

ENGAGING ENTREPRENEURIAL ECOSYSTEMS FOR THE YOUTH

ChangeFashion: Venture Biography



This project has received funding from the European Union's Horizon Europe research and innovation programme under Grant Agreement No. 101100432

Content

Disclaimer	III
1 ID Card	4
2 Founder(s)' Background and Motivation	4
3 Business Modell	4
4 Startup development.....	5
4.1 Idea-Generation	5
4.2 Incubation / Founding	7
4.3 Scaling-up / Consolidation	9

Disclaimer

The document presents a story of an existing startup prepared through desk research and a narrative interview with the founder. For reasons of data protection, the names of people, cities, support programmes and companies are exchanged with pseudonyms. The biography has been approved for publication by the startup and can be used for further research by citing it accordingly (see below).

This document is prepared by the Institute for Work and Technology, Westphalian University of Applied Sciences Gelsenkirchen, within the “Ecosys4you – Engaging Entrepreneurial Ecosystems for the Youth” research project as part of working package 1 “Analysis and co-creation of activities”. The project has received funding from the European Union’s Horizon Europe research and innovation programme under Grant Agreement No. 101100432.

Suggested citation:

Rabadjieva, Maria; Meyer, Kerstin (2024): ChangeFashion. A deliverable within the Ecosys4you project funded by the European Union’s Horizon Europe research and innovation programme under Grant Agreement No. 101100432. Gelsenkirchen: Westphalian University of Applied Sciences – Institute for Work and Technology.

1 ID Card

Name of the startup (Pseudonym)	ChangeFashion
Which ecosystem?	Ruhr
Founding date	idea 2017, founding 2019
Sector	fashion
No of employees	5-10
(Expected) Turnover in 2023	50.000-100.000€
Male/female founder	female
Timeslots of start-up phases	
idea generation	2017-2018
incubation	2019-2021
consolidation	2022-onwards
Funding / financial support	star-up competition, sustainability bank, prizes, business angel, startup master's programme

2 Founder(s)' Background and Motivation

Michelle is a woman in her 30s who worked as an innovation manager in an automotive supplier company in 2016. She became a mother for the first time and finished her master's degree and returned to work full-time afterwards. However, in the meantime, the company was bought by a large corporation and suddenly grew from 400 to 9000 employees. The new working arrangement resulted in changes in the everyday workflow. While prior to the buying out Michelle enjoyed a lot of freedom and was involved in all the company's activities, with the new structure and hierarchy of an international corporation this kind of work was impractical and unwanted. Slowly the working environment lost its previous joy for her, and she felt the need to invest her time in something more. Furthermore, Michelle used the maternity leave to deepen her interest in sustainability. Being vegetarian since her teenage years, the topic was not completely new to her; however, the time off work and the worries about her child's future seemed like the best opportunity to educate herself in new fields. This endeavour led her to the idea of starting ChangeFashion.

3 Business Modell

ChangeFashion operates as a clothing rental service that follows a "capsule" approach. The term "capsule" is drawn from the Capsule Wardrobe movement, in which wardrobes are built around a small selection of clothing items that can be effortlessly mixed and matched. These capsules typically consist of 5-8 clothing pieces, with the exact number depending on the season and the capsule's contents. For instance, a pair of pants can be paired with more items than a dress, reducing the overall number of clothing pieces required. Customers can choose pre-assembled capsules or create their own, and clothing items can be swapped out at any time. Nevertheless, since the main motto of the company is

sustainability, there is an effort to avoid unnecessary traffic. Approximately once a month people do change an item.

The capsules are ordered via subscription. Customers have the choice between 1-, 3-, 6- or 12-month subscriptions depending on their personal needs and preferences. Most customers start with a 1- or 3-month subscription to try it out, before deciding if it is a convenient model for them. Some join only for certain seasons, for example, if one has enough winter clothes then they come back in the spring. Others come and go depending on the availability of new items. For those who like to change clothes often, an annual membership provides the best price.

Most of the clothes are provided by certified fair fashion labels. ChangeFashion buys the clothes and serves as a retailer for renting instead of buying. After the first renting the items become second-hand. Nevertheless, ChangeFashion processes them and rents them again. One item can be rented for approximately 3 years.

Michelle runs the company, acts as its spokesperson, and takes care of connections with labels, bloggers and designers, social media appearances, and the website. Three more people complete the team – a graphic designer looking after an intern as well, one person handling customer service and one more member acting as a deputy for the management helping with whatever is needed.

