

MSc Business Administration

**UNIVERSITY  
OF TWENTE.**

*Crafting the Future*

**BUSINESS MODELS AND VALUE CREATION  
IN THE GERMAN PRODUCT DESIGN INDUSTRY**



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Every end is a new beginning.  
Let's craft the future!

Marie-Theres Riegler  
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## **ABSTRACT**

The importance of the creative industries for regional, cultural and economic development has been constantly increasing over the past decades. Countries, governments and public institutions are trying to enhance and foster further development in this field. This research is using a multi-method approach, combining qualitative research with relevant theories in the field of business models, value creation, and the creative industries. The qualitative research part consists of 13 cases of creative entrepreneurs, operating in the product design industry (fashion, furniture and retail) in Germany. The business model canvas by Osterwalder et al. (2010) is used as a basis, to analyse the respective business models of the companies. In addition, the research also explores internal (personal motivation) as well as external factors (the influence of the local environment), influencing the development and value creation of the creative businesses. The work is adding valuable theoretical contributions in this field of research, by partly confirming, and partly disputing previous theories. The findings provide practical implications, and highlight potential pitfalls for fellow creative entrepreneurs.

**Keywords:** Creative industries, product design, Germany, business models, value creation, networks

## **EXECUTIVE SUMMARY**

The acknowledgement of the creative industries as important drivers for economic and cultural development has been steadily increasing over the past years. Within the creative industries, various disciplines exist. Previous research has mainly been conducted in the film, gaming, music and advertising industry, whereas relatively little research has been conducted in the field of product design. Different national, as well as international research approaches, have identified and assumed some difficulties, creative entrepreneurs are facing in the business world, mainly with regards to a lack of resources and the managerial mindset of the entrepreneurs. This research is using primary and secondary data to evaluate business models and value creation in the German product design landscape. 13 case studies have been conducted in the cities of Berlin and Hamburg, further exploring the mindset, motivation and business models of creative entrepreneurs in fashion, furniture and retail. The most important findings confirm the importance of the direct and indirect networks of the entrepreneurs for starting and developing the business, as well in terms of value-co creation. Previous professional experience and knowledge of customer needs have also been found to be very important for most of the founders. Interestingly, there has been no evidence, that the fellow creative entrepreneurs lack the managerial mindset, or are not trying to successfully capture value with their business. It is true that, due to their previous creative studies, most of them might lack certain skills and tools, when it comes to the organisation of a business. Yet, with increased experience, the majority of the founders adapted their business models over time, especially changing sales channels (from wholesale to direct selling), price strategies (increasing prices) and internal organisation (divided responsibilities, increased efficiency). The trend of the entrepreneurs to engage in selling through temporary locations, either via pop-up shops or shop-in-shop concepts can be confirmed. One of the most difficult parts in the majority of the cases is brand building and targeting the right customers.

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## INTRODUCTION

*"Creativity is the root of entrepreneurship."*

*Karndee Leopairote, Thammasat University*

The interest in research of creative industries emerged in the 1990ies. The reason for this was the economic potential, as well as flexible business characteristics, advanced use of production technology and creativity, that caught the interest of both – governments and management scholars (Caves, 2000). Creative industries can be seen as strategically significant engines of economic growth, job creation, and social cohesion (Pratt & Jeffcutt, 2009). These industries, also known as cultural economy, include various disciplines (e.g. Music, Art, Design, Gaming, Advertising) and have a tremendous contribution on economies internationally, having employed almost 30 million people worldwide by 2013<sup>1</sup>. At the same time, previous research also highlights the difficulties creative industries are facing – being it the strategic use of intangible assets (knowledge, imagination, creativity), the reliance of networks or management of talent (Lampel et al., 2000).

A wide range of literature on innovation and entrepreneurship indicates the importance of creativity and knowledge as important factors for innovation in the creative industry (Kimpeler & Georgieff, 2009). At the same time, it is a fact, that companies need a certain degree of control at the project level, to ensure consistency across different disciplines in business. In creative industries, however, consistency and control can be the enemy of creativity. Nevertheless, creative organizations have to establish some guidance within their business operations (Endrissat et al., 2015).

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<sup>1</sup> [http://www.unesco.org/new/fileadmin/MULTIMEDIA/HQ/ERI/pdf/EY-Cultural-Times2015\\_Low-res.pdf](http://www.unesco.org/new/fileadmin/MULTIMEDIA/HQ/ERI/pdf/EY-Cultural-Times2015_Low-res.pdf)

Over the past years, creative industries have been increasingly considered as hubs for innovative business and organizational practices by firms and governments (Lampel & Germain, 2015).

Yet, an increasing number of scholars also found out that especially in the creative industries, with the need to constant creation, a lot of pressure is being put on creatives who – in many cases – rather focus on creativity and innovative design than on developing an economically sustainable business model. A fact that eventually has negative consequences on the success of the business (Micheli, 2015; HKU, 2010; Berlin Senate, 2013). Based on the paper of other scholars, Lampel & Germain (2015) mention, that both artistic as well as business competencies, originally seen as incompatible, “are increasingly seen as essential complements.” Not only the view of the creative industry changed in this regard. The acceptance of the possible co-existence of both managerial and artistic competences- in the same person, can also be found in other industries (Lampel & Germain, 2015; Durand & Hadida, 2016).

In a local report on the creative industries, published by the Berlin Senate in 2011, one of the highlighted risks mentioned in the fields of fashion and design, is the lack of financial resources and business know-how in general. At the same time, accentuating the huge potential of strengthening emerging talents and sustainable production.

This leads to the assumption that some founders might be great designers, but remain unknown or impede growth, because they do not have enough knowledge about relevant business practices, resources and strategies needed, and do not use innovative business models or a network of (local) partners to sustain potential value creation of the company.



**The goal of this thesis** is to conduct research in one discipline of the creative industries – Design (Product & Fashion Design), to address the identified research gap mentioned in the previous section. In doing so, the research examines business models of a number of creative entrepreneurs in the fashion and product design industry in Germany, at different stages of their business lifecycle. Building on previous research, saying that disciplines – especially in the creative industries are unique in the business strategy (Micheli, 2015), the research aims to get deeper insights into the ways, designers operate in the fast-paced business environment, as well as on the motivation of the such, for choosing certain business models. By analysing how creative entrepreneurs conduct business, the investigator hopes to shed light on the ways these entrepreneurs aim to create and capture value with their company.

By increasing the base of knowledge in this field, offering business insights and aspirations from entrepreneurs in the creative industries, potential innovations and opportunities for sustainable growth might be identified, eventually further enhancing the development of sustainable business models and success strategies in the design industry.

## **RESEARCH OBJECTIVE**

*“Designers are artists. The economic value of things, they don’t grasp it very well (...) they are not pragmatic...But the thing is in this society, you have to be more grounded, particularly if you get financial assistance from the government. I cannot have the airy fairy...I have to get results.”*

*Interview, IDM official (2001)*

## **Problem Description**

Besides organizational infrastructure, research showed the importance of local infrastructure on the sustainable innovation potential of companies, especially in the creative industries with a lot of social and cultural impact on the respective cities/countries. Culture and design are widely recognized as vehicles of urban renewal, talent attraction, eventually leading to economic competitiveness (Paul, 2004; Pratt 1997).

Promoting innovation – through city infrastructure – stimulates long-term sustainable economic growth (Dijkstra, 2009). Germany, especially in the recent years, has experienced constant growth, with a flourishing creative industry in cities like Berlin and Hamburg (Senate Berlin, 2011). In 2010, the European Commission published a green paper, highlighting the potential of cultural and creative industries for innovation, sustainable growth and jobs, planning flagship initiatives in this field by 2020<sup>2</sup>.

The importance of creative industries on society, culture and the quality of living should not be underestimated. As previous research points out: Creative Industries are inspired by and start borrowing from existing cultures, but with an increasing influence, leading to shape and change cultural activities and becoming a “dominant, cultural force” (Kennedy, 2005, 2008).

The personal motivation of this research is to combine theoretical business and research knowledge acquired in the field of Entrepreneurship, Innovation and Strategy with professional experience in the fashion industry. First-hand experience in increasing changes with regards to sales channels (increase in pop-up shops) and customer demand (high-quality, sustainable sourcing) as well as the need of young designers to develop sustainable and successful business

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<sup>2</sup> <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52010DC0183>

models while constantly producing creative outputs are some of the complications of today's innovative and competitive environment.

### **Central Questions**

The illustrated research problem shows the need to gain more detailed insights on the business approaches of entrepreneurs in the field of design. The **research question** is formulated as follows: How are creative entrepreneurs in the German design industry creating and capturing value through their business?

From this point, a number of **sub-questions** can be derived:

What are the personal motivations for creating value through a creative venture? Does the local environment influence value creation of the creative entrepreneurs? Do certain collaboration structures in the creative industries exist to co-create, or capture value? How can value creation in the creative industries be defined?

These sub-questions will be answered in the following section of the theoretical literature analysis and will recur as part of the results, comparing them to the results of the qualitative research, altogether helping to understand and improve the way creative entrepreneurs do business.

### **Structural Approach**

The approach for the research is to follow a multi-method design. This research design consists of a descriptive theoretical framework, building the knowledge foundation by identifying and explaining the most relevant connected theories and clarifying definitions in this field of research. In a next step, exploratory research will build upon this knowledge, offering direct

insights into business practices of creative entrepreneurs in the fashion and product design industry. To being able to offer deeper and more specific insights, this thesis will focus exclusively on brands in the fashion and product design industry, where the product is mainly a physical end product, the consumer can wear/use. The ultimate goal is to identify success (and failure) factors by showing innovative concepts and strategies of entrepreneurs in the field of design.

To further explore these specific disciplines and certain pitfalls along the way is crucial for the creative industries which contribute to the development of culture and society alike. Eventually developing a strategic conceptual framework for brands, operating in this field as well as highlighting potential ways to support the creative industries with specific government initiatives. The main theoretical contribution the research is aiming for is to offer further insights, which can be applied by academia, especially by creative institutions and universities, to enhance the educational approach, and to support future creative entrepreneurs with the required knowledge. Another theoretical contribution with this research is to be achieved in the field of business models. The results can be used by other management scholars and students in the field, who aim to engage or to conduct further research in the creative industries.

## **THEORETICAL FRAMEWORK**

*"Ideas are easy. Implementation is hard."*

*Guy Kawasaki, co-founder of Alltop*

The main theoretical concepts behind this research will be theories on business models, creative clusters/creativity in cities and value creation. The following theories were chosen to provide an overview of the main definitions as well as concepts behind value creation and the creative

industries, based on the nature of the research question. The aim is to explore the nature of value creation in business, and the tools companies use – for example, the business model canvas – to project value creation and value capture.

The second part of the theoretical framework is about creative industries and creative clusters, partly with a section on creative industries in Germany, since the local environment of the research is Germany. The theory of clusters and the importance of the local environment with regards to company development and creativity is supposed to play an essential role, as has been mentioned in the introduction, therefore it will be further explored in the theoretical framework.

### **Business Models**

“A business model describes the rationale of how an organization creates, delivers, and captures value” (Osterwalder et al., 2010 p. 14).

Business model innovation has gained increased interest by researchers since the 90ies with the emergence of the internet (Tucci & Massa, 2013). In his book “Disciplined Entrepreneurship”, Bill Aulet (2013) also acknowledged the importance of an innovative business model on the successful organizational strategy.

According to Anderson & Narus’ (2003) principles of business market management, three topics should be further investigated for defining a company’s business model strategy. First, does the company **understand the value**, which is asked by the market, second, how is the company currently **creating that value** to fulfil their customer’s need, and thirdly, how does the company **deliver the value** to the market?

Similar to Anderson & Narus (2003), Osterwalder et al. (2005) also put the focus of their theoretical model on the value creation of a company. Mainly, by interpreting a business model

as a description of value, a company offers to customers, its design and network for creating and delivering this value and to generate profitable and sustainable revenue streams. The key objective of conceptualizing the business model, according to Osterwalder et al. (2005), is to derive the relevant areas for improvement and for decision makers to stay more informed and hence make better decisions.

The business model canvas (Osterwalder et al., 2010) has become an alternative to the classical business plan. It is considered to be important for analysing how a brand or company is creating and capturing value for its consumers and key business partners. This can happen in economic, social, cultural, or other contexts. The business model canvas has been used internationally by different organizations such as IBM, Ericsson or Deloitte.

Table 1 shows the different building blocks of the business model canvas and which questions should be asked to evaluate the single building blocks. According to Osterwalder, the goal was to create a concept that everybody understands, regardless of their background – a concept that is very simple, relevant but at the same time able to show the complexity of how organizations function.

<b>Pillar</b>	<b>Building block</b>	<b>Description</b>
Product	Value proposition	Overall view of the bundle of products and services. Define markets, segments and positioning. Which and how is a customer problem is solved? Some value propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes (newness, performance, customization, getting the job done, design, brand/status, cost reduction, risk reduction, accessibility and convenience/usability. Why should a customer choose you over a competitor (uniqueness)?
Customer interface (value delivery)	Target customer	Segments a company wants to create and deliver value to (mass market, niche market, segmented, diversified or multi-side market.

	Distribution channel	Value propositions are delivered to customers through communication, distribution, and sales channels. - phases: awareness, evaluation, purchase, delivery and after sales. - own (direct) and partner (indirect)
	Customer relationship	Kind of links the company establishes and maintains between itself and its customer segments (customer acquisition, customer retention and upselling). - (dedicated) personal assistance, self-service, automated service, communities or co-creation.
Infrastructure management (value creation)	Value configuration	How is value created with activities and resources? Key resources: financial, human, intellectual, physical Key activities: production, problem-solving, platform/network
	Core competency	Competencies to execute the business model
	Partner network	Partners to efficiently offer and commercialize value (strategic alliance, joint venture, coopetition or buyer-seller relation) - economies of scale/scope, reduction of risk and acquisition of needed resources or activities
Financial aspects (value capturing)	Cost structure	Sums up the monetary consequences of the means employed in the business model (cost or value driven; fixed or variable cost; economies of scale and scope)
	Revenue model	Describes the way a company makes money through a variety of revenue flows (asset sale, usage fee, subscription fee, lending/renting/leasing, licensing, brokerage fees or advertising). - transaction or recurring revenues can both have different pricing mechanisms: fixed (static variables) or dynamic (market conditions).

Table 1. - Building Blocks of the Business Model Canvas by Osterwalder et al. 2005

Aulet (2013) accentuates that in many cases, entrepreneurs invest a lot of time on product definition, the end user profile and on how to create value, but at the same time, not spending enough time to think about how the value created translates into a profitable business.

