

March 2012

# INTELLECTUAL PROPERTY IN THE FASHION DESIGN INDUSTRY

## LICENSING





## **Foreword**

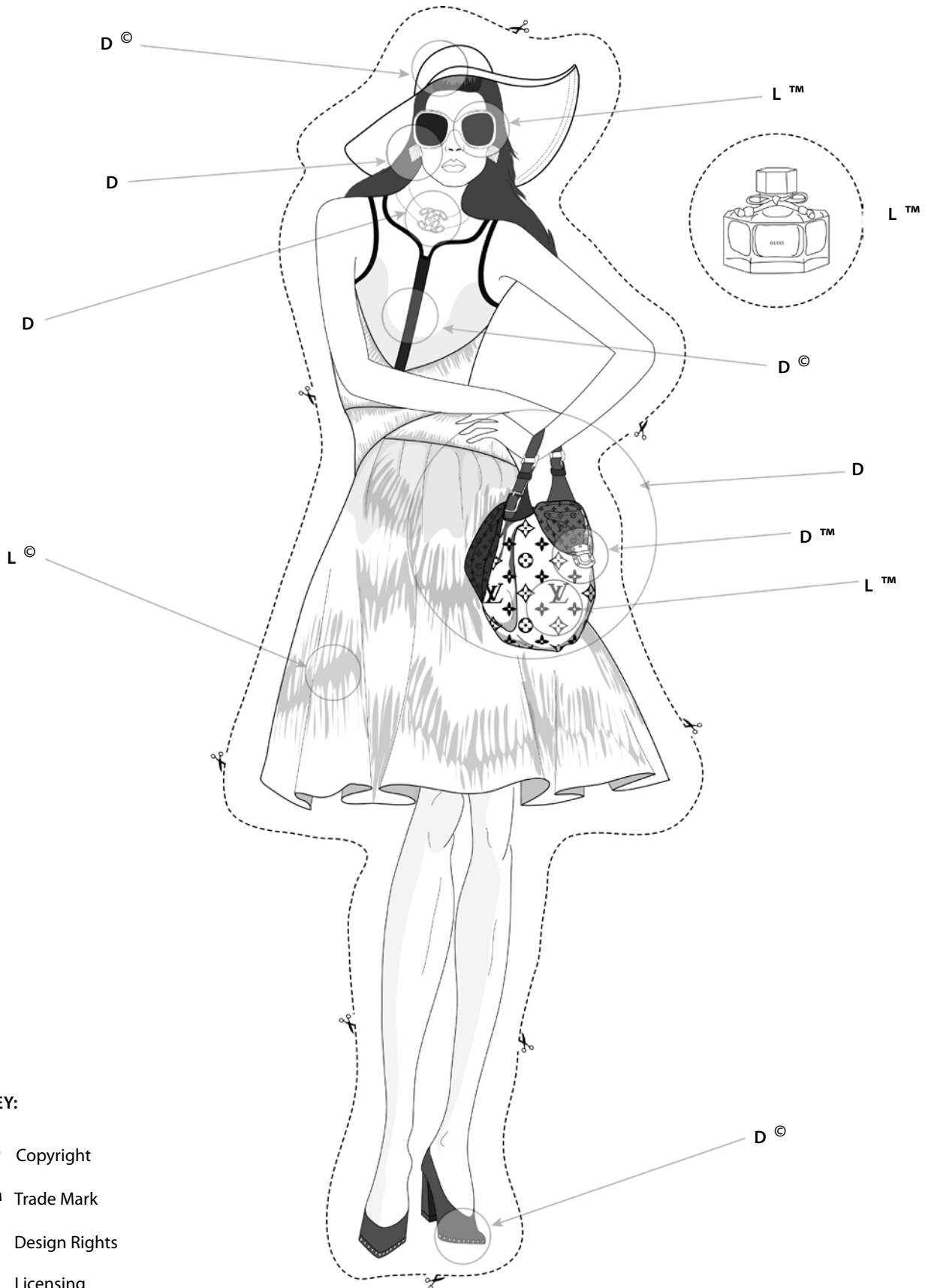
The Centre for Fashion Enterprise has worked with London's emerging fashion designers since 2003. During that time it has become obvious that sound legal advice at an early stage is paramount, and the partnership with the legal firm Olswang has helped us to stem the flow of lost financial opportunity through identifying and securing the designers' assets. The financial ramifications of not understanding the key legal issues to a fashion designer in business are clear to see across the industry – which is the reason why we wanted to work with the Intellectual Property Office to produce an "Intellectual Property Guide for the Fashion Design Industry" for non legal fashion professionals. It includes clear guidelines relating to Design Rights, Trade Marks, Copyright and Licensing with a roadmap on why to use these.

