THE NEW FASHION INITIATIVE

Funding Sustainable Fashion Startups

Brown University X TNFI

Maggie Bachenberg, Julia Kavan, Joshua Park, Amienne Spencer-Blume

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Snapshot of Today

As a nearly $3 trillion industry, the fashion industry harbors much opportunity for a profitable transition to more sustainable practices. Deployment of $20 billion to $30 billion of yearly investments for the next ten years could substantially contribute to developing and scaling disruptive innovations and business models. However, to date there is a scarcity of large corporate investments in the fashion industry, while every year $500 billion of value disappear due to the failure to recycle and maximize the usage of clothing. The largest needs for financing are found at the start of the supply chain involving raw materials, where more than 50% of the fashion industry's carbon footprint originates from. Therefore, hard or physical technology offers larger financing opportunities than soft technology. Importantly, for startups to have a shot at scaling their innovations, attention must be directed toward overcoming the 'valley of death,' the financing gap during the middle stages of the innovation process in which the viability of a product or technology must be demonstrated for it to then be adopted. While VCs can share expertise, seeking out strategic investors is also commendable. While a return of 2 to 4x is desirable for an investor-backed fashion brand, VCs are often looking for larger multiples, up to 10 to 15x, which can deter VC investments in sustainable fashion.

Katrin Ley et al., "Financing the Transformation in the Fashion Industry: Unlocking Investment to Scale Innovation" (Fashion for Good, BCG, January 2020), https://fashionforgood.com/wp-content/uploads/2020/01/FinancingTheTransformation_Report_FINAL_Digital-1.pdf, 9.
Sebastian Boger et al., "Financing the Transformation in Fashion," BCG Global (BCG Global, August 18, 2020), https://www.bcg.com/publications/2020/financing-transformation-fashion-investment-scale-innovation.
"10 Circular Investment Opportunities for a Low Carbon and Prosperous Recovery" (Ellen MacArthur Foundation, 2020), https://www.ellenmacarthurfoundation.org/assets/downloads/Fashion.pdf.
"Venture Monitor Q3 2020" (PitchBook, National Venture Capital Association, Silicon Valley Bank, Certent, 2020), 11-12.

Types of Funding

Grants

Grants are a great way to get an **early stage** venture off the ground. The **founder does not have to give up equity** and they do not have to pay the money back. Check sizes can range from hundreds to thousands of dollars and ventures usually pursue these funds at an early stage. Some drawbacks of pursuing grants are that they are usually **time-intensive** to fill out and it can take a while to get the money. They are often for a specific area.

Crowdfunding

Crowdfunding is a relatively straightforward and risk-free way of funding ventures and start-ups: through raising small amounts of money from a large number of people, normally through websites on the Internet. The most common crowdfunding websites include **GoFundMe**, **IndieGoGo**, and **Kickstarter**. The crowdfunding model is fairly simple: the project initiator who wants their venture to be funded uses a site like Indiegogo, and individuals who support the venture can donate any amount of money through the site. Crowdfunding can be **donation-based**, where individuals donate to the venture of their choice without expectations of a reward, **equity-based**, or **reward-based**, where customers pay in advance for a product that they will receive in the future.

In terms of the sustainable fashion industry, crowdfunding is a great avenue for designers to raise funds for multiple reasons. Since sustainable clothing is often expensive to make and buy, sustainable fashion designers sometimes make clothing that they are not able to sell. With reward-based crowdfunding, customers are aware of the price before buying and the designer is able to fund their collection before the manufacturing stage. Also, crowdfunding **encourages new designers to join the sustainable fashion industry** because it allows them to avoid traditional funding barriers such as loans and investments.

Graham, Jennifer. "Is Crowdfunding an Answer for Ethical Fashion?" TriplePundit, 24 Apr. 2014, www.triplepundit.com/story/2014/crowdfunding-answer-ethical-fashion/44381.
"Crowdfunding." Wikipedia, Wikimedia Foundation, 29 Nov. 2020, en.wikipedia.org/wiki/Crowdfunding.