## Value Creation

Creation, communication and delivery of value are identified as the primary activities of any firm. In the previous section, business models have been presented as a framework, for a company to define and evaluate the possibility of creating value.

Value is defined as the “capacity of goods, services or activity to satisfy a need or provide a benefit to a person or legal entity” (Haksever, Chaganti & Cook, 2004, p.292). Value creation can, therefore, be seen as activities a company performs to increase the value of goods and services for consumers. Jack Hughes (2013)<sup>3</sup> states that, contrary to the past economies of industrial scale, where mass production and the high efficiency of repeatable tasks were the main drivers for value creation, creativity (new materials, processes, technologies, customization) is the base to creating product or service value in today’s companies.

We further differentiate between two main components of value: Perceived Use Value and Exchange Value (Bowman & Ambrosini, 2000). The perceived use value is defined by the customers, being highly subjective because the value of a product for customer A can extremely differ compared to the value for customer B. Exchange value is the amount that is paid for the product when a sale is made.

Michael Porter (1985) first introduced the concept of a value chain. Value is measured by the profit margin – the difference between value and cost. He differentiates between the following two types of strategies: Low-cost strategy and differentiation strategy. Low cost-strategy means lowering the cost of production whereas differentiation strategy is considered to focus on increasing the attractiveness of the product for the target customers.

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<sup>3</sup> <https://hbr.org/2013/05/what-value-creation-will-look-like-in-the-future>



Prahalad & Ramaswamy (2004) accentuate, that “the market as a whole becomes inseparable from the value creation process. In this paper, it is highlighted that the consumer and the firm are collaborators and competitors at the same time. They collaborate on creating value and can be seen as competitors at the same time, due to the fact that both parties want to extract as much value from the economic transactions as possible.

Value co-creation is defined as “a joint collaborative activity by parties involved in direct interactions, aiming to contribute to the value that emerges for one or both parties.” (Grönroos, 2012, p.1523) This means that value co-creation can happen between consumers and the company, as well as with other business partners and stakeholders within a company’s network.

Roser et al. (2013, p. 23) define value-co creation as “an interactive, creative and social process between stakeholders that is initiated by the firm at different stages of the value creation process.

When we now look at value creation in the creative industries, previous research in this field is still limited, but it is mentioned that cultural and creative industries can better motivate rapid development in surrounding industries and regions compared to other industries. This is because of stronger spillover effects and by creating economic benefit and employment opportunities (Chen, 2012). This shows the potential for value creation and addition in cultural and creative industries.

## **Value Capture**

Creating value is important, but so is value capture. If a company creates value, without being able to capture it, the company is less profitable and resources are wasted.

Bowman & Ambrosini (2000) defined value capture as "the realization of exchange value by economic actors (firms, customers, resource suppliers, employees)."

Captured value is the profit the firm makes, including economic profit and interest. Even though it is the employees of an organisation who produce products, these products being the source of profits, the employees "only capture a proportion of the added exchange value they create." (Bowman & Ambrosini, 2000, p.13) It is the perceived power relationships between economic actors, that determines value capture.

One could argue that today's business environment and high level of transparency, where consumers can compare different offers online, has a huge impact on the value capturing potential of a company.

This means that the amount of potential profit realized is not only being determined by the entrepreneurs and internal production costs but also comparisons made by customers, as well as resource suppliers. (Bowman & Ambrosini, 2000, p.13)

### **Motivation behind starting a Creative Business**

Before going more into depth about the individual motivations behind starting a creative business, first, the term creative industries should be defined more clearly. Scholars often use the terms cultural and creative industries interchangeably, yet as the terms already suggest, creative industries stress creativity (individual skills, talent) whereas the focus of cultural industries lies more on the importance of culture for the respective business. Creativity in the creative industries is related to differentiation of creative goods and services, implying an individual character (Fesel & Söndermann, 2007; Throsby, 2008). Some scholars also see creative industries as an extension of the cultural industry (Throsby, 2008).

In the publication about cultural entrepreneurship (HKU, 2010), the tension between classical and cultural entrepreneurship is mentioned. It is stated that the image of artists and designers “creating solely for art’s sake is changing”, there is still a certain degree of tension between cultural and entrepreneurial aspects. It is also shown that the motivations differ, depending on the sector in which they operate. What is a differentiator between classical entrepreneurship and the creative industries is the desire of prioritising economic exploitation over cultural value (growth-oriented) whereas creative entrepreneurs rather value the creation, and less the economic value.

By combining the above-mentioned positioning, namely one of the cultural/creative and entrepreneurial one, according to Eichmann et al. (four approaches in the personal orientation of creative entrepreneurs can be found (please see Table 2, p.14)

Main motivation:	Entrepreneurial success	Professional achievement	Art creation	Professional career
<b>Dominating occupational aspiration</b>	Success first, than autonomy	Balance between success, autonomy and security	Autonomy and Artistic Recognition, Aesthetic Criteria	Security. Reciprocity. Affiliation of autonomy and success
<b>Dominating identification focus</b>	Personal enterprise	Professional Status more important than occupation status	Art Communities, the Art Scene	Employee
<b>Work and live</b>	Professional activities in the centre; private activities marginal	Professional activities more important than private life, but depending on actual topics	Professional activities as part of personal choices. Refusal to make distinction between professional and private life	Professional activities and private life equally important. Separation of Professional and Private activities
<b>Type of occupation</b>	Employer, manager	Freelancer, Employee, Rarely Employer	Freelancer. Rarely employee or employer	Employee or Freelancer
<b>Industries and profession</b>	All sectors, in the Creative Economy absent	Technical professions, Architecture, Sound technician, Camera man, etc	Art professions. Design, Film, Architecture, Visual Arts	IT, Advertising, Sales Professions
<b>Additional typical characteristics</b>	Predominantly men	Mostly persons with long professional experience	Separation of ‘bread-earning activities’ and artistic drive	Majority of young people

Table 2. Source: Eichmann et al.,2007

This table seems very interesting and controversial at the same time, with regards to the research goal of this thesis. According to this table, the field of design can be found in the column “Art Creation”. While the motivation/personal aspiration of the designers may be aesthetics, autonomy and artistic recognition might sound logical, the type of occupation does not seem to fit, since many designers also started their own company – meaning they are entrepreneurs (1st column) at the same time, showing completely contradictory characteristics. Is it true that designers separate earning money and creation? Can’t creators also be “proper” entrepreneurs with the aim to increase both-cultural and economic value?

The investigation could therefore also help to further clarify individual motivations and the way of working in the design industry.

### **Creative Clusters**

Clusters can be defined as ”geographic concentrations of interconnected companies and associated institutions in a particular field, linked by commonalities and externalities” (Porter, 1998). According to Porter (1998), companies in clusters compete, but also cooperate. Schiele (2003) did not encounter any international cluster, rather regional clusters, pointing out the cultural dimension of geographical proximity. Local proximity and being part of a cluster, has shown to increase networking and social interaction activities, as well as access to relevant local information (Schiele, 2008; Porter, 1998).

The results of different studies show the impact of clusters on productivity and innovation. When situated within a cluster, companies show greater innovative ability, greater productivity and greater earning power. Previous research results show an extreme increase in product- (+35%) and process- (+20%) innovation as a result of being part of a cluster (Schiele, 2003).

Furthermore, these geographic concentrations benefit regional development and foster economic growth.

Creative Clusters mostly develop in larger urban areas, because of the access to bigger markets of consumption, different customer segments and increased opportunities (Lazzaretti et al., 2013), eventually leading to a positive influence on the innovation output of the creative industries (Maskell & Lorenzen, 2004).

As already mentioned earlier, regional clusters are not only important for specific industries, they are considered to be important drivers for creativity, economic growth and harnessing innovation, acknowledged by different scholars and governments (Flew, 2005).

Yet, it is important to notice that this is not always the case, and can differ between cities and regions. According to Lange et al. (2008), the creative cluster strategy in Berlin is rather different, arguing that within the Berlin's creative cluster there is high competition, characterized by a high level of self-governance, rather than governmental regulations, and strong informal and extensive activities of networking.

### **Creative Industries in Germany**

Economic and cultural diversity is one of the greatest strengths of German culture industries, according to Fesel & Söndermann (2007, p.13).

The German creative industries are considered to be “a growth sector with great potential”. The national, cultural and creative contributions and economic output are steadily increasing, having reached 249,000 companies and EUR 145 billion in 2013, according to the Federal Foreign Office. The creative industries belong to the most innovative sectors in the country. Within

Germany, the bigger cities, namely Frankfurt/Main, Hamburg, Leipzig, Cologne and Munich all have clear creative industry clusters.

Product design includes different activities, ranging from textile, jewellery, furniture and fashion design to photographic and graphic design with an annual turnover of EUR 1.5 million, including about 12,000 design offices – turnover EUR 1.5 billion (Fesel & Söndermann, 2007).

It is very interesting to note, that within the European Union, the creative industries are still lagging behind in the development of value-added, whereas they are at the forefront in other respects. SME make 98% of the creative industries, which means the industries are strongly fragmented and in most cases, employ not more than 5 people (Fesel & Söndermann, 2007).

In the UNESCO report, Fesel & Söndermann also highlight the economic struggles of creative entrepreneurs, and other phenomena in the culture industries, not being subject to short-term development trends, defining certain areas for future research.

Some examples mentioned in the report are:

- Are the culture / creative industries capable of developing original and unique cultural products and creative services with sustainable effects?
- What can be done to raise incomes in the culture / creative industries? Can the enterprises become price makers instead of price takers in spite of their small-scale structure and thus gain higher profit margins?
- What kind of environment and infrastructure do the culture / creative industries need for development?

## **Summary**

Concluding the most important aspects of the theoretical framework, it is important to note that the business model canvas has become one of the most relevant tools for businesses, to examine a company's value creation and value capture. This tool is used across different countries and industries. Value creation is relatively easy to define, often a subjective perception of the parties involved, whereas value capture mainly deals with the objective financial success and aspects of the company, which can be a difficult factor for qualitative research and disclosure of information by individual companies. Looking at previous theories and research, the prevailing assumption still seems to be that creative entrepreneurs separate creation and financial success, and therefore not necessarily act as "proper" entrepreneurs. Creative industries play a vital role in economic success and cultural contributions, not only in Germany but also in the rest of Europe. Yet, there are still certain topics, that need to be addressed in this research, as well as throughout future research.

## **RESEARCH METHODOLOGY**

Previous studies in this field mostly evaluated various disciplines across the creative industries, limiting the outcomes because of a lacking focus. Some of them focused on specific industries – other than product design for example gaming, film and advertising.

The research gap as well as a personal network in the fashion and design industry, experiencing the economic struggles of designers first-hand, led to the focus of the research.

The research includes both–primary and secondary data. In social science, the analysis of secondary data plays a tremendous role (Iversen & Norpoth, 1976). The difference between the two types of data lies in the way of data collection and analysis. Whereas primary research

includes data collection and analysis, secondary research requires the ability to analyse data collected by others (Iversen & Norpoth, 1976).

### **Qualitative Analysis**

To answer the research question, qualitative data is used. Qualitative research interviews aim to satisfy both the meaning as well as the factual level. Interviewing on a meaning level is normally more challenging Kvale (1996). Qualitative research is used to gather data from the inside, get a holistic view of the topic and to better understand the behaviour of people (Miles and Hubermann, 1994). Differentiating between different approaches, an exploratory study is most applicable, since exploratory studies are characterized by assessing phenomena, seeking deeper insights and asking questions (Robson, 2002). Semi-structured interviews are considered particularly useful for exploring the views of a person towards something.

### **Sampling**

The applied sampling method is purposeful random sampling, which can increase credibility when only using a small sample. Purposeful random sampling starts with identifying a population of interest and developing a systematic way of selecting cases that is not based on advanced knowledge of how the outcomes would appear. “The logic and power of purposeful sampling lies in selecting information-rich cases for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the research, thus the term purposeful sampling” (Patton, 1990 p.169).

The geographic environment of the research is Germany, mainly Berlin and Hamburg with a highly concentrated cluster in the creative industries (Senate Berlin, 2011). These cities have been chosen because of an increased access to the right sample and an already established network of the researcher, which allows a better access to finding information-rich cases.



The main units of analysis are creative entrepreneurs (business owners), mostly designers, in the product design industry (fashion, jewellery and furniture). Local brands and businesses, who started a company in the past years, to ensure, the founders already experienced certain changes/adaptations in the design of their business model and for the researcher to better evaluate the reputation of the company. The sample includes companies at different stages of their development. Some of them are already established with a couple of years of experience, while some only recently started their business, to ensure a certain variety. In addition, 2 of the 13 companies operate in the retail/e-commerce sector, working with designers, to explore additional business models from the angle of retail. The 2 companies operating in the retail sector raised important topics concerning the work with creative entrepreneurs in the product design industry (**see Appendix 3**).

One of the requirements for the sampling population has been the reputation of the company and the nature and quality of products, to ensure a higher representativeness of reality, due to the nature of the sustainable development of the industries in the past years (sustainable production, high-quality sourcing etc.). As British designer Margaret Howell stated: "We should respect what it takes to produce something that is of a quality to last, and I feel we should be thinking about that now, especially in terms of protecting the environment."<sup>4</sup>

In Germany, the recent campaign "Support your local designer", has been trying to raise awareness for slow fashion and design and can be seen as a countermovement against fast fashion.<sup>5</sup>

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<sup>4</sup> <https://www.theguardian.com/fashion/2013/sep/20/why-good-quality-clothes-matter>

<sup>5</sup> <http://www.kunstkinder-mag.de/2016/04/slow-fashion-manifest-support-locals.html>

The participants have been chosen based on the personal network of the researcher, as well as previous conversations with people in the local design industry and online research using secondary data. Another essential aspect for choosing the right samples was the availability for a personal interview, as well as the willingness of the creative entrepreneurs to share critical information.

### **Online and Offline research**

The private and professional network of the researcher, as well as additional prior online and offline research, was used to obtain access to the respondents. All respondents were contacted in person (either through) a prior personal meeting in Berlin / Hamburg, at certain industry events or via telephone to ask them for their willingness to participate. The participants were then contacted via email, to schedule an interview. The researcher mentioned the general topic of the research during the conversation with the participants since in this case, it is considered not very likely that the knowledge of the participant about the main topic (business models in the creative industries) would negatively influence the outcome of the research.