4 Startup development

ChangeFashion conkers the popular belief that regular people have no influence over the climate crisis themselves. *“Where I buy my clothing and how much I consume, that’s, of course, my day-to-day decision and I have to do it consciously”*. Michelle embarked on a quest to find alternative models for fashion consumption and found nothing that fully aligned with her vision. So, she decided to develop a concept. She shared her idea with friends and family, and within a few months found enough people to join the effort. *“We never thought that this could be a company one day”*. ChangeFashion is now in its fifth year of existence and is looking forward to scaling opportunities. The following paragraphs explicate the company’s story from the first idea until today.

4.1 Idea-Generation

During her maternity leave, Michelle started reading about fashion and its relation to sustainability. The initial idea was developed in collaboration with her little cousin (11 or 12 years old at the time), who despite her young age was much more read in the topic. Both decided to write a blog about fair fashion under the name ChangeFashion. Even though the collaboration never happened, Michelle became even more interested in a fair fashion and saw potential for changing everyday practices of consumption. She read studies showing that clothes are an item people buy a lot but rarely wear. People enjoy the diversity of outfits, however, do not wear one thing sustainably and clothes become a waste item very quickly. The sensible conclusion for Michelle was that ownership of clothes does not make sense. It would be much better if people could use clothes on demand and return them when they don’t want to wear them anymore. This was exactly her initial idea – a subscription for clothes instead of buying them, which gives one the freedom to switch on demand by putting clothing items back on the market instead of throwing them out.

Michelle started talking to friends about her idea. They found it fun and intriguing. Even though they did not plan to start a company at the time, they started thinking about implementing the idea. Soon enough, Michelle reached out to a Facebook group focussing on empowerment with her thoughts and

asked for advice on how to proceed. One advice from the group was to reach out to the local economy development agency (LDA) offering general advice about starting a company. The agency arranged a meeting quickly; however, did not seem impressed with the idea of clothes on demand back in 2017. Nevertheless, they connected Michelle with a startup competition in a nearby city, where she could unfold the concept and develop a business plan. Michelle was impressed by how unproblematic it was to be referred from one LDA to the next when the local one did not have the fitting services.

The beginning: fall of 2017 to fall 2018

The start-up competition Michelle joined, is run by the local development agency of the next larger city and offers a six-month programme where potential founders can develop their ideas, specify a business plan, and compete for prizes. The competition is flanked by different entrepreneurship classes guiding entrepreneurs through the foundation process of a company. Michele and some friends of hers inspired by the idea took the opportunity. In the 6 months competition programme in 2017 and 2018, they crafted a business plan and took advantage of the supporting classes.

Since Michele didn't come from an entrepreneurship family, she found it very helpful to educate herself on how to start and run a company. Once on the mailing lists, she could participate in different free-of-charge classes every day if she wanted to. This was unthinkable in the corporation she was employed, where she had to fight for every additional education opportunity since they were very costly. Michelle took advantage predominately of legal and management classes like patent law. There was also a lot of information on possible legal structures and finding the right one for the respective concept. In hindsight, Michelle views this aspect critically. She shares that the advisors – professional mentors and not entrepreneurs themselves - all leaned heavily towards recommending the formation of a GmbH (limited liability company). For example, they discouraged considering a UG (entrepreneurial company with limited liability)¹ because of the perception that it might deter potential partners due to the lack of share capital. Ironically, almost all the labels Michelle ended up collaborating with are UGs. In the case of ChangeFashion, it wouldn't have made a difference, as they needed the capital for buying clothing, and forming a GmbH or a UG seemed unimportant. However, what Michelle wasn't initially aware of and was not included in the classes was, that it's not just about the initial founding costs, which are manageable. It's the annual financial statement every GmbH in Germany must prepare, which costs around 2,500 euros per year, that most people do not consider at the beginning. In the case of ChangeFashion, this was nearly half of their first-year turnover. Looking back, Michelle wishes someone had informed her about this rather than always focusing on the liability aspect. Especially considering that they are working with clothing where there are literally no risks involved compared to food or medicine startups. Generally, the classes were missing the practice perspective of real entrepreneurs. Nevertheless, the support received through the competition was essential for the development and testing of the idea.

Crafting the business plan didn't seem immediately useful for the team but proved vital for thorough thinking during the conceptual phase. They submitted it for consideration without much expectation for approval. At that time, Michelle was expecting her second child, while having her four-week-old baby cradled in her arms when the phone call came in.

¹ In the German legal system, both GmbH (Gesellschaft mit beschränkter Haftung) and UG (Unternehmergesellschaft) are types of limited liability companies. However, a GmbH is a regular and fully-fledged limited liability company with a minimum share capital of 25,000€, while a UG is considered a "mini-GmbH" or a "small GmbH" with a lower initial share capital requirement (1€). A UG must work toward accumulating the 25,000€ minimum over time.

