

CREATIVE ACCOUNTING

The UK fashion industry is more than frocks and frills, it's a £21bn creative success story. But **Iwona Toke-Wilde** discovers that a British label isn't enough to ensure a profitable brand

What do accountants know about fashion? A great deal, apparently. Jaeger, one of Britain's oldest fashion houses, was founded in 1884 by Lewis Tomalin, a London accountant and head of finance at a large City grocer. He was inspired by a German professor of zoology and physiology, Dr Gustav Jaeger, who claimed people would be healthier if they wore clothing made from animal hair and wool rather than from cotton. Animal fibres, especially when worn against the skin, were thought to help rid the body of noxious vapours.

Tomalin's first shop – near London's Moorgate and called Dr Jaeger's Sanitary Woollen System – proved to be a hit. Writers Oscar Wilde and George Bernard Shaw signed up to the sanitary system, as did explorers Ernest Shackleton and Captain Robert Falcon Scott. In the 1930s Jaeger changed its focus from health to fashion and, in its heyday, went on to dress Hollywood stars Vivien Leigh, Marilyn Monroe and Audrey Hepburn and later British style royalty Marianne Faithfull, Twiggy and Jean Shrimpton.

Fast forward to April 2012 and the retailer had 50 stores and 70 concessions across the UK, some of them threatened with closure after a rescue sale to Jon Moulton's Better Capital

for just under £20m, a sum roughly equivalent to Jaeger's total debt. At the same time, Jaeger's sister company Aquascutum, manufacturer of iconic trench coats, collapsed into administration. Hong Kong-listed fashion retailer YGM Trading Ltd, which already owned Aquascutum's license for Asia, bought its worldwide license from the administrators for £15m.

The fortunes of Burberry, Aquascutum's trench coat rival, could not be more different. Both brands were founded in the mid-19th century and each cashed in on their British heritage. Yet only Burberry seemed to find new opportunities. Although it reported last month that it expects adjusted profit before tax for the 12 months to 31 March 2013 to be "at the lower end of market expectations", its total revenue for the quarter to June 2012 was £408m. And Burberry says it continues to see strong sales growth in Asia.

"Burberry has exploited the ethos of 'classic with a contemporary twist' with its diffusion lines and by acquiring previously divested overseas licenses," says Peter Saville, partner at corporate advisory firm Zolfo Cooper. "Aquascutum remained rooted in the past and the decision to concede licensing in Asian territories

contributed to the brand's demise. As well as targeting emerging markets, Burberry made bold decisions such as bringing in outside management help," adds Saville, referring to the company's American CEO Angela Ahrendts.

So, is the success of the top British fashion houses linked to the fact that those making financial decisions behind the labels – the management, as well as investors and customers – are largely non-British?

"The UK has a long history of importing CEOs and sometimes it seems they are

SPOTLIGHT ON BARBOUR

Founded in 1894 the country clothing firm J Barbour and Sons celebrated 100 years since its incorporation this September.

The British-owned and British-made company posted strong annual results for 2010*, with turnover rising from £74.5m to £89.8m and pre-tax profits from £10.2m to £11.3m. Overseas turnover was up from £42m to £45.6m, while UK turnover rose from £32.5m to £44.2m. Based in South Shields, the company plans to open more stores in the US, Germany and other countries.

* Barbour's financial statements for year end 31/12/11 came out on 30/09/12 after this issue went to press. See economia.icaew.com



better at turning our brands into marketable commodities," says Paul Alger, international affairs director at the UK Fashion and Textile Association. "Church's and Belstaff have been transformed by Italian ownership, too. But these brands were successful before they were bought out. Their continued success lies in a combination of market savvy and awareness of what had made them appealing in the first place."

Prior success can guarantee foreign ownership, though. Stella McCartney is a joint venture with French company PPR and Church's Shoes now belongs to Prada. Paul Smith is 40% owned by a Japanese company, the controlling interest in Mulberry belongs to a Singaporean billionaire and Gieves & Hawkes was acquired by Hong Kong's Fung family for US\$147m last April.

"Heritage styles and British eccentricity make dressing more interesting within cultures where the dress code is conservative. Burberry is also a status symbol and offers



"Manufacturing quality products closer to home would make sense for generations of workers"

Main picture: British fashion guru Paul Smith, whose business is now 40% Japanese-owned.
Above: Japanese women are picking up on vintage British style

affordable luxury in China, where the middle classes are becoming wealthier," says Jaana Jätyri, founder of trend forecasting agency trendstop.com. "The currency markets have also helped boost sales in Asia. Over the past three years, sterling has lost about a third of its value against the renminbi."

Is it possible to rejuvenate Brand Britain's sales in Britain itself? Wendy Malem, director at the Centre for Fashion Enterprise, says: "The fashion industry needs a better understanding of finance as well as confidence in the investment markets to allow our top designers to scale up."

Long-term investment is where the UK falls down, agrees Alger. The British need to reassess their values, too. "As a nation, we should consume more responsibly. And we don't spend enough on our fashion to create a sustainable industry," says Alger. "Designers understand the home market wants something cheaper, so rows of formulaic goods are coming out of factories, especially in China."

Manufacturing quality products closer to home would make sense for generations of workers. But many of us cannot afford to buy EU-made products so volume production is unlikely to come back to our shores any time soon."

But the outlook isn't all doom and gloom. "Mulberry and Dunhill still craft products in the UK," says Malem. "Savile Row has an apprenticeship scheme that allows tailoring know-how to thrive. London and Northampton still make footwear and woollen fabric is still produced at Fox Brothers in Somerset. This high-level skill base is surviving, employing people, exporting and paying taxes to HMRC."

So today's accountants know a lot about fashion, it seems. As Toby Hargrave, accountant and former financial director in the food sector who now co-directs shoes e-tailer Oliveira says: "The basic business principles of providing a quality product at a fair price along with outstanding customer service apply to all sectors – including accountancy and fashion." And if Hargrave could go back in time and talk to Jaeger pioneer Lewis Tomalin, what trade secrets would he want to learn? "I'm fascinated by how some fashion items become timeless classics," he laughs. ■