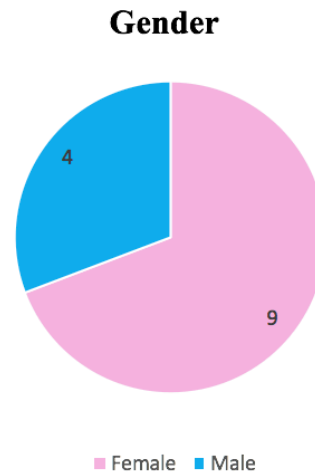
### **Demographic Overview**

This section illustrates the detailed demographic aspects of the study population which have been considered relevant for the research. The overview includes gender, the age of the interviewee as well as the age of the company, the exact industry of the sample population and the number of employees the companies are currently employing. The numbering of the cases can be used to further investigate the detailed cases in **Appendix 3**.

**Ø Founder Age\*: 33**  
(Range: 26-38)

**Ø Company Age\*: 3,6 years**  
(Range: 6 months-8 years)

\*At time of research



Case Nr.	Industry	Founding Year	Founder Age	Gender
1	Fashion	2013	34	Female
2	Fashion	2016	30	Female
3	Fashion	2014	35	Female
4	Furniture	2013	33	Male
5	Furniture	2016	36	Female
6	Furniture	2010	37	Male
7	Jewellery	2016	30	Female
8	Fashion	2015	33	Female
9	Fashion	2010	35	Male
10	Fashion	2009	38	Female
11	Fashion	2015	34	Female
12	Retail	2016	32	Female
13	Retail	2015	26	Male

### Co-Founders

Only 4 founders (31%) initially started out together with 1 co-founder. Over the course of time, one of the co-founders of one company interviewed dropped out, so only 23% of the businesses in the research still have 2 co-founders.

## **Employees**

Only 4 out of 13 companies (31%) are currently employing at least one person with a fixed-term contract. 31% of the entrepreneurs are still working on their own, without any employees, whereas 38% are exclusively working with either freelancers or interns – depending on the required resources.

## **Data Collection**

The type of data collection used is semi-structured interviews. 13 semi-structured face-to-face interviews with local brands, for a duration of approximately 60-90 min./interview have been conducted over the period of several weeks during the period of data collection. The interviewer has given the respondents the opportunity to conduct the interview in either English or German, depending on the personal preference of the participant, to make sure the participant feels comfortable and to avoid misunderstandings caused by using a different language. 12 out of 13 interviewees have been conducted in German, and the results have been translated into English by the researcher. All interviews have been audio-recorded and individually transcribed. Semi-structured interviews are considered “in-depth” interviews where the interviewee will answer open-ended questions, leading to increased insights (Corbin & Strauss, 2008). The main task in qualitative interviews is to understand the meaning of the answers and also the reasons behind. It aims to describe and explore central themes in the world of the research subjects (Kvale, 1996). The transcription of the interviews shows, whether the research needs to change the interview guide in order to get the right set of information to answer the research question accordingly.

Given the explorative nature of the study, no predictions were to be explicitly confirmed or denied. Instead, the results offer different answers to the research questions.

## **Data Analysis**

The main, chosen coding technique used to evaluate the data has been axial coding, identifying core themes during the qualitative data analysis. Given the uniqueness of business models in the creative industry, the data analysis can be seen as different case studies, showing certain similarities or differences. The data analysis has been iterative and parallel to the conduction of the interviews, since semi-structured interviews cannot be standardized and the questions asked varied slightly from interview to interview, depending on the development of the conversation. Therefore, it was essential to analyse the results after each interview, reflect and see, if the questions are appropriate in generating relevant insights, as well as analyse one's own behaviour as researcher.

In semi-structured interviews, the researcher should refrain from the urge of self-presentation and draw attention away from the interviewee. The researcher must listen carefully and empathically without judging or commenting on what has been said by the participant. Every interview is informed by the information given by the previous one, which eventually allows discovering certain patterns (Silverman, 2005; Gillmann, 2000).

To being able to compare different facts and factors of the individual business models, the business model canvas by Osterwalder et al., 2010 (**see Appendix 1**) will be used to analyse the business models of the companies, to more clearly identify similarities and differences. The business model canvas is more suitable for the analysis of the research than other comparable tools, as for example the “Lean Canvas” by Ash Maurya (2010), because the lean canvas only focuses on start-ups, competitive advantages and solutions to a concrete problem whereas the business model canvas focuses on value creation and business model innovation.

## **PROS & CONS of the Research Method**

Every research method entails advantages and disadvantages. The advantages of semi-structured interviews are certainly the possibility to gain deeper insights into how an organisation works, as well as better understand the behaviours and motivation of individuals and on how they interact with their environment. Semi-structured interviews allow a certain degree of flexibility during the interviews, even though, the interview questions are predetermined, the researcher can change the order or spontaneously add additional questions, depending on the situation. It also allows for a better understanding of the questions, which the interviewer can explain directly to the interviewee. Semi-structured interviews allow the researcher to establish a personal connection and a certain level of trust, increasing the response rate and the sharing of sensitive information. When conducting face-to-face interviews, it further allows the researcher to personally observe the participant, during the interview and to identify non-verbal characteristics. At the same time, the presence of the researcher could also lead to a more “preferred social response” (Patton, 1990).

Every person and participant is unique and has a unique set of beliefs and behaviours, which complicates the further process of data analysis and generalising of results. Also, the personal perception and appearance of the researcher might alter responses during face-to-face interviews.

## **RESULTS**

In the following part, the results of the qualitative analysis will be presented. The result section contains an overview of the most important aspects of the single cases of the creative entrepreneurs as well as a cross-case comparison to highlight similarities and differences among the participants operating in this field. In addition to the case analysis and to further add to the secondary research sources when answering the sub-questions of the research, the research also

aimed to dive deeper into the personal motivations and collaboration structures of creative entrepreneurs operating in the product design industry in Germany.

### **Overview – Single Cases**

In this section of the thesis, a short overview of the main business model building blocks of the single cases will be given. The cases have been numbered to give the reader the opportunity to compare the overview in this section to the demographics of the cases in the previous section. The major part of the result section is focused on the value networks of the single cases, as well as the cross-case comparison. All detailed information gathered during the interviews can be found in Appendix 3, including personal remarks of the researcher in some cases. The interviews have been mainly conducted in German, due to the personal preferences of the interviewees and have been translated by the researcher to English.

By the numbering of the cases throughout the paper, the reader can easily connect the demographic overview, general themes in the second section of the chapter, as well as the cross-case comparison with the single cases. In addition to the building blocks of the business model canvas, the interviewees have been asked about their personal motivation for starting a business, network, investments, as well as further themes considered to be relevant to conduct more in-depth research. For the detailed questionnaire of the interviews please see **Appendix 2**. Due to prior agreements with the interviewees, no company names will be disclosed.

<b>CASE NR.</b>	<b>SELLING PRICE RANGE</b>	<b>SOLD ITEMS/YEAR</b>	<b>SALES CHANNELS</b>	<b>KEY PARTNERS</b>	<b>CHANGES BM</b>
<b>1</b>	240-340€	< 50	Pop-Up Shops, Shop-in-Shop, Online Marketplaces, Online Shop, Trunk-Shows	Shop owners, Local drapers	Sales channels Customer communication Design
<b>2</b>	180-200€	34	Pop-Up Shops, Online Shop, Personal Network	Manufacturers (2) → high dependency	No evident changes since founding the business
<b>3</b>	25-450€	5.000	Brick and Mortar Store	Manufacturers (2), drapers and colleagues	Shop location, Internal organisation and workflows, Design, External communication
<b>4</b>	2.000-8.000€	104	Commission-based international retail, Direct selling in GER,AT,CH, Online Marketplaces, Pop-Up Shops	Manufacturers (20), Logistics companies, Press and media	Exit of co-founder Change of prices (increase), Communication
<b>5</b>	700€-6.000€	10	Online Shop, Personal Network, Manufacturer, Online Marketplace, Commission-based retail, Showroom of another company	Manufacturers (2)	Expansion in the product portfolio → smaller interior design objects
<b>6</b>	15-800€	3.300	Cold Calling, Trade Fairs, Social Media, Press, Retail (not commission-based), Online Shop	Manufacturers (different for every product)	Change of prices (increase), Internal organisation and workflows (centralized)



			Online Marketplaces		
<b>7</b>	200-1.200€	n/a	Online Shop, Retail	Manufacturer and Suppliers of raw material	Expansion of sales channels (adding retail) Increasing external communication
<b>8</b>	170-395€	180	Shop-in-Shop, Retail in CH	Shop owners Local drapers	Change in sales channels (direct selling → retail), Change of prices (increase), Design, Fabrics
<b>9</b>	30-300€	4.500	2 Brick and Mortar Stores, Online Shop, Trade Fairs, 25 Retailers in GER+AT, Social Media, Online Marketplaces	Employees, Manufacturers, Drapers	Change in sales channels (expansion in indirect selling) Change of prices (decrease) Fabrics
<b>10</b>	189-399€	n/a	Brick and Mortar Store, Online Shop, Shop-in-Shop, Online Marketplaces	Manufacturers, Employees, Drapers	Constantly changing design to meet customer demand, Change of prices (increase), Change of sales channels
<b>11</b>	120-690€	200	Online Shop, Online Marketplaces, Pop-Up Shops, Trade Fairs, Social Media, Retail	Manufacturers, Drapers	Change in sales channels (→ direct selling), Change of prices (decrease), Increased external communication
<b>12</b>	3-1.200€	225.000€ - Revenue	2 Brick and Mortar Stores, Online Shop	Designers, Landlords	Expansion of sales channels (brick and mortar and online),

					Increasing designer portfolio
13	50-10.000€	200/4 months	Online Shop, Social Media	Designers	Closed down the business

## Collaboration between Businesses in the Creative Industries

*“The Network is everything.”*

### Quote - Interviewee

When asked about the collaboration with other businesses in the creative industries or business partners, the majority of interviewees described their network as important - if not as a critical factor - for their success.

Network structures can be very complex, depending on the number of actors and size of the network. The following part of the paper will be subdivided into different segments, describing particular parts of the networks of the creative founders.

During the qualitative research, the aspect of business partners, as well as the direct and indirect network of the founders have been an important topic. As in every industry, there are certain bonds and network structures and complexities at play in the creative industries, creating value at different stages at the point of exchange and/or collaboration.

Given the complexity of the individual cases, the respective value networks and remarks will be shown by the individual case numbers, categorized by industry.

## Value Network - Fashion and Jewellery Industry

### CASE 1

#### Importance of Personal Network

In case 1, the founder did not have any network when starting out, but she gradually developed it over the years, especially through her participation in pop-up stores. Her network is mainly

limited to the fashion industry. One of the most important and appreciated aspects of her network is the support and the cooperation of the owners of the stores she is selling her collections at. She mentioned that their willingness to work with young designers is an important aspect for her business.

### **Roles - Network**

The network of the entrepreneur in case 1 mainly consists of shop owners, designers and artists, leading to new opportunities and collaborations as well as serving the need for feedback and exchange at the same time.

### **Value Creation/Exchange**

The founder is actively engaging in the value exchange within her direct network. She mentioned that she is working with photographers and models for seasonal photo shoots and look books. The value the other actors involved get in return is an enhancement of their professional portfolios. When asked about the most important criteria in a business partnership, the entrepreneur mentioned:

- Communication
- Feedback
- Transparency
- Fair conditions
- Loyalty and long-term collaborations
- Mutual support

## **CASE 2**

### **Importance of Personal Network**

The business owner in case 2 claimed that her personal network is everything and that until now, the majority of customers is coming from her own network.

### **Roles - Network**

In case 2, the founder explained, that one of the reasons many customers come from her personal network is the fact that the network understands where the products are coming from and who made them.

### **Value Creation/Exchange**

Similar to case 1, the entrepreneur in case 2 collaborates with other creatives who can support the brand with their own profession (models, photographers, journalists). In this case, a product-service exchange takes place. The most important criteria for her is a mutual benefit and an active exchange of value.

## **CASE 3**

### **Importance of Personal Network**

In case 3, the founder explained that the personal network is important, yet not the most important part of the business. One aspect the founder mentioned is the importance of the network on social media, leading to a sharp increase in in-store traffic when the brand is mentioned by others. Due to the fact, that the brand only has a brick and mortar shop, the company also relies to some extent on word of mouth recommendations from the broader network.

### **Roles - Network**

In contrast to case 2, the contact with customers is considered to be one of the most important aspects for the success of the business, but the customers do not come from the founder's direct personal network. She mentioned that her personal network was not able to purchase products due to financial restrictions. A critical factor for keeping and growing the network of customers is the relationship within her team, the entrepreneur claimed, since, if the team would not collaborate smoothly, this would have a negative effect on customer satisfaction.

### **Value Creation/Exchange**

Supporting the findings from the first two cases, the founder in case 3 also collaborates mainly with creatives from the direct network for photo shoots etc.

### **CASE 7**

#### **Importance of Personal Network**

The founder in case 7 realized the importance of the industry network after she founded the business and have not had an established industry network in the beginning but, nevertheless, the first sales came from the founder's personal network.

#### **Roles - Network**

With the growth and transformation of the personal network, the main role of the network shifted from mainly being customers to an increase in new opportunities with regards to sales channels and public relations.

### **Value Creation/Exchange**

In case 7, the business owner is still in the process of building her industry network. She has not been engaging in creative collaborations with actors in her network at the time of research.

### **CASE 8**

#### **Importance of Personal Network**

In contrast to the findings from previous cases, the creative entrepreneur in case 8 assigned relatively little importance to her personal network. She explained that in the beginning when she started building her brick and mortar store, she neither used social media to grow the business through online communication nor did she have any customers coming from her personal network. Nevertheless, the founder never experienced a lack of customers.

#### **Roles - Network**

The most important actors in the direct network of the founder are the owners of the shop where the designer is selling her collection. They are very closely connected and share creative experiences and feedback. The importance and relevance of the broader network extremely

shifted for the founder in case 8. Over time, the indirect network, especially on social media, became a very important source of inspiration, immediate feedback and creative collaboration.

### **Value Creation/Exchange**

Similar to the previous cases, the emphasis in value creation with her direct and indirect network is creative exchange on the one hand, but also including communication and marketing on the other. The benefit must be mutual though, as the entrepreneur highlighted. For example, she offers consulting in visual merchandising, whereas the shop owner supports her with marketing and communication.