The voice on the other end announced, "You can pitch," and Michelle was taken aback. She agreed to the opportunity and, after hanging up, had her doubts, thinking, "How will I manage this? Can I really do it?" With determination, she decided to proceed, even with her baby in a carrier. The experience was both amusing and challenging, as it marked her first-ever pitch, which turned out surprisingly well.

Michelle and her friends made it to the finals, among the top 10 contenders. There were only 1st, 2nd, and 3rd places, while the others were grouped under 4th place. Michelle's team fell in 4th place receiving 2,000 euros as a reward. Additionally, a bank with a focus on sustainability recognized their efforts by awarding them a sustainability prize, rounding up the prize money to 5,000 euros.

Inspired by the success, Michelle and her friends decided to utilize the funds to launch a pilot project, aiming to gauge the concept's resonance with their audience. Michelle had previously experimented with rental concepts that were already on the market but soon realized they didn't quite align with her specific needs. Most of them offered a website where people would specify their style before being sent something. At first, Michelle found this approach appealing – the clothing items were in excellent condition and carried a fresh scent. Nevertheless, they didn't fit into her existing wardrobe. She struggled to mix and match them effectively, leading her to conclude that these services weren't the right fit for her.

Michelle began contemplating the idea of a Capsule Wardrobe. She embarked on a journey to calculate how many clothing items she would need to create 30 different outfits, keeping in mind the presence of four essential pieces – for instance, blue jeans, black jeans, a white shirt, and a black shirt. After conducting a small survey, it became evident that over 90% of people already had these four items in their wardrobes. Michelle and her friends decided to consider these as foundational pieces, and by adding a few more items to each capsule, they could easily generate 30 unique outfits. This approach required approximately 5 to 8 clothing items in each capsule, and so the capsule concept was defined.

Test phase: October 2018 to January 2019

Michelle and her friends managed to collaborate with an influencer (whom Michelle has known through her blog) who curated the first clothing capsule. She not only arranged the outfits but also took stunning photos and promoted the capsule enthusiastically. Michelle's prior experience with running a blog had already connected her with others in the field. These established connections enabled a widespread sharing of the content. As a result, their first capsule was consistently sold out immediately. They started with only 10 capsules, which may not seem like a lot, but they were in high demand across Germany. This success came as a surprise. Michelle and her friends had planned to assess the pilot projects' performance in January after launching in October. With all 10 capsules being fully booked each month, they realized that they had something promising on their hands. Consequently, they made the decision to turn their concept into a full-fledged business.

4.2 Incubation / Founding

The decision to invest their own capital and found a company was taken in the beginning of 2019. Michelle, four of her friends and her aunt (as a silent investor) jointly invested 25,000 euros to create a GmbH in February. Michelle and her four friends, all over 30 and working in their respective fields, took the startup as a side project next to their regular jobs, maternity leave etc. and formed the initial team behind ChangeFashion. Since all of them already had life experience, family and jobs doing the startup full time was not an option. They decided from the start to invest as much time and energy as they could. This added fluctuation in the team and shareholders since not everyone could combine the startup with their regular life. "The only constant in the company is me". The other team members changed over the years. For Michelle, this meant working while the kids were asleep. Once the second

maternity leave was over, she needed a safe monthly income to support her family, so at this stage, she could only work on ChangeFashion in her spare time in addition to her full-time job. The other share-members come to the shareholders' meetings and pitch in when specific tasks need to be fulfilled like discussing an idea or preparing an appearance at a fair.

Consequently, the start was slow but steady. At first, they used the initial capital to add 2 to 3 more capsules to the assortment each season. Michelle kept the good connections to the start-up scene, even if she wasn't participating so actively anymore. She noticed that the connection with her fellow entrepreneurs had always been present, a sense of familiarity that persisted even when their interactions weren't frequent. It was as if they were part of a close-knit community. Occasionally, Michelle attended a founders' meetup, an initiative organized by the LDA, and this provided opportunities to mingle at various events.

As a further step, Michelle applied to a local startup incubator, which offered a substantial scholarship of around 1,500€ per month for six months. Such support would have allowed her to reduce her working hours and invest more time in ChangeFashion. However, the application was not approved for funding since she didn't do the startup full-time. The recurring sentiment she and her team encountered was *"If you truly believed in your venture, you'd go all in."* The perspective was clear—the investors believed that someone pursuing the venture full-time could achieve significantly more in half a year. Michelle faced a dilemma—how could she possibly quit her job? The financial stability it provided was essential for her family. She found it disheartening that side businesses often appeared undervalued. But she decided to stay practical about it. With two children to care for, she couldn't simply drop everything. Besides, she understood that their endeavour was a niche, and without investors, rapid growth was unrealistic. Consequently, she knew it wasn't feasible to rely on her business alone for her livelihood. Ironically, *"a lot of the start-ups in the batch they funded don't exist anymore. We are still here!"*.

