the designer off the traditional fashion calendar. But the revamped offering only showed two collections and was put on hold two years later. At the time, the designer, Thakoon Panichgul, said: "It was time for my brand to explore a new business model and this opportunity allowed us to do so. We can now take the learnings from this to apply to the next evolution of Thakoon."

Others are also working on second or third acts.

Proenza Schouler partnered with Valentino Fashion Group, and then a group of industry-savvy financial backers, who were later joined by Castanea Partners. Through it all, the design kudos rolled in, but the business didn't take off. Last year, distressed investment specialist Mudrick Capital Management stepped in to partner with designers Jack McCollough and Lazaro Hernandez.

Just what course the brand will and can steer is unclear even as the designers remain darlings of the New York fashion set.

Alexander Wang was out looking for money last year to develop his business with more stores and a bigger e-commerce business and has been seeking to bring in new leadership talent since the fall, when ceo Lisa Gersh left.

In many ways, the premise that underpins which brands are considered cool has simply changed.

A promising designer brand starting out 15 years ago was not looking to be inclusive; instead, the impulse was much more to place one's marker with fashion's one percent at luxury stores and build from there. But now everyone's an Instagram art director and everything is just a click away. Many designers lost out as the consumer moved much of their spending from store to mobile phone.

"A lot of it has to do with distribution and the shift in distribution," Janki Lalani Gandhi, managing director at Lincoln International, said in explaining why many young designers slipped as the industry changed.

Many of the designers started off with businesses that relied on department stores and other brick-and-mortar outlets and weren't able to quickly convert to having their own e-commerce businesses and selling to other online merchants. Nor did they have the financial wherewithal to open a string of their own stores, as key European brands were able to do.

"Staying at the forefront of technology and, frankly, having to invest in building out those capabilities, a lot of those wholesale-focused brands, which were more about product, they've had to adapt and learn to be more about marketing and digital and I think the shift has been a difficult one for people to navigate," Gandhi said.

The direct-to-consumer brands have been able to scale online where designers largely haven't. And although the digital natives are still searching for profitability, they now at least have some size, giving them a leg up — not to mention private equity and venture investors eager to pump money into anything labeled "digitally native" in hopes that it becomes the next Warby Parker, Stitch Fix or Ssense.

Gandhi said designers looking for traction need to start anew.

"They have to completely reinvent themselves, especially from a distribution point of view," she said. "How do you refresh and reinvigorate the brand? How do you connect with the end consumer? And how do you build your own e-commerce? For contemporary, advanced designers, the challenge with those businesses is, most of them did not have enough scale and enough of a global footprint to really matter."

Those are the key questions as Proenza plots its course with new baking, Wang searches for new leadership and just about everybody searches for new money and new ideas. The greatest danger is the possibility that those are questions, concerns and worries might be best answered by the next generation of brands — if they can figure out fashion week.