## **CASE 9**

### **Importance of Personal Network**

The founders in case 9 recognized the importance of the personal network early on when starting the business. It was an important factor for the company's growth. The founders did not have a tremendous industry network in the initial stages, but they were able to gradually develop it.

### **Roles - Network**

The network in case 9 fulfils different functions. The roles of the network range from receiving feedback and advice, leading to opportunities and recommendations for new business partnerships, as well as financial support and being actual customers.

### **Value Creation/Exchange**

Some of the most important criteria for the founder of case 9 when it comes to partnerships are reliability, transparency and finding mutually accommodating solutions for both parties.

## **CASE 10**

### **Importance of Personal Network**

The network has proven to be very important for the success of the business over the past years. Not only through the personal network of the founder, but also in the form of word of mouth

from consumers. With time, the founder also realized the importance of actively communicating her work and projects within her personal network as well as online.

### **Roles - Network**

The founder made an interesting statement with regards to the roles of the network: “My customers are not my friends, yet they become close acquaintances.”

### **Value Creation/Exchange**

The value creation in case 10 is mainly based on a mutual exchange of personal experiences and recommendations of business partners. Case 10 supports previous findings of working with business partners from the personal network.

## **CASE 11**

### **Importance of Personal Network**

Case 11 is the most significant case of the importance of the personal network. In this case, the personal network of the founder was a crucial factor for starting the business, since the founder heavily relied on her personal network for her crowdfunding campaign - prior to starting the business. She not only received support from her direct but also indirect regional networks and broader networks she established through the viral success of the crowdfunding campaign. She was surprised to receive support from international campaign backers to such an extent that the supporters even activated their own networks in other parts of the world. The founder highlighted throughout the interview, that without the support of her network, she would not have been able to start her own business.

### **Roles - Network**

The roles of the network are the roles of financial supporters/customers on the one hand, but also business partners and advisors on the other, working together with people from the personal network to create clothing samples and content for the crowdfunding campaign, without any guarantee of financial rewards for the parties involved.

### **Value Creation/Exchange**

Even though, the founder did not have the financial resources, in the beginning, to do so, creating mutual benefits through value exchange has always been an important factor for her. As an exchange of value - prior to any payments - she made sure that the creative partners could use the contributions they made to the crowdfunding campaign for their respective portfolios. The entrepreneur mentioned that for many partners, helping the campaign succeed has already been a very valuable experience for them.

### **Value Network - Furniture Industry CASE 4**

#### **Importance of Personal Network**

Case 4 confirms the previous findings of the importance of an entrepreneur's personal network. The entrepreneur reported, that the company originally started with sending an email announcement with the product offering to all direct and indirect contacts within the network, which led to immediately selling the first products to indirect contacts (neither friends nor family).

The founders initially had no website or direct network in the retail segment, but with the support and recommendations from friends, acquaintances and press publications, they were able to build it gradually.

#### **Roles - Network**

The most important role of the network in case 4 is the collaboration with press and media.

### **Value Creation/Exchange**

On the contrary, to case 6, the retail network is not the most important network for the founder in case 4, because of the different product and sales channel approaches (see Table p.31). It is important, to be present and sell in international markets, yet, in the regional markets, having a tremendous retail network, could harm the business, due to reduced direct customer contact and low margins, the founder claimed. In addition, the company is collaborating with a very well-



known German brand, which uses the brand image and values of the start-up and in return, has given them the opportunity to reach millions of potential customers via TV adverts.

## **CASE 5**

### **Importance of Personal Network**

For the creative entrepreneur in case 5, the personal network is everything. Since starting the business, the network has grown tremendously and has had a significant influence on the development of the business with regards to new opportunities, partnerships, creative exchange and sales.

### **Roles - Network**

The roles of the personal network vary from advisors to partly financial supporters/pre-financing and production. The first customers also came through the personal network.

### **Value Creation/Exchange**

Similar to the results of the other cases, establishing long-term personal relationships or even friendships with key partners very important for the founder. A certain level of trust and mutual support is necessary.

## **CASE 6**

### **Importance of Personal Network**

Looking back, on the development of the company and the most important business contacts, the founder realized that many critical business partnerships have been established through contacts within the broader personal network. He also claims that the furniture industry and the respective network is very manageable so that over time, one knows relevant people in the industry through trade fairs etc. In case 6, the importance of the network was also mentioned in the case of acquiring new retail partners, who already sell products of designers the company is working with, emphasizing commonalities and making access to new partnerships easier for the entrepreneurs.

### **Roles - Network**

The most important role in the personal network of the founders, the company is relying on, is the established, continuously growing retail partner network the company is working with internationally.

### **Value Creation/Exchange**

The company in case 6 is co-creating value with other actors in the network on a regular basis. The founders work with new designers, to enhance the product portfolio, while the designers get a commission on sales as well as establishing their own image. The business owners are also engaging in a product-service exchange in the case of PR. Important criteria for the founder, when it comes to successful value creation and exchange in business partnerships are reliability, flexibility and mutual sympathy.

### **Value Network - Retail Industry**

#### **CASE 12**

### **Importance of Personal Network**

Before starting the company, the founder already had established industry contacts and a bond of trust with certain designers. She claimed, that even though her network was not tremendous, it was an essential factor for starting and growing the business.

### **Roles - Network**

The most important roles within the network of the founder in case 12 are business partners she is working with on a long-term basis. On the one hand, this includes the company she partnered with to rent the stores, which is essential for the survival of the business, and on the other hand, designers renting a space in the shop are the second major building block within the network. This building block is very complex, requiring lots of communication, reassessment, attention and coordination, the more the network of designers grows.

### **Value Creation/Exchange**

The founder mentioned that even though some designers might not be 100% reliable, no severe points of friction occurred. She claimed that mutual benefits, regular exchange and feedback from both sides are necessary for successful value co-creation. To her, establishing good personal connections with business partners is very important.

### **CASE 13**

#### **Importance of Personal Network**

The network in case 13 was very important. The founder acquired all of the professional services and support from his direct network, sometimes at no charge. What would have been imperative in the pursuance of success, especially at the initial stages of the venture, was the industry network (fashion). According to the founder, one of the main reasons for not further pursuing his business, was the lack of industry knowledge, expertise and network.

The entrepreneur admitted, that he completely underestimated the know-how, that would have been necessary.

#### **Roles - Network**

The roles, the personal network of the founder fulfilled refer mostly to one-sided business interactions in the form of advice and services. The second important part has been the interactions with emerging designers, the platform had to establish from scratch.

### **Value Creation/Exchange**

A very interesting aspect, the founder mentioned with regards to value creation and exchange, was the partially lack of cooperation when working with designers. According to the founder, the main aim of the platform was to market emerging designers and to grow together. Yet, in some cases, the designers did not seem to perceive the mutual value, the platform tried to create and as a result, were not willing to cooperate. In the perception of the designers, they were the main value creators by simply offering their designs on the platform, so that the platform could

earn money. This lack of cooperation led to increasing complexity and difficulties for the platform, and, hence, could not be developed further.

### **Value Co-Creation / Selling on Platforms**

Another important aspect of value co-creation that has been consistent throughout all the interviews has been the mutual benefits in the collaboration between designers and online platforms/online marketplaces. As one could expect, the main benefit for designers is to spread the reach, increase presence and brand awareness in different markets and in the best case—sales. The perceived value for online marketplaces is the curation of special products from different emerging designers, also ultimately leading to a positive perception of the marketplace and increasing sales. The founder in case 6, as well as the founder in case 4, who both work with established partners in their respective industries, additionally mentioned the aspect of the start-up with regards to attracting different types of customers as well as rejuvenating and enhancing the companies' portfolios and customer perception.

### **Cross-Case Comparison**

#### **Personal Motivations of Creative Entrepreneurs**

*“Anything other people can do, I can do too.”*

#### **Quote - Interviewee**

During the process of data collection, the interviewees have been asked about their personal motivations of starting their own creative business in the product design industry. With regards to this topic, a few recurring motivations could be identified. In some cases, different underlying motivations have been mentioned by the same interviewees.

During the review of the personal motivations, four main categories have been identified by the researcher:

#### **Self-Realization**

The term self-realization can be defined as the “fulfilment of one's own potential”.

The reason, 8 out of 13 interviewees mentioned when asked about the WHY behind their business was self-realization. The responses ranged from the aim of “building something” to “creating your own designs” and having the belief that “anything other people can do, I can do too”.

Self-realization can be partly connected to the second main motivation of starting one’s own business – independence.

### **Independence**

Independence, in this case, is related, not only to creative freedom and fulfilling one’s creative potential, but rather to not take on a subordinate role within fixed corporate structures.

4 out of 5 interviewees with the same motivation mentioned, that they could not imagine themselves working in a fixed-term contract and within corporate structures in the long run. Yet all of them found it important to gather corporate experience before starting their own business, but they prefer to be independent.

### **Lack of Opportunities**

3 out of 13 mentioned the lack of opportunities, either within corporate structures or because of certain industry factors, starting an own business was also motivated to some extent by a lack of opportunities.

### **Making an Impact/Personal Values**

The last major motivation that came up during the research was that 3 out of 13 respondents mentioned, they wanted to change the way of doing business, either to contribute to positive, sustainable changes in the respective industries (fashion, jewellery design), or to improve the offer for customers, having high expectations with regards to design.

### **Influence - Local Environment**

*“I am influenced by it in a way to distinguish myself from them, but at the same time, I would also like to connect with like-minded people.”*

### **Quote - Interviewee**

Building upon the insights of previous studies, as well as governmental publications in the creative industries, the local environment seems to be an important factor in influencing how entrepreneurs conduct business. In this section of the research paper, the influence of the local environment is examined. In order to gain a better overview, the following part is divided into different industry sub-sections.

### **Furniture:**

Interestingly, the personal perceptions and statements vary between different interviewees, when asked about the influence of the local environment.

While one business owner in the furniture design industry stated that when he is in Berlin, he is in “Business Mode” and cannot find the quiet needed to be creative, whereas when he is in the countryside or in the factory, he is more likely to be in a creative flow, another respondent claimed, that this is the complete opposite. For her, Berlin is the place where she draws creative inspiration from, where she meets new people and engages in a creative exchange, while her place of origin rather influences the way she does business.

The third company owner stated, that the local environment has definitely influenced the development of the business, since many of the company’s first customers, as well as a number of designers the company is working on new collections with, live in Berlin.

### **Fashion/Jewellery:**

In the fashion/jewellery industry, the answers with regards to the importance of local environment differed as well. One of the relevant criteria for the influence of the local environment has been mentioned by the business owners, whose businesses were dependent on

brick and mortar stores as the main sales channel. These founders are relying on the (direct) local environment for the survival of their business.

At least two business owners stated, that the success of the incorporated business model very much depended on the broader local environment, which means, founding a business in the city of Berlin. One owner of a fashion label said, before being able to grow the business and renting two stores, exporting in different countries by now, he and his co-founder started out in an apartment as atelier space in Berlin.

Another respondent from the retail sector also mentioned that the business model of the pop-up spaces and now running two brick and mortar stores would not have been possible in other capital cities across Europe, for example in cities like London or Paris, where rents and the cost of living are much higher than in Berlin. The respondent highlighted, that the realization of the concept would have been impossible without any external investments in the above-mentioned cities, as opposed to doing so in Berlin.

Another important aspect of the local environment which was mentioned refers to a heightened access to resources and creative people within the direct reach of the local environment.

One potential downside of a “creative hub” like Berlin, as mentioned by one interviewee who is a designer, is that the competition is extremely high, and the customers are spoiled by handmade goods for low prices → “designers are making themselves small”.

When it comes to the aspect of how to conduct business in an ethical way, one designer claimed that she has been influenced by the local environment in a way to distinguish herself from it. “Why I am doing business the way I am doing it: How other people do their business is not in

a sustainable and fair way, but I feel you can do it in a different way, but it is harder and takes more time.”

Another interviewee also highlighted the influence of the local environment as being necessary for word of mouth advertising, since the social and the business networks are merging. She said that: “the more you talk about what you are doing, the more successful your business gets.” The designer also mentioned her place of origin as being of significant importance for her creative inspiration.

### **Development over Time**

Over the course of the years, the majority of the interviewees changed something in the business model, while one founder completely closed down his business. The changes, the entrepreneurs have made, mainly addressed the strategic side of the business: Changing of sales channels, pricing strategy as well as expanding the product portfolio. Another main topic that has been found was in the way, the designers operate. Fashion designers changed the designs of the collections, based on the customer needs and their learnings. They used different, higher quality materials and improved the workmanship. Others changed the way they approached business, becoming more efficient, organised and were able to better divide responsibilities within the team.

### **Targeting the right Customers**

One of the major challenges, based on the research, was the finding that no matter what division the creative entrepreneurs are operating in (fashion, retail, furniture), the majority of them has extreme difficulties in finding and attracting the right customers for their products. This result is supported by the answers to the question: “What would you consider being the hardest part of running your business?” Some of the entrepreneurs, who, even though they have been operating relatively successful in the industry for a couple of years already, still claim to find it hard to increase brand awareness and difficult to find the right marketing and sales approach.



It is very interesting to see, that designers with brick and mortar shops, sometimes even without much online communication or the possibility to shop the products online, were the ones that did not experience any challenges in finding customers to buy the products. These were also the ones who performed best with regards to items/year sold (see p.32).

### **Sales Channels**

Even though the majority of the interviewees also had some variations in product offerings, sometimes offering more affordable basics, all of the respondents who were chosen for the research, are operating in the mid- to high-end segment of the industry, producing high-quality products. The results also provide some trends with regards to adaptations in the sales channel. Some designers changed from the wholesale channel to direct selling. Mostly the reason for this was the high commission the wholesale sector is charging. In direct connection with this is the fact, that the interviewees often produce fair trade, all of them working with high-quality fabrics and materials, producing in low volume due to the high production and pre-financing costs, so in many cases, it is not really feasible for them to choose wholesale over direct selling since the production cost/piece is already very high, compared to brands operating in mass markets, selling low quality and not producing in a sustainable way.

Another very important finding is the increasing popularity of temporarily renting a space to sell the products, either through a shop-in-shop concept, where designers can rent some space in a shop for a limited amount of time (e.g. 3 months), paying either relatively low - or no commission, which is unusual for a retail environment, or through a pop-up shop, which is usually limited to a few days/weeks, mostly shared with other designers, offering complementary products, to decrease individual costs and increase reach and customer attraction.

Almost every one of the respondents has already participated in a pop-up shop concept, and most found it to be one of the most successful revenue streams. This temporary use of retail space can be a good opportunity for emerging brands to increase brand awareness, get to know the customers better, receive direct feedback and test locations or new markets, without much risk and comparably low investments.