Incubators and Accelerators

Incubator and accelerators are organizations that **educate entrepreneurs on the fundamentals of business**. Incubators are typically shorter in length and intensity than accelerator programs. Both programs often provide connections to **mentors** who have expertise in certain areas. Most also have a curriculum that they teach, including information on value propositions, business models, raising funding, legal intricacies, and more.

Another benefit of participating in these programs for the entrepreneur is that they become acquainted with the rest of their cohort. Some accelerator programs provide funding in exchange for equity. **Check amounts are usually in the size of pre-seed rounds, ranging from $20,000 to $250,000.** Some accelerators do not give money but may give cash prizes, typically at the end of the program. As for stages of companies that typically participate in accelerators, they are usually past the idea stage, but not always. Incubator participants tend to be a bit earlier in their ventures and it is not uncommon to see idea-stage companies participating in them. Incubators and accelerators often specialize in a certain industry, type of company, or geography. Some fashion incubators and accelerators to highlight are the **Chicago Fashion Incubator**, **The Centre for Fashion Enterprise**, and the **Fashion Tech Lab**.

Most of the time, incubators and accelerators are highly encouraged if an entrepreneur gets accepted. However, it is important to note the potential drawbacks, which include the fact that in some programs the company has to give up equity in exchange for capital. Another potential downside is that the programs are sometimes very time-intensive , so if you've already gone through one or two programs, the third will be comparatively less valuable.

Angel Investors

Angel investors are typically individuals with high amounts of personal capital that provide funding for start-ups and entrepreneurs, often in exchange for equity. Angel investors typically invest in the early stages of a company, and often "their interest in startups usually goes beyond just monetary return" (Indeed, 2020). Angel investors are often wealthy individuals, but they can take a variety of forms including friends, family, groups, and crowdfunding angels. **The advantages of using angel investors is that there is low risk**. Unlike financing via loans or through larger groups, such as Venture Capitalists, there is often limited pressure to meet quotas or payback funding. This is because they are often paid back with **equity**.

Indeed . "Angel Investors: Definition, Advantages and Disadvantages." Indeed Career Guide, Mar. 2020, www.indeed.com/career-advice/career-development/angel-investors.