Small designer businesses are operating within a global environment where, according to Chris Donegan in his July/August 2011 article in *Spears, Brand and Intellectual Property* (IP) experts estimate that over 80% of the value of typical Fortune 500 companies is represented by IP. This includes brands, trade-marks, copyrights and patents.

Understanding and managing IP has been an active basis of trade and business for decades and is now a mainstreamed activity. Small and medium enterprises and talented individuals can more readily benefit through royalties and IP revenue streams from their ideas and inventions through a better understanding of the "tools of the trade".

**Wendy Malem** MBA FRSA FCSD  
Director, Centre for Fashion Enterprise

WHAT DESIGN RIGHTS MUST  
THERE BE IN MY DESIGN WORK  
THAT I SHOULD KNOW ABOUT?



**INTELLECTUAL PROPERTY IN  
THE FASHION DESIGN INDUSTRY**  
LICENSING

6	<b>INTRODUCTION</b>
10	What is Licensing?
10	Definition
11	When to Consider Licensing
12	Advantages of Licensing
13	Disadvantages of Licenses
13	Licensing Different Types of Intellectual Property Rights
14	Assessing Licensing Partners
14	Licence Duration
15	International Licensing
16	Royalties
16	Licensed Product Quality Control
16	Non-disclosure agreements / Confidentiality agreements
17	Licensing Useful Resources
17	Other Useful Resources

The fashion industry is an Intellectual Property (IP) intensive industry, continually generating and commercially exploiting creative ideas and innovations. Whilst IP is largely intangible, it is similar to any other types of physical property in that under the law, it has a legal owner and therefore can be sold, bought, licensed or damaged.

This series does not include a section on patents. Patents are registered intellectual property rights which protect certain new inventions. Obtaining patent protection is costly and the standard for obtaining patent protection is very high. Patents rarely arise in the context of fashion design, therefore we have focussed on Trade Marks, Design Rights, Copyright and Licensing in this guide. However, an example of where they might arise is in relation to an inventive process in the manufacture of fashion, for example, a process for creating a particular wash on denim. If you consider that patents might be relevant to you, we recommend that you should seek advice from a firm of patent attorneys or intellectual property lawyers specialising in patents.

The Hermès Kelly bag, the latest Westwood creation, the Stella McCartney collection in H&M: some last a season, some a lifetime and others just a few weeks. All are creative work the Nike 'swoosh' logo, all are the resulting from someone's intellectual effort or distinctive brands attracting goodwill through use and all are at risk of being copied, in whole or in part.

This creative IP output from the fashion industry directly generated £6.6 billion of GVA (Gross Value Added) to the UK economy in 09/10<sup>1</sup>. However, data analysis by the Centre for Fashion Enterprise estimates that amongst small and medium-sized designer enterprises (SMEs) IP leakage (or monetary losses) is somewhere in the region of £100,000 per year. Businesses lose out as a result of copycats and wrongful trademark ownership, which can restrict a designer's ability to trade in some overseas territories under their existing brand name. As a business matures, this figure could grow to an estimated £500,000 in lost revenues including loss of licensing opportunities. Therefore, the fashion sector is capable of generating further significant economic returns if IP is considered, protected and commercialised at an earlier stage. Some of these issues are explored in this series of papers including:

- Counterfeiting – a copy bearing the trade mark of the copied designer. Usually of inferior quality to the original.
- Knock-offs – producing garments that copy the design and style of another product, but without using the trade mark.
- Passing off – using an unregistered mark, characteristic, or get-up of another company in order to trade on the good will (reputation) of the company.