### **Value Creation in the Creative Industries**

Value creation has been one of the major aspects throughout the research. The business owners shared the ways, the brands are creating value for the customers and how the customers perceive it. The findings also show different ways and aspects, the entrepreneurs co-create value with either business partners, or with contacts from their direct/indirect creative networks and the most important aspects of business partnerships. All of them seemed to acknowledge that mutual benefit is important in value co-creation.

As anticipated, the importance of having an industry network has been confirmed by all of the participants.

Another recurring topic that can be directly connected to value creation, especially with regards to customer needs and internal value creation, was the finding that having previous professional experience in the industry was helpful for all of the entrepreneurs. While working for another brand, before starting one's own venture can be critical in terms of testing one's own capacities, learning about business and sales, as well as gaining a better understand of customer demand.

### **Value Capture in the Creative Industries**

With regards to value capture, based on the qualitative research conducted, two major types of entrepreneurs in the German product design landscape can be found. The majority of them cares about being successful in business, aiming to expand, either locally or internationally, while increasing brand awareness and sales, having concrete plans to do so. The other part of the

respondents seemed to be content with the current state of the business, some of them hesitant to expand because of an increased risk and big investments further expansion would entail (which could break the business) and others simply because even though they may be passionate about their creative business, they also enjoy working on other projects and do not like too much public exposure.

### **Investments**

*“Taking out a loan was out of the question - Too much insecurity. What if it does not work out?”*

*“I was thinking about it, but I do not really need it unless I want to produce more.”*

### **Quotes - Interviewees**

Another very important aspect of every company's business model is the amount of money and resources invested when starting the business. Starting one's own business can certainly be considered to involve some level of risk, depending on the investments made. When looking at the cases of the 13 creative entrepreneurs in the German product design landscape, it is surprising to see that none of them decided to take out a loan when starting their business. The majority of the interviewees – when asked if they applied for any external investments or loans, stated, that they did not want to take out a loan and be under the pressure of not being able to pay back the money. The founders wanted to grow their businesses organically rather than taking on debt (from public institutions) upfront without knowing how everything would turn out.

The majority of the founders interviewed for this research have either used private savings instead or got support from friends & family as private loans to start out.

One founder received legal know-how from his direct network worth approximately 10.000€.

Another one, who otherwise would not have had the resources to start her own company, used crowdfunding to successfully pre-finance the first 2 collections without taking any personal financial risk.

### **Challenges of being a Creative Entrepreneur in Germany**

Single respondents (about 30%) also mentioned challenges of conducting business in Germany during the interview.

The central, emerging topics were the following:

- Impeding growth due to high tax payments, not applying a level system - one respondent mentioned that, even she constantly expanded and hired more people, she still ends up having the same amount of money
- No real support for creative entrepreneurs and very limited communication by the state about possibilities
- No financial support for (local) sustainable production and design
- No advertisement/platform for sustainable products in Germany, lack of communication

Statement of one respondent: “They want to make everything sustainable, but do not do anything about it. They want sustainability but they do not put any money into it.”

### **Government Support**

*“Design is not supported financially by the state.”*

*“It takes too much time to obtain public funds, we wanted to start immediately.”*

### **Quotes - Interviewees**

In the case of government support, some respondents mentioned, that the effort and time needed was considered to be too high compared to the expected return. Others said, government support is not easy to obtain, and would take a long time to finally get support granted, while another entrepreneur said, that she thinks there is no support for sustainable design in Germany.

Only 4 founders (31%) partly used government support to build up the respective business:

One of them got “Gründerzuschuss” for the first 9 months. The “Gründerzuschuss” in Germany, is a certain percentage of the previous salary to support the establishment of new ventures.

The second interviewee used the consulting service “Coaching BONUS”, offered by the city of Berlin, to get professional consultation in the field of sales & pricing.

The third one got financial support to participate in an international trade fair.

The fourth founder received project-specific support – “Transfer BONUS”, when working with external designers to expand the product portfolio of the company

### **Hardest Part of running a Creative Business**

One part of the research also aimed to identify challenges, which entrepreneurs in the creative industry face. Even though the answers varied, the findings can be divided into the following sections:

**Business Strategy:** One of the main difficulties of a number of interviewees is addressing the strategic side of their business. The main topics that came up were brand building and increasing brand awareness (2/13), but some were also insecure about how to further grow their business and the lack of financial resources (3/13). Others further highlighted that they are missing the interface between the creative studies and the business side. When starting out, the main difficulties have been to calculate the right prices for the respective products, identifying the best marketing tools to invest in as well as finding the right customers.

**Operations:** Besides strategy, some founders also experienced difficulties with the operations side of the business. For one business owner, who has no employees, finding time for sewing is the most difficult part. Only one interviewee mentioned the dependency on the business partners is difficult, even though it was found that the majority of the respondents successfully

managed to not be dependent on their business partners and have alternative partners to work with.

3 entrepreneurs claimed that selling and marketing of the products is the hardest part of running the business. This was confirmed by another founder who found it difficult to constantly being present and keeping up the communication and exchange with (potential) customers.

One designer also mentioned the production side of the business. Especially in the beginning, it is very difficult, when the production is being outsourced, to make decisions on where to produce, who to work with and to decide on the amount of fabric used for the first collections.

Another very important factor, which affects both – the strategy and operations side of the business, is the cost incorporated in the pre-financing of a collection.

**Mindset/Resilience:** Having the “right” mindset and the resilience, when founding a business should not be underestimated. 2 founders mentioned that staying motivated a) every day and b) in difficult times as the hardest part of running their business. Both of them did not have a co-founder. Another thought-provoking answer one founder gave, when asked about the hardest part of running the business, was the need to fulfil the expectations that come with the fashion design studies (appearance, collection, presentation etc.), comparison with others and the questioning, especially in the beginning: “Am I doing the right thing?”.

## **DISCUSSION AND CONCLUSION**

Concluding the research, there are certain success factors, which can enhance the possibility of a striving business in the product design industries. The findings show certain trends and patterns in the adaptations of the business models, and value creation over the course of time. The main adaptations the founders made over time were mainly related to sales channels, which directly affected pricing strategies and customer interaction. The choice of direct or indirect

selling automatically exerts an influence on the profit margin, hence, on the pricing strategy and value capture of the company. Additionally, the strategic choice in sales channels also affects the extent of customer interaction. Some founders prefer to have direct customer interaction, selling at pop-up shops or having their own brick and mortar locations, whereas others prefer to focus on the creative part and selling online or via other retailers.

Business strategy and value creation also depends on the resources, individual entrepreneurs have – the resources being tangible or intangible. Surprisingly, the results show that all of the businesses grew organically, without taking out federal loans. The two main reasons, based on the interviews, were risk-aversion on the one hand, and the potential loss of independence on the other.

Throughout the data collection, it became clear that value creation and value co-creation are at the core of the creative industries, and even though, entrepreneurs aim to successfully capture value with their business, the relatively low number of items sold in some cases (p. 32), as well as the difficulties of getting access to the target customers, show, that value capture can be extremely difficult, yet, critical for the survival of the business. However, to validate these assumptions about the value capture of the single cases, a further in-depth cost analysis would be necessary.

It is important to note that, even though, similarities could be identified throughout the evaluation of the individual cases, every entrepreneur has a unique mind- & skill set, as well as network and resources which have to be assessed, therefore the business model of each company will be different. Nevertheless, considering the results of the research, the focus of current, as well as future entrepreneurs in the creative industries should address certain

considerations in the following critical areas when evaluating or developing a unique business model.

### **Network**

The network plays a vital role in the success of creative entrepreneurs. Network and contacts can lead to an increase in value creation for both sides, wider reach, new opportunities and access to a wider – often international – network to expand the business and to increase sales. According to the results, especially case 13, where the founder decided to close his venture, one of the reasons/critical factors were the difficulties he faced not having enough knowledge and contacts in the creative industry. This highlights the next important point (see below).

#### **Questions for fellow entrepreneurs:**

What industry network do I already have?

Which additional contacts do friends/family/co-founders have?

Who do I need to get to know? In what areas do I need to expand my network?

What resources/knowledge within my network could I use, and what could I offer in return?

### **Experience**

All of the founders found prior learnings from other brands in the industry imminent for their survival. It is necessary, to get a feel for all the responsibilities and opportunities a new venture entails. As mentioned in the previous section, with previous industry experience, entrepreneurs not only have the opportunity to expand their network but also have the possibility to learn more about their individual capacities and how other brands do business? What sales channels do they use and what are the most successful sales channels and ways to attract customers? Before starting a creative venture, especially trying to gain experience in a similar segment (with regards to design and pricing) could be beneficial.



## **Sales Channels**

The majority of the most successful cases in the research did not sell much of their products online. One aspect of this is that, especially with regards to the higher pricing and sometimes very limited brand awareness, customers want to see, feel and try the product, before they make the final purchase.

Entrepreneurs might not have the possibility to start with an own brick and mortar shop, but, they could start with temporary retail concepts as for example sharing a seasonal pop-up location with other respective designers or rent space in a shop-in-shop location to increase brand awareness, sales and receive direct customer feedback to further improve designs and products. In the recent years, pop-ups became a popular option in the retail sector and can also lead the way for tapping into foreign markets.

## **Customer Targeting**

One of the most challenging aspects is the customer targeting and finding the right customers. In general, there is never a 100% guarantee for founders that their business will succeed. Yet, the following actions can be helpful for founders to avoid unnecessary risks.

**Get to know your customer:** Who do you perceive as your main target group? What are the most important factors in their purchasing decision? How and where do they shop? What are their needs and how much are they willing to spend on certain products? It can be important to reach out to establish a retail partner network or talk to experienced business owners to find out the most important information. Even though this is an ongoing process, try to learn as much as you can about your prospective customer in advance.

**Increase brand awareness:** Besides typical ways (e.g. paid online marketing, working with PR consultants), there are numerous opportunities to increase brand awareness at relatively low cost. This can range from identifying and reaching out to potential, suitable media partners/magazines, sending out press releases along with product shots, offering special sales

to your most important customers together with an offer they can forward to a friend, host special events (new product/collection launches) and advertise them.

With the ongoing, constantly increase in digitalization, the offer becomes more complex for customers, but at the same time, this gives new ventures the opportunity to increase brand awareness in different markets at the same time.

### **Financial Aspects**

The financial aspect should not be underestimated before starting a creative venture. Many of the business owners mentioned the high costs of sampling or pre-financing collections or interior design objects. One possibility as seen in case 11, is to use crowdfunding to finance the first products. Crowdfunding is not only a great opportunity to get financial support, the founder in case 11 additionally found the steep learning curve, feedback from potential customers and the press publications she got incredibly helpful. Another possibility would be working with customer pre-orders before producing the first collections.

These results, especially the findings with regards to sales channels and challenges of creative entrepreneurs in Germany can also be used by public institutions to better tailor the support for further growth and development.

## **CONTRIBUTIONS**

### **Practical Contributions**

The research gives direct insights into the business models of entrepreneurs in the product design industry in Germany, with two additional cases to shed light on the retail perspective of the business. It raises important general and industry-specific aspects, entrepreneurs have to deal with, while highlighting success factors, certain roadblocks or potential challenges and changes in the business model, along the path to becoming a successful entrepreneur in the

creative industry. The research was purposefully targeted to focus on one of the many disciplines within the creative industry, but at the same time, offering insights into different sub-categories within the such. On the economic level, the work offers future entrepreneurs in this field the opportunity, to learn from fellow entrepreneurs, as well as to further investigate their respective business models and resources, before founding a business. In addition, this paper can also be used by public institutions which aim to establish or enhance the funding and other complementary support, tailored to the needs of entrepreneurs in the product design industry.

Based on the detailed insights of 13 cases, management scholars, as well as academic institutions can use the qualitative data of this research to further develop educational curricula in the creative industries, but also to enhance certain specialisations in management studies.

### **Theoretical Contributions**

The research confirms the theories on the importance of regional cluster and regional infrastructure, allowing the entrepreneurs to further expand the network and access local resources (Schiele, 2008; Porter, 1998).

Interestingly, with regards to the theory on clusters, there have been differences between the cities of Berlin and Hamburg. The creative entrepreneurs, who are based in Hamburg, highlighted the local, creative community as a great foundation for advice and valuable, amicable exchange, claiming there would be no competition due to the relatively small size of the creative community (compared to Berlin), as well as differences in the respective product offerings, whereas the majority of the designers, who are based in Berlin stated, there is an extremely high competition and even price dumping, making it more difficult to successfully

sell high-quality products. These findings are consistent with the findings of Lange et al. (2008), mentioning a high competition in the city of Berlin.

The results still concur with previous the findings of Fesel & Söndermann (2007), who highlighted the extremely small-scale business structures of companies operating in the creative industries. In this regard, an important implication, besides limited financial resources, could be the increased flexibility of organizations (across different industries), working with freelancers, depending on the required resources.

Another very important finding, adding to, while at the same time, contradicting the majority of current theory in this field (HKU, 2010; Eichmann et al., 2007), addresses the managerial mindset of the entrepreneurs, claiming that entrepreneurs in the creative industry solely live for the creation. While it true, that in 2 cases, the founders did seem not have concrete plans to further grow the business, the consistent pattern, throughout the research, especially when looking at the adaptations of business models over the course of time as well as future plans, it is clear, that the majority of the creative entrepreneurs aims to further grow, and expand their businesses, hence, increasing brand awareness, sales and value capture. Yet, at the same time, when looking at the individual cases, the responses also confirm high self-expectations of the entrepreneurs to improve the quality and designs they are offering to their customers.

## **LIMITATIONS & FUTURE RESEARCH**

Given the time and capacity framework, this qualitative research entails the following limitations:

- The business models of the thirteen companies were assessed at a specific point in time, without further possibilities to conduct a long-term case study.

- The research was conducted in Germany, which implies potential regional and geographical limitations of the findings.
- The majority of the cases are businesses in the fashion industry, therefore insights into the other industries might be limited in the validity.
- Successful evaluation of value capture is difficult without having complete information about the detailed cost structure of the business

Taking the above-mentioned limitations into account, possibilities for future research in this field would be to conduct:

- Long-term case studies to track changes in companies' business models and their effect on the business
- Comparable qualitative research in the product design industry in other countries to increase the validity of the findings and highlight differences
- Focus on an increased number of businesses in the product design industry
- Further research on target customer behaviour in the respective divisions (fashion, furniture) and price segments (mid-high end) of the product design industry
- More detailed research on value capture by analysing cost structures of businesses in the creative industries.