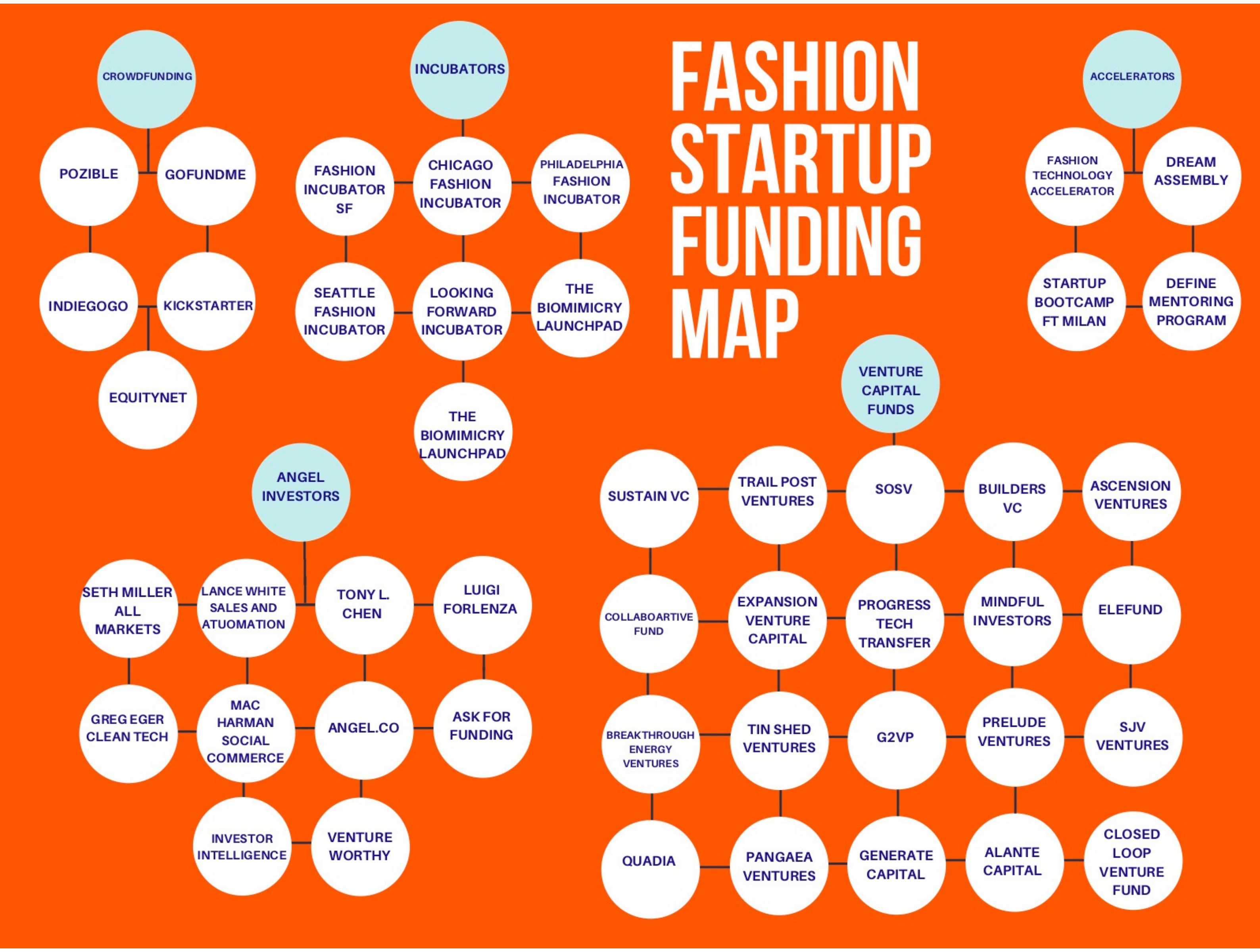
Additional advantages are they are typically long-run oriented, provide credibility without being intrusive, and often allow for avoidance of the founder's dilemma: being king or getting rich. However, there are some disadvantages such as lower rewards or returns associated with lower risk, loss of equity (with most startups giving away 5-10% of the company investor), and potentially lower funding. With respect to the sustainable fashion industry, there is more than a 2 trillion-dollar market for investment opportunity. Like other investors, angels are **most likely to invest during the minimum viable product developmental stage**. The largest markets with the most potential for angel and sustainable investing are the end-of-use market, cut-make-trim, and raw materials. For all types of investment, there are large gaps surrounding scaling stages and expansion. Because angel investors often operate independently, there are limited specific resources for finding investors who are only interested in one specific area, such as sustainable fashion. **https://angel.co/p/lforlenza-yahoo-it** is one platform where you can find ethical angel investors, who specifically have invested in ethical fashion.

Venture Capital

VC can assist startups with large checks during initial product development as well as the early stages of commercialization. VCs may also supply business-related legal and financial advice. **However, they expect quick turnarounds and the sustainable fashion industry is an environment that demands long-term change and patient capital that values qualitative, instead of merely quantitative, returns on investments**. Despite the pandemic, late stage VC funding has grown, mostly for mature companies, however. A central element in growing the sustainable fashion industry will be capturing the attention of investors who are focused on sustainability yet have not maximized their investments specifically in the fashion sector. This includes, for example, Breakthrough Energy Ventures, the European Circular Bioeconomy Fund, G2VP, or Generate Capital. In contrast, established investors already targeting the diffusion of sustainable apparel innovations for a circular fashion supply chain include **Alante Capital** and the **Closed Loop Venture Fund**.