By offering IP protection through copyright, design rights and patents, innovation is encouraged, as the creator or owner of the IP rights is rewarded with exclusive rights to commercially exploit their ideas and inventions. The creator is thereby incentivised to continue innovating. Equally the enforcement of IP rights is essential to prevent counterfeiters and copycats cannibalising their sales which will also deter people from investing the time and capital in creating new and innovative works.

Within the fashion industry it has also been argued that to some extent the opposite is true. The very fact that fashion designs are copied is one of the drivers of the continued reinterpretation of styles and collections. Fashion designers innovate to stay ahead of the copiers. For example, if a collection is likely to be copied on the high street within 6 (sometimes within only 2) months, the designer needs to invent something new to stay ahead.

In the face of the culture of copying on the high street and the existence of counterfeiters it is difficult to see how any designer can protect their brand, image and designs. Yet, legitimate trade not only continues but also thrives, leading some economists to conclude that sometimes counterfeiting can have positive outcomes for fashion brands:

- Firstly, elite shoppers of a much-copied brand, such as Chanel, will continue to seek out new, genuine items to differentiate themselves from the crowd clad in fake outfits and so may change their wardrobes more regularly.
- Secondly, the imperfect copies create their own market, which enhances the status of those products in the real market. A real YSL bag is clearly more aspirational than a fake. So amongst casual consumers of designer products, purchasing the "real thing" can add considerable status benefits. Brands follow the trends and therefore produce similar items for elite consumers.

Whichever argument holds true, it is undeniable that every level of the fashion industry, from haute couture to supermarket clothing ranges, is to some extent reliant on designers taking inspiration from the work of others to reinterpret styles and re-visit old ideas in new colours, fabrics and configurations. It is this ability to imitate, borrow and reinvent that keeps the fashion industry so vibrant. The fashion cycle begins at the catwalk shows, from which ideas and inspiration filter through the industry until mass-produced, budget friendly alternatives hit the high street chains and market stalls. And with some high street retailers investing in the latest manufacturing and inventory technologies, this cycle is reducing so that they can introduce new ranges within weeks rather than months.

As with any industry, counterfeiting can be seen as a good sign for a business. It demonstrates that a copied work or brand has considerable value. But this is only if the designer/brand owner has the resources to challenge, litigate and stay one design step ahead of the criminals. For emerging designer businesses with limited resources, it can be more challenging to protect and enforce their IP rights and therefore they do not enjoy the 'positive' aspect of copying and counterfeiters.

Designers should also keep in mind the following points:

- Misuse (infringement) of the IP of others can be damaging and costly.
- IP rights are geographically territorial, so a designer needs to check that a right is available for use in all territories in which they intend to do business, including the need to consider the IP issues before embarking on overseas fashion shows or PR activity.
- Ownership of rights that have demonstrated a commercial return is useful in convincing investors, venture capitalists or banks to the commercial value of a company.
- Protecting IP also enables designers to safely access new markets through licensing, franchising, entering joint ventures or other contractual arrangements (including overseas manufacturing, marketing and distribution) with other companies.

This guide is based on the prevailing law in the UK in 2011, which is aimed at enlightening the trade and students on the issues relating to IP in the fashion industry. It is a framework to support the earlier consideration, protection and exploitation of IP within the design and commercialisation process. The guide sections are:

- Trade Marks
- Registered Design and Design Right
- Copyright
- Licensing

Alongside the Trademark, Design Rights, Copyright and Licensing Guides, two toolkits have been developed as resources for fashion entrepreneurs. These cover the following themes:

- How a small business can develop an IP Strategy.
- How a small business can approach Licensing Opportunities.

The purpose of this collection is to provide relevant and topical resources for business planning and tuition in order to improve the commercial return from IP developed within the industry, from smarter ways of operating and from individual talent.



# START

1

SELECT A BRAND NAME

CHECK - IS IT AVAILABLE?

YES

REGISTER IT AS A TRADE MARK™!

Your brand is now protected as a registered trademark

Choose another so your name's protected!

NO

NO

These agreements make you come across as professional and show that you know the value of your designs.

MYTH

Non Disclose Agreements make me look suspicious & create bad blood with manufacturers

Good! This will avoid any problems in the future about who designed your collection.

YES

DO YOU AGREE TO STATING COPYRIGHT OR COLL...