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## APPENDICES

### Appendix 1 - Business Model Canvas

The Business Model Canvas					Designed for:	Designed by:	Date:	Version:
Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 				
	Key Resources 		Channels 					
Cost Structure 		Revenue Streams 						

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DESIGNED BY: Strategyzer AG  
The makers of Business Model Generation and Strategyzer

**Strategyzer**  
strategyzer.com

based on Osterwalder et al., (2010) - "Business Model Generation"

### Appendix 2 – Interview Questions

Please note that the researcher only included relevant results of the qualitative research. The information which has been identified as irrelevant, based on the nature of the research, was not included.

#### COMPANY & FOUNDER's DETAILS:

- When did you found the company?
- Do you have any co-founders?
- How many employees do you have (fixed contract) / (freelance)?
- Has your company obtained any investments or public funding/state subsidies?
- Do you plan to apply for it? Why/Why not?
- Why did you decide to start this company?
- Please name some activities prior to starting the company: E.g. Developing a business concept/sourcing materials etc.
- Which educational background do you have?

## **PRODUCT:**

- What kind of goods do you offer?
- What is the core product of your company?
- What is your selling price range?
- How much time do you need to craft one of your pieces? How long is your “usual” production/creation process?
  - 1-2 weeks
  - 2-4 weeks
  - between 1-2 months
  - Other

On a scale from 1 to 5, how difficult is it for you to find clients who buy your work?  
(1 meaning: "not difficult at all" and 5 meaning: "very difficult")

## **BUSINESS MODEL / VALUE CREATION OF THE COMPANY:**

### **Customer Segments**

- Who are your most important customers? Segments/Diversified? For whom are you creating value?

### **Customer Relationships**

- What type of relationship does each of your customer segments expect you to establish and maintain with them?
- What measures do you take in building and maintaining customer relationships? (pre-orders, special sales, exclusive events, made-to-order etc.)

### **Channels**

- Through which channels do your customer segments want to be reached?
- How are you reaching them now?
- Which channel is the most successful?
- Which channels are the most cost-efficient?
- Channel Phases: Brand Awareness to After Sales

Examples: Retail, own store/ online shop

Wholesale?

Trade Shows/Presentations/Fashion Shows und Made-to-measure, Online Marketplaces

### **Value Propositions**

- What value do you deliver to the customer? Which customer need are you satisfying with your brand?

**Examples:**

High-quality materials, sustainable/local production, unique design, brand/status, customization?

**Key Activities**

- What key activities does the company's value proposition require?

**Examples:**

Design, Material R&D, Production, Branding, Co-Creation, Quality Assurance, Sales, Marketing & Communication

**Key Resources**

- What key resources do your value propositions/distribution channels/customers etc. require?

**Examples:** Brand, Design, Production, Retail Network, Human Capital, Financial Capital

**Partners**

- Who are your key partners and who are your key suppliers?
- Which key activities do they perform?
- Which key resources are you acquiring from partners?

**Examples:** Material Suppliers, Production, Logistics, Distribution, Stores/Retailers, Local/National/International Design/Creative Networks, Public Institutions, Press, Investors

**Cost Drivers/Structure**

- What are the most important costs inherent your business model?
- Which key resources are most expensive?
- Which key activities are most expensive?

**Examples:** Materials, Salaries, Production

**Revenue Streams**

- How much does each revenue stream contribute to overall revenues?

**VALUE CAPTURE:**

- What are your plans for the next 3 years?
- In what ways does your local environment influence the way you do business?
- What would you consider being the hardest part of running your business?

**DEMOGRAPHIC INFORMATION:**

- City of residence?
- What is your gender? Male / Female
- What is your age?

### **Appendix 3 – Detailed Results Single Cases**

The single cases will be described, using the building blocks of the business model canvas (see Appendix 1) from right to left.

#### ***CASE 1***

**Number of Founders:** 1

**Industry:** Fashion

**Year of founding:** 2013

**Age of the Founder:** 34

**Gender:** Female

**Educational Background:** Tailoring and Fashion Design

**Motivation for starting the business:**

- Lack of opportunities
- Wanted to have her own brand

**Activities prior to starting the company:** Internship to gain insights into the daily routine of a fashion brand, developing the concept, research on how to start a clothing line

**Government support/Loan:** No, only Family

**Number of Employees:** 0

**Sold Items/Year:** < 50

**Selling Price Range:** 240-340€

**Customer Segments:**

Mainly international clients (e.g. London, Israel, Australia) with a higher willingness to pay.

**Finding the right Customers\***

4-5

Remark of the founder: Especially in Germany, customers prefer to spend less money on new pieces every season, than to invest in certain pieces.

\*All business owners have been asked: “On a scale from 1 (not difficult at all) to 5 (very difficult), how difficult is it for you to find customers who buy your products?”

### **Customer Relationships**

The founder has very little contact with customers, customers appreciate the handmade products and the value of owning a piece of a local designer. She also offers clothing alterations to her customers.

### **Channels**

The founder in case 1 started with wholesale as the main sales channel. She invested in trade fairs and sold her products for a commission, but eventually decided to cut off the wholesale channel because of poor conditions. The owner is now selling her products through the following sales channels:

- Pop-Up shops
- Shop-in-Shop concept at local stores (possibility to rent some space for a limited amount of time)
- Online marketplaces
- Her own online shop
- Trunk-Shows (Made-to-order)

The most successful sales channels in case 1 are local brick and mortar stores and events. According to the interviewee, retail channels are far more profitable than wholesale.

The founder said, that customers are using her online shop mainly to gather more information, before buying it offline.

### **Value Propositions**

The collection of the founder in case 1 is focused on womenswear. High quality workmanship, handcrafting dresses, trousers, coats and tops.

The best-selling products are dresses. The unique selling proposition is the combination of tailoring with great design, fair fashion and local production. A challenge she mentioned is, that the customer has to have a certain level of experience and knowledge, to really perceive the difference in the workmanship.

### **Key Activities**

Design, developing patterns, sourcing fabrics, production (only 2 standard sizes, producing 40-50 pieces in advance, the rest on demand), sales and communication. The designer prefers to outsource the sales and communication part (by using the shop in shop channel).

### **Key Partners**

Shop owners, local drapers

### **Cost Structure**

The biggest costs inherent in the current business model are the rent - for pop-up shops and the studio, as well as the material.

### **Value Capture - Plans for the next 3 years**

One of the business owner's main goals is to increase the product-range based on customer needs, also offering something smaller/cheaper - (Illustrations, Phone Covers).

Besides that, she has no current plans to further expand the business, one of the reasons for that is the high level of insecurity when making a major investment, without knowing how it turns out.

### **Change of Business Model**

The company changed the sales channel from selling mainly in wholesale to retail and direct selling, which brought changes in direct customer communication.

The designer further changed the design of the collection, based on customer needs → still handcrafted, but more commercial rather than extraordinary pieces, using different materials which are easier to care for by the customers.

**Remarks Case 1:** Limited amount of materials, could produce more items but seems content with how the business is going, also wants to work in other fields, besides her own business. Open to trying new things, but relatively passive when it comes to expanding the business/initiating collaborations, does not want too much publicity either.

## **CASE 2**

**Number of Founders:** 1

**Industry:** Fashion

**Year of founding:** 2016

**Age of the Founder:** 30

**Gender:** Female

**Educational Background:** Fashion Design

**Motivation for starting the business:**

- Being independent
- Creating her own designs

**Activities prior to starting the company:** Between the end of 2014 and June 2016 the founder has been developing the first designs and samples, followed by finalizing the design for the website for another 3 months.

**Government support/Loan:** No - "Design is not supported financially by the state"

Own savings/resources

**Number of Employees:** 0

**Sold Items/Year:** 34/year

**Selling Price Range:** 180-200€

**Core Product:** Knitwear

### **Customer Segments**

“Normal” people – even older generations (parents and their networks). At this point in time, it is hard to say if the customers buy the products because of the sustainable approach or because they like the designs.

### **Finding the right customers**

5

Remark of the founder: Difficult – selling directly guarantees cheaper prices for the final customer, products are seasonal, not generating any online sales yet - difficult for customers to find sustainable products

### **Customer Relationships**

According to the interviewee, customers always expect that you “show up or do something”, so designers are forced to come up with news/events/newsletter so people remember you. The founder also offers special seasonal sales with a prior-payment option.

### **Channels**

The founder in case 2 is only using direct sales, to guarantee the lowest possible price for the customers, using the following sales channels:

- Pop-Up shops
- Her own online shop
- Personal network

According to her experience, customers also get in touch via different social media channels (especially Instagram). The pop-up was hosted together with other sustainable oriented designers to share costs and to reach a broader audience.

This founder also confirmed the increased success of offline sales, due to the fact that people saw, touched and tried on the products and ended up buying it.



### **Value Propositions**

High-quality fabrics that come with functions. Industrial production combined with couture design, products that are made to last, transparency, ethical production, everyone who is involved in this product earns a fair price.

Unisex clothes (in 3 sizes), editions (e.g. Knitwear) that are always available, adding more products, thinks about things she wants to wear and what is not available on the market or only in bad quality. According to the designer, “men are happy when there are not too many choices – high-quality basics make decisions easier.”

### **Key Activities**

The main activities are design, research and sourcing – fabrics as well as manufacturing partners. The manufacturing partners depend on the collection. The knitwear edition is produced in Peru, whereas the cotton edition is produced in Germany.

### **Key Resources**

Fibres and personal network are the main key resources in case 2. The profits of the designer mostly depended on her own network – until now.

### **Key Partners**

The key partners in case 2 are the manufacturers the designer is working with. Since the fibres and production are so unique, there is a very limited number of manufacturers that produce a certain quality in low volumes. Due to this fact, the founder is highly dependent on the key partners.

### **Cost Structure**

The biggest expenses inherent in the business model of case 2 are the production and sampling. The sampling for the knitwear edition required a pre-investment of 20.000€.

### **Value Capture - Plans for the next 3 years**

Similar to case 1, the founder plans to develop a bigger range of basics, but also to market her collections on a more international level by participating in international trade fairs and expanding to other countries.

### **Change of Business Model**

No evident changes of the business model since founding the business

**Remarks Case 2:** Very value driven, the founder continuously expressed the need to hire people during the interview. “The more you work on your business, the more you realize you have to have a team of 2-3 people to really make it work.” She is not really interested in the business side, since this completely hinders creativity. “Tasks kept popping up, but trying to be a businessman at the same time with no real business model structure leads to failure.” What

the founder also highlighted was that, “if you produce in low volume, you are always the last one for the manufacturer”, which results in another aspect of high dependency. Another interesting point to mention is, that even though the network is considered as key factor for success, the designer also mentioned that there is almost not time to network, once she started her business.

### **CASE 3**

**Number of Founders:** 1

**Industry:** Fashion

**Year of founding:** 2014

**Age of the Founder:** 35

**Gender:** Female

**Educational Background:** Fashion Design (“very limited, very industry focused”)

**Motivation for starting the business:**

- Belief that what anyone else can do, she can do too

**Activities prior to starting the company:** Started with an internship at a company, then renting a studio when the costs were still pretty low in Berlin.

**Government support/Loan:** No, the founder considered it, but would only need it, if she wants to produce more to pre-finance the collection. The company grew organically and the entrepreneur mentioned acquaintances who took on debts and had an extreme pressure to make it work. One of the reasons why she decided not to take out a loan was to remain independent.

**Number of Employees:** 2 employees with a fixed-term contract, 3 freelancers (sales associates, developing and improving patterns, sewing prototypes)

**Sold Items/Year:** approx. 5.000/year

**Selling Price Range:** 25-450€

**Customer Segments**

Successful people, mainly from the creative industries

**Finding the right customers**

1

The founder never experienced any difficulties in finding customers

**Customer Relationships**

The designer is offering the customers the possibility to pre-order customized knitwear (length and colour). Another special service the brand is offering to customers is a modification service after purchase, because in the opinion of the founder, fair trade not only entails selling sustainable pieces produced under fair conditions, but also to sell clothes that are being loved, appreciated and worn by the consumers.

### **Channels**

The founder in case 3 is only using direct sales via her brick and mortar store, yet, she is also shipping clothes upon request. The entrepreneur is using Facebook and Instagram to communicate and attract new customers, but not officially selling online, due to the limited number of pieces from each collection. Originally, the founder was renting two stores, but decided to focus on only one location, due to the more suitable local environment. Additionally, the founder is selling pieces from another designer on a commission basis.

### **Value Propositions**

The brand's customers especially value limited editions and the sustainable production of the clothes.

### **Key Activities**

In case 3, due to the limitation in sales channels, the main key activity is personal engagement with the customers (on- and offline) to increase satisfaction and retention. Another activity is finding new approaches for sustainable production.

### **Key Resources**

For the founder, people are the ultimate key resource. This includes customers, but especially the team and a positive work environment. The business owner mentioned, that customers would be indirectly affected by a negative work climate. The network is also a key resource, but less important.

### **Key Partners**

Key partners include manufacturing companies in Poland and Bolivia, drapers and colleagues.

### **Cost Structure**

The most expensive part of the business model is definitely the employees

### **Value Capture - Plans for the next 3 years**

The plans for the next years are to start selling online, to further outsource the remaining aspects of the production and to further expand the network through increased marketing activities, participation in trade fairs, shop-in-shop concepts or creative collectives.

### **Change of Business Model**

Changes the founder made with regards to the business model were not only to change the shop location, but also the way of doing business, increasing external communication and an even stronger conviction of selling fair trade clothing. With regards to design, the entrepreneur also redefined the concept of the collections by offering more wearable, commercial pieces.

**Remarks Case 3:** High-performing sales, compared to other respondents, organic growth, Sales mainly generated through one brick and mortar store. The founder highlighted the importance of the team and the customers.

### ***CASE 4***

**Number of Founders:** Originally 2, but 1 left the company in 2016

**Industry:** Furniture

**Year of founding:** 2013

**Age of the Founder:** 33

**Gender:** Male

**Educational Background:** Architecture

**Motivation for starting the business:**

- Wanted to be self-employed early on

**Activities prior to starting the company:** 6 months prior to starting the company, the team designed the first products and sourced materials as well as manufacturers to work with.

**Government support/Loan:** No. Only used own resources, started with very limited resources, and immediately started to sell the first products.