Michelle considered other funding options as well. For example, there is also a state (Bundesland) scholarship for young entrepreneurs; however, it is clearly conceptualized for students or fresh graduates. The scholarship offers 1000€ a month under the requirement that scholars are allowed to work only 11 hours a week. *"As a student, I could easily get by with that, but not 10 years later"*, criticizes Michelle with disappointment. Furthermore, the scholarship is given only in the first year of founding. At the time it couldn't have come into question for Michelle, for 3 years since the official founding had passed. Such rules prohibited ChangeFashion from receiving any financial support in the founding phase. Here and there they have won prizes of 2000€, which are helpful in the short term but don't provide midterm stability. Under Michelle's impression, most supporting infrastructures are conceptualized for students or very young entrepreneurs with little life experience. Such an experience, however, is an advantage. Michelle has over 10 years of working experience so far in different-sized companies – from small to international, which helps her understand how they work and think. Besides, she admits that she wouldn't have been able to set up a company directly after finishing her studies since she did not come from an entrepreneurial family and lacked the knowledge for it.

Furthermore, Michelle criticizes the barriers for startups presented by the German legal system. Particularly in the test phase, they found it very complicated to just pilot an idea in a low-key manner. There is no space for that in the legal system, there must be a legal form behind every endeavour, so they felt forced to find the company before they had proof of concept. A workaround was to do it as a sole proprietorship in her name. This, however, meant that she was the only one responsible for the business, including its finances and liability and not the whole team.

Despite the obstacles, Michelle reflects on the founding phase as a success story and the right way for their model. The idea was very new and niche back in 2019. It was at their disadvantage to find the

company part-time; however, a lot of companies that were found full-time and scaled fast, even with investor money, disappeared as quickly. *"What is needed is resilience. Investors want quick results, but when the market is not ready, quick results are not an option"*. ChangeFashion took the long way with its own energy and investment and managed to survive.

4.3 Scaling-up / Consolidation

"It's like standing with one foot hanging over a cliff and the other foot on a rocket. You never know whether you'll soar upward or plummet downward in the next moment. That's how I've been feeling, not that it's incredibly precarious, but it's as if one bad news could shatter it all. There's no safety net, no cushion, not for me, not for us."

Over the first two years the company gained enough success and revenue so in 2021 Michelle made the decision to quit her steady job and devote her full time and energy to ChangeFashion. They have rented a space for a showroom and office. She admits that the scaling phase needs to be approached next and believes they're currently at a crucial juncture where everything has been prepared. The business model is well-defined, all technical aspects are in place, and the opportunity to scale is within reach. For her, this is a significant milestone, a natural progression in their journey.

Additionally, the team is considering expanding the services next year by possibly adding occasional clothing as well. Despite initial reservations considering that there are such other services already, Michelle recognized that the existing options were mainly tailored for high-end events such as red-carpet affairs, where a single dress might cost 300€ for one evening. These didn't address everyday occasions like private gatherings or small events. Michelle firmly believes there's an untapped market for such occasions. The introduction of this feature is a part of their established roadmap, though it would involve a distinct business model. The challenge lies in its integration into the existing membership structure, and there's an ongoing discussion about the best approach. Michelle views it as more of a sister portal now, renting single clothing items designed for shorter-term use. She perceives a mismatch between the concept and the current business model, which is aimed to be scaled.

For this year (2023) Michelle expects a 100,000€ turnover. To some, this might seem relatively modest, but there's a unique challenge ChangeFashion faces. They're on the verge of transitioning out of the startup phase. Traditionally, the five-year mark often signifies the point at which a business is no longer officially categorized as a startup, typically based on revenue. However, Michelle's venture is still far from outgrowing the startup label in terms of earnings.