NO

Unless you have a...

4

YOU'RE DISCUSSING YOUR LATEST COLLECTION WITH MANUFACTURERS, LICENSEES OR POSSIBLE PARTNERS.

DID THE MANUFACTURERS SIGN A NON-DISCLOSURE AGREEMENT BEFORE YOU STARTED THE TASK?

YES

Good! You have accidentally design right protection or given away important information

You need to ensure you don't give secrets away!

NO

YOU MAY WANT TO REGISTER IT AS A DESIGN...

IS YOUR DESIGN NEW AND INDIVIDUAL?

YOU'VE GOT A SIGNATURE DESIGN YOU PLAN TO USE SEASON AFTER SEASON

7

YOU'VE SUCCESSFULLY REGISTERED YOUR PRINT OR DESIGN. THIS MEANS THAT YOU CAN ENFORCE THAT PARTICULAR PROTECTION YOURSELF AS LONG AS YOU HAVE AN AGREEMENT IN PLACE

If your work creates the same overall impression as someone else's work you may be infringing.

NO

YES

Well Done! Your design is original & will not infringe anyone else's Copyright or Design Rights.



2

YOU HAVE DESIGNED YOUR LATEST COLLECTION

ARE YOUR DRAWINGS ALL ARCHIVED, DATED + MARKED ○?

YES

Good! Your archive drawings are in order to be licensed in the future. Creates a record of your designs, and can deter people from copying.

Go back to archive, date and copyright your work!

NO

DO YOU HAVE VALID AGREEMENTS IN PLACE THAT YOU OWN THE RIGHTS IN THEIR / COLLABORATIVE WORK?

YOU'VE GOT OTHER DESIGNERS / EMPLOYEES / FREELANCERS WORKING WITH YOU ON THE DESIGN OF THE COLLECTION.

3

Without an agreement, they may own the work and have a right to claim it!

**NO**  
Always create designs using your own creativity. You could be infringing copyright if you use a "substantial amount" of the print. There are no rules that say that you are safe after a set number of changes.

**MYTH**  
I have made 3, or 5, or 7 changes to the print I've licensed. I can still use the variation can't I?

5

YOU'VE DESIGNED A GREAT TEXTILE PRINT & YOU WANT TO LICENSE IT FOR BAGS AND OTHER PRODUCTS.

HAVE YOU DECIDED HOW LONG YOUR LICENSEE CAN USE THE DESIGN, WHAT THEY CAN USE IT FOR, AND IN WHAT COUNTRIES?

You need a valid license in place to set out the rights you are giving in case there are any license issues.

HAVE YOU GOT A PROFESSIONALLY DRAFTED LICENSE IN PLACE FOR ALL PARTIES TO SIGN?

NO

IF YOU'VE ALREADY LICENSED YOUR DESIGN, YOU CANNOT USE IT AGAIN AS THE ORIGINAL IS NO LONGER VALID.

6

Good Work! You can now make extra profits from your design licensee without doing any more work!

YES

CONGRATULATIONS!

ONCE YOU'VE COMPLETED STEPS 1-7 YOUR BUSINESS SHOULD BE IN GOOD SHAPE TO PROTECT AND SUCCESSFULLY EXPLOIT YOUR INTELLECTUAL PROPERTY!

FINISH

### **WHAT IS LICENSING:**

Licensing occurs when a fashion designer retains ownership of their Intellectual Property Right (IPR) whilst allowing another party to utilise it on certain terms, usually for commercial gain for both parties. Licensing agreements are used in a broad variety of business deals, for example, merchandising deals, where a trade mark or design (e.g. Mickey Mouse or pop groups) is printed on consumer products, export and import deals, where a business partner is granted a licence to trade a particular brand in a particular country, and franchise arrangements for branded fashion retail concessions.

Licensed products may not necessarily bear any relation to the original company, for example the University of Oxford logo on mugs, t-shirts and calendars, but provide additional revenue to the licence holder and IPR owner.

In this way the licence extends the brand and generates additional income, over and above the brand owner's own capacity, geographical reach and/or production strengths.