**Number of Employees:** 0 fixed-term contract, but working with freelancers as required (marketing, graphic design)

**Sold Items/Year:** approx. 104/year

**Selling Price Range:**

2.000-8.000€ (depending on the customization)

14.000€ (Prestige Object)

**Customer Segments**

In case number 4, the company is addressing the customer's need for a long-lasting, customizable dining table catering to the following customer segments:

- Young families
- Singles or couples

The main customers are individuals who value high-quality materials, and no longer want to buy their furniture at “Ikea”.

### **Finding the right Customers**

2,5

**Remark of the founder:** “It is not easy to sell objects in the luxury segment, but I do not have to attract 1.000 new customers each month. Selling four tables/month would already cover the costs. Since it is a luxury object, the purchasing decision can take up to three months.”

### **Customer Relationships**

The relationships with the customers in case number 4 are very close. The founder is directly involved in the final design/decision process of the customers, and is - at the same time acting as an interior design consultant, showing customers the most suitable combinations for their home, before the table is being customized.

### **Channels**

The channels used by this founder in the furniture industry are:

- Commission-based international retail
- Direct selling in Germany, Austria and Switzerland
- Online marketplaces
- Pop-Up shops

The founder is mainly working with press, not investing in advertisement, yet it is important to note, that the company is working with an important, very successful brand as media partner. The most successful channel in the DACH-region is direct selling. Customers prefer the direct exchange and consultation with the founder.

### **Value Propositions**

The core product is an extremely convertible dining table, which is customized according to the customers preferences. The customers get the opportunity to design their personal table themselves, based on a proven system. About 293 different variations exist for the table, and the customers really like the fact it is customized for their home as well as using real, complete material. Another important factor is, that the table is a long-lasting product, which can be used for around 100 years.

### **Key Activities**

The key activities in case number 4 include design, local handcrafted production, patience and trust. Building trust includes honest communication, including the consumer in the process and development by explaining price calculation, as well as advantages from buying a locally produced object.

### **Key Resources**

Key Resources include the wood from the founder's own sustainably cultivated woods, motivated manufacturers who are open to try new things, and the local proximity of all the manufacturers is also perceived as a key resource by the founder.

### **Key Partners**

Even though different manufacturers (up to 20) are considered as key partners, it is important for the entrepreneur to remain independent from any partners. As a result, the dependency on the single manufacturers as well as the family's wood is very limited.

Logistics companies - The founder stated, that the shipping and delivery is very often underestimated by the customers, especially when it comes to the delivery of furniture.

The company is also working with press and media as key partners for TV commercials and external communication.

### **Cost Structure**

The most expensive parts of the business model include the manufacturing of the steel parts for the wooden tables, as well as customer returns, in case a table gets damaged during shipping/delivery. Returns are a very expensive and time-consuming factor for the founder.

### **Value Capture - Plans for the next 3 years**

The founder's plans for the next 3 years are to expand, rent a showroom in Berlin, and grow the team. He further wants to diversify the product portfolio of the brand, by including complementary products, eventually collaborating with other designers for that matter.

### **Change of Business Model**

The founder mainly changed two important components over the course of time, since starting the business. One was the team - the amicable exit of his co-founder, who wanted to pursue a different career, and the other major change of the business model was the change of prices and communication, starting with very low prices to drive sales and brand awareness, but interestingly selling more when the company increased the prices. The founder said that the customers first could not believe the quality they bought for the "cheap" price.

## **CASE 5**

**Number of Founders:** 1

**Industry:** Furniture

**Year of founding:** 2016

**Age of the Founder:** 36

**Gender:** Female

**Educational Background:** Product Design

**Motivation for starting the business:**

- Received positive feedback for her designs

**Activities prior to starting the company: Government support/Loan:** Received an IBB support for the participation in an international design fair

**Number of Employees:** 0

**Sold Items/Year:** 10/year

**Selling Price Range:** 700-6.000€ (depending on the object and sales channel)

**Core Product:** Dining table

**Customer Segments:**

The company in case 5 is selling to different customer segments.

The sofa is considered a prestige object whereas the dining table of the collection is practical/functional bought by individuals/couples/families. The founder is also selling a different version of the dining table to corporate customers.

**Finding the right Customers**

4-5

**Remark of the founder:** “Difficult, you have to find the clientele with enough purchasing power, who are willing to spend their money on furniture.”

**Customer Relationships**

The company is relatively early stage, with a low amount of sales. The founder reported that her experiences when interacting with customers are still very limited, yet, so far, in most of the cases the exchange between the founder and the customer is very personal. She also actively participates in – and attends national and international design fairs, exhibitions and awards, to display her products and acquire new customers and partners. It is interesting to note, that in the furniture industry, the founder reported, that especially corporate customers only hire a brand when the brand has been present at different fairs over various seasons.

**Channels**

In case 5, the entrepreneur is using the following direct and indirect sales channels:

Direct Sales Channels:

- Her own online shop
- Personal Network

- Manufacturer (based in Austria)

Indirect Sales Channels:

- Online marketplace
- Furniture stores (commission-based)
- Showroom of a company specialised in office furniture

### **Value Propositions**

According to herself and the feedback she receives from her customers, the furniture brings joy to the customer's life and home. High-quality materials, sustainable production, transparency (made-to-order) and the durability of the objects guarantee the value after the purchase. Each object can be considered to be one of a kind, because what the founder especially accentuated was the authenticity of the handcrafted manufacturing process.

### **Key Activities**

The main activities are design and craftsmanship

### **Key Resources**

The key resources are limited to material (wood) and the carpenter the founder is working with.

### **Key Partners**

The 2 main partners of the entrepreneur are a carpenter and an upholsterer.

### **Cost Structure**

The highest costs include the materials, manufacturing, transport and marketing.

### **Value Capture - Plans for the next 3 years**

The founder intends to increase sales and brand awareness.

### **Change of Business Model**

The change of the business model mainly consists of increasing the product portfolio by offering smaller interior design objects.

**Remarks Case 5:** This designer especially highlighted the lack of information/knowledge between the end of the product design studies and the start of running a business, from setting a price to know in which marketing activities to invest.

## **CASE 6**

**Number of Founders:** 2

**Industry:** Furniture

**Year of founding:** 2010

**Age of the Founder:** 37

**Gender:** Male



**Educational Background:** Graphic and Product Design

**Motivation for starting the business:**

- Lack of opportunities: According to the founder, in the product design industry, it is really difficult, if you design something, you have to find a company willing to produce your designs
- The product was already there, which was the foundation of the business
- Both founders found it exciting to produce their own designs and at the same time doing marketing and sales for the products

**Activities prior to starting the company:** The founder already designed and produced a limited edition before, which allowed him to gain direct insights into customer demand.

**Government support/Loan:** The company received project-specific support from the state → 3x Transfer BONUS, to start, the founders took out small private loans and micro credits from the IBB.

**Number of Employees:** 2 Freelancer in Logistics, + Interns

**Sold Items/Year:** approx. 3.300 /year

**Selling Price Range:** 15-800€

**Customer Segments**

The company is selling to different customer segments. According to the founder, the most important clients - both - when it comes to highest sales and importance are retail partners. The type of end customer, the company is selling its products to are coming mainly from the creative industries (architects, journalists, design studios etc.)

**Finding the right Customers**

4

**Remark of the founder:** Not easy, but it also depends on the product. It was much easier to find customers for a niche product, than for newer products of the collection. Some products require more marketing, while others sell easily.

**Customer Relationships**

In this case, the company's most important customer segment is the business-to-business segment. Establishing and maintaining long-lasting customer relationships is important. The founder said, it is important to keep the customers informed about changes or new products in the company's portfolio. To establish new, and maintain existing customer relationships, the company also attends industry specific fairs, is hosting events together with retail partners (e.g. product launches) and is sending out newsletters on a regular basis.

## **Channels**

The company is using the following direct sales and indirect channels to sell and communicate with customers:

- Cold calling
- Trade fairs
- Social media
- Press
- Retail
- Their own online shop
- Online platforms

Current sales channels include 40-50 national and international retailers (which amount to 70% of total sales), 20% direct sales/online shop, 10% requests from architects/planners. The company is selling the products to the retailers and unlike other cases, not working commission-based.

## **Value Propositions**

The key value propositions mentioned by the founder are:

Identity, exclusivity, new design – in the style of design classics with a design historical context. The company is also working with young, external designers to ensure a diverse collection.

## **Key Activities**

Creative work and new product development is key for the success of the company. Every new product generates a new stream of income and even further, strengthening the brand's image. But, sales and acquiring new customers as well as maintaining existing customer relationships take lots of time and energy.

## **Key Resources**

Key resources of the company consist of creative manpower (designers, photographers), marketing and financial resources. Financial resources are important, similar to some of the other cases, where the production has to be pre-financed by the company. The company is working partly with a bulk pricing strategy, meaning that they produce a certain amount of a product to get a better total price from the manufacturers. The founders are also working based on demand - meaning that the first order is usually smaller, and when the demand for a certain product is high, they order larger quantities.

### **Key Partners**

The key partners are multiple manufacturers. The company is working with many different manufacturers, based on the design and special requirements of the new products. Based on every new product, the material and production technology, eventually a new manufacturer is chosen. Even though, the founder said, they are aiming to work with manufacturers in Germany, because of easier communication and handling, they are currently working with manufacturers globally.

### **Cost Structure**

The biggest costs in this business model is the pre-financing of the products.

### **Value Capture - Plans for the next 3 years**

The company aims to further increase its product portfolio as well as further developing the B2B sector and individual projects, working with an increasing number of architects and planner to furnish offices. With regards to geographical expansion, the company is looking to further expand the retail network in the US and Asia.

### **Change of Business Model**

The founders changed different building blocks of their business model, over the course of time:

- Increase in prices, due to changes in the sales channels and shifting the focus from direct selling to working with retailers
- Internal organisation and work flows - the company decided to work centralized (office and warehouse in one location) which led to an increase in efficiency, more staff and clearer division of responsibilities

**Remarks Case 6:** The company is extremely flexible, ensuring a low dependency on single manufacturers, which allows the company to get competitive prices. The company's main challenges are focusing on sales, and increasing brand awareness/being present in the market.

## **CASE 7**

**Number of Founders:** 1

**Industry:** Jewellery

**Year of founding:** 2016

**Age of the Founder:** 30

**Gender:** Female

**Educational Background:** Law

**Motivation for starting the business:**

- The entrepreneur wanted to build a company that is different

**Activities prior to starting the company:** Finding business partners, manufacturers and suppliers, designing the first collection

**Government support/Loan:** No, only private investments/loans

**Number of Employees:** 1 Accountant, 1 Freelancer in PR

**Sold Items/Year:** only started sales in 2017

**Selling Price Range:** 200-1.200€

### **Customer Segments**

Very different customer segments, too early to tell/does not know all of the customers

### **Finding the right Customers**

2

### **Customer Relationships**

The founder tries to keep personal relationships with the customers to increase satisfaction and customer retention.

### **Channels**

The company is using the following direct sales and indirect channels to sell and communicate with customers:

- Her own online shop
- Retail (early stage)

### **Value Propositions**

The key value propositions mentioned by the founder are:

Individuality and craftsmanship – great, classic design and ethical, sustainable production and materials, so the customer can wear the pieces without having a bad conscience.

### **Key Activities**

The key activities of the company include sales, PR, production, design and sourcing vintage diamonds (which are hard to find).

### **Key Resources**

The main key resource of the company is the founder herself.

### **Key Partners**

The key partners mentioned include the manufacturing company in Portugal and the suppliers of raw material.

### **Cost Structure**

The biggest costs inherent in this business model are production costs.

### **Value Capture - Plans for the next 3 years**

The company aims to further expand into new markets - namely UK and the US, as well as finding international retail partners. The entrepreneur is also planning to expand her product portfolio, offering one of a kind jewellery.

### **Change of Business Model**

The founder expanded her sales channels - adding retail channels, as well as increasing PR activities.

## **CASE 8**

**Number of Founders:** 1

**Industry:** Fashion

**Year of founding:** 2015

**Age of the Founder:** 33

**Gender:** Female

**Educational Background:** Fashion Design

**Motivation for starting the business:**

- It is hard for her to work for someone else

**Activities prior to starting the company:** The founder gained experiences while working for another fashion label before starting her own brand. While working for this brand, she could learn more about customer demand and testing her own capacities.

**Government support/Loan:** No, “too much time and effort for what you get in return”

**Number of Employees:** 0

**Sold Items/Year:** approx. 180 /year and around 500/year before increasing the prices

**Selling Price Range:** Ø170-395€

### **Customer Segments**

According to the business owner, the customers vary in segment as well as age groups, which is good for the overall turnover.

### **Finding the right Customers**

1

The founder never experienced any difficulties in finding customers.

### **Customer Relationships**

The customer relationships changed over the course of time because of a change in the sales channels (please find more information below). Now, the designer has less direct, personal exchange with customers, but instead, she focused on building her social media presence.

According to her, it is important to exchange with customers and find out about the most popular pieces, yet, at the same time she claimed that customers often wanted to influence her designs, which hindered her own creativity. As an additional service, she is also offering made-to-order pieces for customers.

### **Channels**

The company moved from direct sales through her own brick and mortar location to indirect selling at 2 local shop-in-shop locations and a luxury retailer in Switzerland. Even though, the entrepreneur is not selling online, she is shipping products upon request. The main reason for giving up her brick and mortar shop was, that it was very time-consuming and she could not focus on her key activities – being creative and sewing clothes. Yet, she claims that selling directly was the most successful channel for her brand. When she founded the business, she did not use any social media channels to drive sales, but that has changed too. She is now using Instagram and Facebook, which she considers extremely helpful to expand her network and get direct feedback. To her, the decision of not selling online has two main reasons. First, it enhances the exclusivity of her clothing line and second, she also does not have the resources (mainly time) to do it.

### **Value Propositions**

The key value propositions mentioned by the founder are:

Timeless elegance - minimalist style, handmade pieces and high-quality materials

The designer highlighted, that the quality of the materials is especially important to increased customer satisfaction/retention.

### **Key Activities**

The key activity is sewing.

### **Key Resources**

The key resources are fabrics, patterns and a sewing machine.

### **Key Partners**

The key partners consist of the shop-in-shop owners and local drapers.

### **Cost Structure**

The only costs entailed in the business model are the rent for shop-in-shop space and the fabrics used.

### **Revenue Streams**

The most successful revenue stream has been direct selling.

### **Value Capture - Plans for the next 3 years**

The plans for the next seasons of the founder are to improve her designs, to source even more expensive, high-quality fabrics and to increase brand awareness - especially in Berlin.