This situation presents a hurdle because, by February 2024, the company will be five years old and become ineligible for various startup grants and support bound by the five-year mark. One crucial factor often overlooked is the fact that they initially established the business part-time. The reality is, that part-time endeavours can't achieve the same level of growth as full-time counterparts in a five-year span. This aspect frequently remains unaccounted for. In addition, Michelle's venture had to navigate two challenging years due to the COVID-19 pandemic. This was compounded by ongoing issues like the Ukraine crisis and economic downturn. These factors, in Michelle's view, have substantially impacted the company's journey, almost eating up the entire five-year timeline. The business was founded in 2019, and in 2020, the pandemic hit. Michelle believes that this period should be factored out, considering that although some businesses thrived during these challenging times, it was an exceptionally tough environment. She questions the practicality of the five-year rule and feels it puts ventures like hers at a significant disadvantage, especially those that commenced as part-time efforts.

On the bright side, they managed to acquire a business angel – a private investor and a business mentor from Michelle's personal network. Since they know and trust each other, Michelle enjoys certain

freedoms, she would not have if it was an unknown investor aiming at profits alone. For her, this is a comfortable situation; however, she also admits that it sometimes makes her insecure. *"When I find myself in one of those phases where everything seems incredibly tough, and I start thinking, 'Wow, maybe I should just throw in the towel and go back to being an employee. I'd earn more money, have much easier days, and life would be simpler.' But then I realize that if I did that, I'd also be losing his money too, and that's something I just can't do."* Even though Michelle is aware that the business angel knows the risks, she cannot put it to her conscious to gamble on someone else's money. Michelle also has her reservations about interacting with venture capitalists (VCs). She fears that, at some point, a VC might suggest, *"Why not simply purchase cheaper clothing? That's the solution."* However, this notion contradicts the very essence of her business, its DNA, and the values it upholds. Michelle is resolute in her commitment to these principles and resists compromising on them. She acknowledges the potential for higher profit margins by procuring cheaper clothing, but this is a path she's unwilling to tread. She recognizes that there are impact investors emerging in the investment landscape, who could be more aligned with her mission. Yet, she remains cautious. With each passing day, Michelle is becoming increasingly aware of the mounting challenges associated with sustaining the venture solely through their own resources. This realization has left her uncertain about the best course of action. She contemplates whether she should explore different avenues but remains in a state of deliberation.

Currently, Michelle is enrolled in another supporting structure which offers a "master's program" for startups. Starting in the fall of 2023, the support will span six months. They've been assigned two coaches, with the primary objective being business scaling. Michelle is eager to see how this program will unfold and anticipates that it will drive her business forward. If this is going to give the business some stability is, however, still uncertain. *"Although, I must admit I've grown calmer about it. It doesn't keep me up at night anymore."* Michelle believes in the need to establish financial reserves for the business, but she also understands that the revenue must support such reserves. It's not merely about reaching a break-even point; the income must consistently surpass it to allow for saving. She believes that having a financial cushion is crucial for the business to weather unforeseen crises. Michelle also reflects on the fact that her business has been navigating through turbulent times for a considerable duration. In the fair fashion industry, news of labels filing for bankruptcy appears almost weekly.

Michelle still tries to stay tuned in the startup scene and often contemplates the idea of leveraging networking opportunities more effectively. However, the multitude of networking events available makes it quite challenging to determine which ones are the most suitable. Moreover, managing this with two children adds another layer of complexity. Michelle is mindful that her frequent absence due to networking might become an issue with her children. It's a genuine concern and a matter she finds somewhat challenging to navigate. Morning events could be easier for her to attend than evenings since the children are in daycare at the time. On the bride's side, *"There is so much happening in the region, that I can go to a different one every day if I want to. I always find it helpful, even if I just have a nice time there, it was worth it. Mostly, it pays out later in one way or another"*.

Imprint

Publisher and Contact

Grant number: 101100432

Project duration: Jun 2023 - Mai 2026

Project Coordinator: Dr Anna Butzin, IAT - WH GE

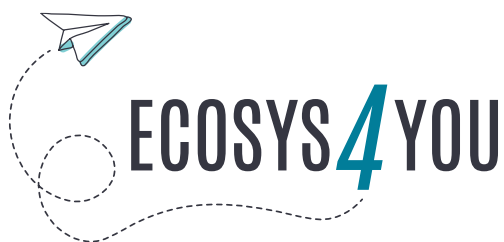
Westphalian University of Applied Sciences | Institute for Work and Technology

Maria Rabadjieva

Munscheidstr. 14

D – 45886 Gelsenkirchen

<http://www.iat.eu>



Ecosys4you – Engaging Entrepreneurial Ecosystems for the Youth (2023-2026) strives to bridge the entrepreneurial ecosystems of the Ruhr, Germany, Varna, Bulgaria and Slovenia by connecting young founders, start-ups, HEIs and other ecosystem actors.

Consortium



Funded by



This project has received funding from the European Union's Horizon Europe research and innovation programme under Grant Agreement No. 101100432