Fashion For Good . Boston Consulting Group, 2020, pp. 1–30, FINANCING the Transformation in the Fashion Industry .

Further, when seeking funding as well as guidance during a startup's growth, **Corporate VCs** (CVCs) can also be resourceful, having been involved in more than 80% of U.S. venture deal value in 2020's third quarter. Startups could greatly benefit from established, knowledgeable, and influential parent firms that seek to reciprocally benefit from their investments and are simultaneously aware of the stakes and of the potential profit to be made by being ahead of the game in sustainable fashion. For example, Patagonia's CVC **Tin Shed Ventures** has financed investment rounds of $1 to $20 million and enables startups, such as Mango Materials, to make use of its industry experience and distribution networks.



"Venture Monitor Q3 2020" (PitchBook, National Venture Capital Association, Silicon Valley Bank, Certent, 2020), 24.
Katrin Ley et al., "Financing the Transformation in the Fashion Industry" (Fashion for Good, BCG, January 2020), https://fashionforgood.com/wp-content/uploads/2020/01/FinancingTheTransformation_Report_FINAL_Digital-1.pdf, 20-29.

Talking to Leslie Harwell of Alante Capital

We were fortunate to get the opportunity to interview Leslie Harwell, Managing Partner at Alante Capital, a venture capital fund that invests in Seed and Series A startups in the sustainable fashion industry. Their main interest is supporting startups seeking to enact systemic changes toward less extractive practices and sustainable life cycle waste recovery systems. She described three of Alante's portfolio companies, two of which are in the materials science category and the third in the software rental management space. Harwell also explained how the fashion industry is a nascent market and therefore takes a significant amount of research and convincing to get people to invest in it. Therefore, looking toward the future, Harwell emphasized the need for information sharing but also the large potential for growth and development that the industry harbors for investments. Alante is already receiving more inbound funding requests from startups than they can support after merely three years in operation.

"There's going to be a warmer and more friendly environment for startups, and funding particularly for startups in the sustainability space."

"We focus on things that can actually drop into existing supply chains, most of these tend to be raw materials… we want to make sure there is no major R&D that is needed after the particular material is created."

Moving Forward

To achieve both short and long term ends in a fashion industry that must necessarily shift toward sustainability, funding necessitates partnerships not only between the private and public sector but also across different industries, brands, manufacturers, and innovators. For example, **blended financing** or **risk tolerant debt financing** ideally primarily looks to effect change before cashing in turnarounds (see e.g. Fashion for Good, Laudes Foundation and Fashion for Good or The Good Fashion Fund). **Funding landscapes and investors' willingness to mobilize capital can change alongside the development of greater data availability, more accurate reflections of value creation of circular business models, consistent and standardized industry wide metrics for circularity, as well as governmental incentives for pursuing net-zero strategies that will lower the barriers to entry in the sustainable garment industry**. Investors will have a hard time getting over their risk aversion if sustainable technologies and practices are undercut by cheaper, unsustainable ones. By contrast, a national mandate for e.g. sustainable energy usage in supply chains would create a low risk market ready to sponge up all investment opportunities with higher rates of ROI.

Due to the fairly nascent character of the sustainable fashion innovation system, there is a lack of institutional, corporate knowledge about apparel manufacturing and what its funding entails in contrast to other energy intensely polluting and CO_2 emitting industries. Currently, assessing startups' impact potential is not a task industry outsiders and non-specialized investors are most equipped for. Instead, **conversation between investing strategists, sustainability experts, and fashion insiders** will be key for all stages of financing, as to lower risk and increase profitability for investors while advancing toward industry wide sustainability. Frequently, a mere fraction of available capital reaches fashion technology, hindering innovators from developing radical solutions. While investors taking an equity stake in startups can stimulate focus on viability and market effectiveness, startups geared toward long-term impact must not be stifled, for example, by VCs pushing for high growth and returns on investment without funding the middle stages of innovation. These are especially crucial for hard technology and demand perseverance and an eye for the future.