### **Change of Business Model**

The founder changed various aspects of the business model throughout the past years. She changed from direct selling to retail, increased the prices and improved the design, as well as the material of fabrics used. As a result of the change of the sales channel, direct customer relationships and interactions declined, but the efficiency increased.

## **CASE 9**

**Number of Founders:** 2

**Industry:** Fashion

**Year of founding:** 2010

**Age of the Founder:** 35

**Gender:** Male

**Educational Background:** Business Administration and his co-founder has a Fashion Design background

**Motivation for starting the business:**

- Wanted to start his own business and saw potential in the fashion industry as a possibility to just start something – ranging from having a small studio to a multinational corporation
- Both of the founders did not want to work in bigger corporate structures

**Activities prior to starting the company:** One of the founders already had his own fashion business, prior to starting this company, so the founders used some pieces and sewing machines and built the company together from there. According to the interview, his co-founder had a difficult positioning, not enough revenue and charging prices that were too high.

**Government support/Loan:** No, the founders started with 500€ and one Laptop. They managed to grow the company organically, over the course of time, they used private loans from friends and family. The reason the entrepreneurs did not apply for government support was that the process would have taken too long. Instead, they wanted to start right away and further develop the company and the products through experience.

**Number of Employees:** 5 (4 mini-jobber in the stores + 1 person for graphic design and administration) + 2 Interns

**Sold Items/Year:** approx. 4.500 /year

**Selling Price Range:** 30-300€

## **Customer Segments**

The typical customer of the brand values quality and wants to dress well, yet, their style is relaxed and casual – an understatement and a variety of different age groups.

## **Finding the right Customers**

4 - in the B2B segment

1-2 - in the B2C segment

## **Customer Relationships**

Made-to-order would be too expensive and time-consuming for the brand in this price segment. To foster the relationship with their customers, and to gain new customers, the brand is hosting events, sales specials and new product launches regularly. The founders are also very active on social media (Facebook, Instagram) and sending out email newsletters.

## **Channels**

The company is using the following direct sales and indirect channels to sell and communicate with customers:

- 2 own brick and mortar stores (since 4,5 and 1 year)
- Their own online shop (since 1,5 years)
- Trade fairs
- 25 Retailers in Germany and Austria, working with 2 external sales representatives
- Social media
- Online marketplaces

The most successful sales channel are the brand's brick and mortar stores, yet to grow further, being present on online marketplaces as well as with other retailers is important.

## **Value Propositions**

The core value propositions of the company towards the customers are cool outfits and sustainability throughout the whole value chain – from sourcing to production at affordable prices, the majority of customers can afford.

## **Key Activities**

Key activities include design, being at the pulse of time, sourcing fabrics and providing in-store sales advice to customers.

## **Key Resources**

Key resources and key partners at the same time, as mentioned by the founder, include employees, the manufacturing company in Poland, drapers and financial resources.

## **Cost Structure**



The most expensive parts of the business model include salaries and rents.

### **Value Capture - Plans for the next 3 years**

The goal of the founders is to increase brand awareness and to invest more in marketing and PR activities.

### **Change of Business Model**

The founders changed different building blocks of their business model over the course of time:

- Decreased prices about 15% due to a change in the sales channels moving from a focus on direct sales to an increase in indirect selling, growing with retail partners
- The founders are also using more organic fabrics (GOTS certified), which are still difficult to get for an acceptable quality/price ratio

## **CASE 10**

**Number of Founders:** 1

**Industry:** Fashion

**Year of founding:** 2009

**Age of the Founder:** 38

**Gender:** Female

**Educational Background:** Fashion Design

**Motivation for starting the business:**

- Out of passion, always wanted to have her own clothing line

**Activities prior to starting the company:** The founder gained professional experiences while working for other labels in design and retail. To her, this experience was imperative to see what products and fits work, what customers want, what makes them look great etc. In the first year, the entrepreneur was only selling vintage clothes, before starting to sell her own clothing line.

**Government support/Loan:** The founder received the “Gründerbonus” (which is a % of the previous salary over the course of 9 months)

**Number of Employees:** 5 Freelancers in graphic design, PR, programming, sewing, + 1 part-time employee (seamstress)

**Sold Items/Year:** not disclosed

**Selling Price Range:** 189-399 €

**Customer Segments**

Confident, successful, feminine customers, in many cases working in the creative industries who care about sustainability and want to express individualism.

## **Finding the right customers**

1

Remark of the founder: It is easy, as soon as the customer is in the shop, but, to ensure that, PR and editorials in magazines are important.

## **Customer Relationships**

The company keeps in touch with the customers through email newsletters, communicating sales or hosting collection launch events at the store.

## **Channels**

The company is using the following direct and indirect sales channels to sell and communicate with customers:

- Brick and mortar store
- Her own online shop
- Shop-in-shop space
- Online marketplaces

The store also still offers vintage clothes and pieces from a few other designers on a commission-basis.

The most successful sales channel is the brick and mortar store because the customers get to see, feel and try on the clothes.

The entrepreneur is also shipping to other countries.

## **Value Propositions**

see customer segments

## **Key Activities**

Key activities include design, producing samples and sales.

## **Key Resources**

Creativity, financial resources and key partners are considered as key resources.

## **Key Partners**

The main key partners in the eyes of the founder is the manufacturing company in Poland, employees and drapers.

## **Cost Structure**

The biggest costs inherent this business model, are the expenses for manufacturing and employees.

## **Value Capture - Plans for the next 3 years**

The company plans to further expand by opening a second brick and mortar store in either Berlin or Hamburg in a central location.

### **Change of Business Model**

For the founder, re-evaluating customer needs is an ongoing process, her designs and pieces gradually adapted and improved to meet customer demand, she also increased the prices due to an increase in quality and workmanship. The entrepreneur also changed from direct and indirect selling to mainly direct selling, because the retail price had to be the same price as it was in her own store, so selling through other retailers (except for the shop-in-shop concept) has not been profitable enough.

## ***CASE 11***

**Number of Founders:** 1

**Industry:** Fashion

**Year of founding:** 2015

**Age of the Founder:** 34

**Gender:** Female

**Educational Background:** Fashion Design

**Motivation for starting the business:**

- The sustainability aspect as well as the collaboration with craftsmen and manufacturers in South America (Peru) was an important factor, to work with indigenous techniques
- Being independent, being free in one's own creative work and in making decisions

**Activities prior to starting the company:** Within 6 months, before launching a crowdfunding campaign, the founder was working on the designs, samples, as well as preparing the campaign.

**Government support/Loan:** The founder received public funding through crowdfunding that covered 100% of the first two collections, as well as government subsidies for business consulting (pricing and sales strategy). For the founder, taking out a loan was not an option in the beginning, because of personal insecurity about the success of the company. She said: "you would not feel as free in your work".

**Number of Employees:** Freelancers in PR, graphic design, programming, design + interns

**Sold Items/Year:** approx. 200 /year

**Selling Price Range:** 120-690€

**Customer Segments**

The typical customer of the brand is design-savvy, who values high-quality products, the sustainable approach of the company and has a basic interest in sustainable living. Some customers save money to buy one of her products.

### **Finding the right Customers**

4

**Remark of the founder:** Does not reach the right customers yet, especially in Berlin, the competition with lower-priced brands is extremely high.

### **Customer Relationships**

The founder is renting a studio since February 2017, and just recently started organising customer events. The two main activities to build customer relationships and attract new customers are the brand's social media presence (Facebook, Instagram as well as an email newsletter) and to participate in trade fairs targeting end consumers. The entrepreneur does not offer pre-orders and is only producing limited editions each season.

### **Channels**

The company is using the following direct and indirect channels to sell and communicate with customers:

- Her own online shop
- Online marketplaces
- Pop-Up shops
- Trade fairs
- Social media
- Press
- 2 Retailers in Germany

Because of the prices, it is difficult for the founder to find retail partners, so the founder is mainly focusing on direct sales channels.

### **Value Propositions**

One of the main value propositions is transparency - showing the consumer where the products come from, how/where the products are being manufactured, where the money is going to, so the customer feels as if he/she is being taken on a journey to an exotic destination, and takes a piece (product) with them.

### **Key Activities**

Key activities include designs, manufacturing, supplier sourcing and photo shoots.

### **Key Resources**

The key resources mentioned by the founder are the network, manufacturers and the knitters, working for the manufacturer.

### **Key Partners**

The key partners are the knitwear manufacturers in Peru, fabric suppliers (Peru and Germany) and knitters. The brand's labels are being produced in Germany.

### **Cost Structure**

The biggest costs inherent in this business model are the employees, manufacturing and materials.

### **Value Capture - Plans for the next 3 years**

The company aims to expand the product portfolio, including a children's collection, and to expand internationally, including participating in international trade fairs.

### **Change of Business Model**

The brand already made major changes in the business model, mainly focusing on direct selling, decreasing prices and to actively work on the external communication strategy.

## **CASE 12**

**Number of Founders:** 1 + 1 indirect co-founder (who works on a contract basis)

**Industry:** Retail (Shop Owner with a Shop-in-Shop Concept)

**Year of founding:** 2016

**Age of the Founder:** 32

**Gender:** Female

**Educational Background:** Social Sciences, Marketing + Event Management

**Motivation for starting the business:**

- The founder finds it exciting to scout, and work with emerging designers, and to find customers for the products

**Activities prior to starting the company:** The concept originally started out at the end of 2015 as a Pop-Up project, together with other designers, then, the idea was born. A few months later, the founder participated in a "Start-up Weekend - Business Model Challenge" and the Shop-in-Shop concept won the competition, that is when she realised the business could work.

**Government support/Loan:** No

**Number of Employees:** 8 (2 designers, 2 interns, store management, social media, graphic design)

**Revenue/Year:** 225.000€ /year

## **Selling Price Range 3-1.200€**

### **Customer Segments**

The business has two main clients, since it is a retail business with the shop-in-shop concept. On the one hand, the owner has to scout and find designers, who are willing to rent space in the shops for a certain period of time. The end customers on the other hand depend on the location, mainly female academics, between the age of 30-50 who know about quality and are willing to spend money for it, they are appreciative of slow fashion, art and culture, style-savvy, as well as tourists who want to purchase something special they do not find anywhere else.

### **Finding the right Customers**

4-5

Remark of the founder: It is easier to find designers than customers.

### **Customer Relationships**

Besides engaging online, the company is also trying to foster relationships with end customers through hosting a number of events throughout the year, as well as sending email newsletters. If a customer requests a made-to-order piece, the founder tries to reach an agreement with the individual designers. When it comes to creating long-lasting customer/business partner relationships with the designers, the founder has the designers' best interest in mind. Both parties exchange regularly on what works, and what could be improved, sometimes giving them (pricing-) strategy tips according to experience and customer feedback, and giving them an online presence.

### **Channels**

The sales channels of the business model consist of two brick and mortar locations and a recently launched online shop. The online shop was important to the founder, to show the products so that customers living in different countries, can make further purchases online. The company is actively engaging on social media (Facebook and Instagram) as well as a corporate blog, that is not directly connected to the stores. Instagram also helps the owner to scout and communicate with international designers.

### **Value Propositions**

The key value propositions mentioned by the founder are:

Sourcing emerging designers and offering a selection of curated pieces which are nowhere else to be found.

**Key Activities**

The most time-consuming activities inherent in the business model are the acquisition of new designers, communication, collaboration and photo shoots.

**Key Resources**

The main key resource for the founder is the team who understands “what it’s all about”. The team understands interacting with customers and designers alike and the mentality of the store.

**Key Partners**

The main partners are designers and the owners renting out the shops.

**Cost Structure**

This business model entails a high amount of fixed costs, especially the rent for the two stores and for the employees, running costs, taxes and payments to fiscal authorities.

**Value Capture - Plans for the next 3 years**

The plan is to further improve the curation, only offering bestselling items in the store, as well as hosting international Pop-Ups and further marketing activities.

**Change of Business Model**

Expanding the sales channels and designer portfolio

**CASE 13**

**Number of Founders:** 1

**Industry:** Fashion (Owner - Online Marketplace)

**Year of founding:** 2015

**Year of closing the business:** 2015

**Age of the Founder:** 26

**Gender:** Male

**Educational Background:** Business Administration

**Motivation for starting the business:**

- The founder wanted to change the industry he was working in, and had a keen interest in online marketplaces
- He had high requirements with regards to design, and did not like what was offered by the market (e.g. Etsy)

**Activities prior to starting the company:** Prior to launching the platform, the founder spent more than 1 year with designing and programming the website.

**Government support/Loan:** No external investments, only private investments and resources from the direct network (ao. legal consultation worth 10.000€)

**Number of Employees:** 3 employees (freelancers and interns) in the field of PR, marketing and fashion design

**Sold Items during the active period:** approx. 200/4 months

**Selling Price Range:** 200-10.000€

### **Customer Segments**

The main customer segment were female academics between the age of 30-50.

### **Finding the right Customers**

4-5

### **Channels**

The company used the following direct and indirect channels to sell and communicate with customers:

- Online marketplace
- Social media
- Press
- Additional marketing through designers (e.g. at fashion shows)

### **Value Propositions**

The value propositions the company offered to business partners (designers) have been a) a relatively low commission for designers compared to similar platforms, as well as b) a very modern, clean design. The design has convinced many designers to join the platform, even though they have been hesitant in the beginning.

The value proposition for the final consumers has been to scout (and find) emerging designers and extraordinary products. The customer feedback was very positive, stating they could find products on the platform they could not find elsewhere. When it came to the selection of the products, the focus of the founder has been on product quality, rather than on the price, yet, at the same time it was important to offer unique products at prices different customer segments could afford.

### **Key Activities**

The key activities during the short amount of time the platform was online have been sales and press. Prior key activities have been the preparation of the operational side as well as scouting designers in different cities (across Germany and Austria).

### **Key Resources**

The key resources have been the personal network and financial resources.

### **Key Partners**

The key partners have been the 60 designers featured on the platform.



### **Change of Business Model**

There has been no change of the business model due to the short amount of time the platform was online.

**Remarks Case 13:** One of the main points, mentioned by the founder was the lack of a network and knowledge with regards to the creative industries. He did not really enjoy it, and was unsure about the customer wants and needs, as well as evaluating what makes a good designer and what customer segment each designer is catering to. These were some of the reasons why the entrepreneur decided to take down the business, even though the platform was relatively successful, given the short period of time. During the interview, the founder admitted he “completely underestimated the industry know-how which would have been necessary.”