A very common type of extension for fashion designers is to licence a trade mark for use on branded eyewear (e.g. Paul Smith, Gucci, Karen Millen) or perfume (e.g. Dolce & Gabbana under licence to Procter and Gamble). Both industries are a significant departure from fashion design and require specialist technical manufacturing stalls, and so are generally accessed through licensing arrangements.

### **Examples of types of IPR licences relevant to fashion:**

#### **Trade marks**

- A band such as Red Hot Chilli Peppers might licence the use of their trade mark RED HOT CHILLI PEPPERS on clothing such as T-shirts and sweatshirts.
- A designer such as PRADA might licence an eyewear manufacturer to use its trade mark on glasses and sunglasses, and associated accessories such as their cases.

#### **Copyright**

- A designer such as Orla Kiely or a company such as Liberty, might licence the copyright in their prints to a homeware retailer for use on furniture upholstery or cushions.
- An illustration of a cartoon character, such as Mickey Mouse, might be licensed to a manufacturer to print the illustration on t-shirts.

### **Designs**

- A designer might licence a company in Brazil to manufacture and distribute its handbag designs in South America, where the designer does not have a presence.
- A designer who has licensed another company to produce a diffusion line might also licence the company use of some of its 'signature' dress designs so that cheaper versions can be produced as part of the diffusion line.

### **DEFINITION:**

A licence is an agreement or contract in which the owner of the IPR (the "licensor"), gives permission to another party (the "licensee"), to make certain uses of the IPR on terms set out in the agreement or contract. Usually, the licensee will pay the licensor a licence fee and/or a royalty which is a percentage of sales of the licensed goods, in exchange for permission to use the IPR. The ownership of the IPR remains with the licensor, while the licensee is only given the right to use the IPR for certain types of commercial exploitation. The written agreement or contract should also state the terms on which the licence is granted including: the type of use permitted, any quality requirements that must be met, the territory which can be covered, the duration of the use and the method for calculating any royalties.

Some examples of the types of exploitation which are licensed include making copies of copyright material, manufacturing designs or applying a trade mark to new products or outlets.

### **TYPES OF LICENCE AGREEMENT:**

Licensing options are many and varied and your choice, as a designer, is dependent on the long-term strategy for your business.

Understanding how long you want an arrangement to last and how much freedom you want to exploit other opportunities will determine your choice of licence from the following options:

**Exclusive Licence:** Under this type of agreement, only the licensee can exploit the IPR; even the licensor is precluded from using it.

### Case Study 1:

#### Designer Eyewear

*Many designers have entered into exclusive agreements with eyewear manufacturers to produce branded designer frames bearing their trademark. If the manufacturer has broad distribution and suitable quality standards the designer will be able to negotiate a greater royalty fee if they enter into an exclusive licence. Since the designer is unlikely to gain by working with more than one manufacturer, this can be the optimal income generating strategy.*

**Non-exclusive Licence:** This type of license allows the licensee to exploit the IPR, but does not prevent the licensor from exploiting it itself or licensing the same IPR to other third parties. This type of arrangement usually commands a lower royalty rate or fixed fee than an exclusive or sole licence since each licensee may have to compete with other licence holders.

**Sole Licence:** This type of license allows both the licensee and the licensor to exploit the IPR, to the exclusion of all others.

#### WHEN TO CONSIDER LICENSING:

The extent to which a designer chooses to exploit licensing depends on the business plan for the company. The licensing strategy should meet the company's growth objectives without damaging the brand.

Given the challenges faced by new and emerging designers of securing loans, investment and venture capital funding, licensing deals can be a welcome source of working capital. However, licensing deals should never be entered into on a whim; they need to fit within a well-defined business strategy. This can be difficult when a designer is desperate to fund their next collection and a potential partner approaches him or her with a licensing deal. However, it is possible to be open to opportunities, if the relevant IPR issues and growth strategy have been properly considered.

Before entering into any licence arrangement, a designer should ensure that it has appropriate IP protection in the relevant territories to ensure it is in the best position to licence those rights to third parties (and also to protect against opportunists seeking to take advantage of its brand name, designs or copyright works).

For example, in the context of licensing a 'brand', a business must ensure that its trade mark registration strategy takes into consideration all relevant geographical territories and product/service classes that may be applicable to the business in the short, medium and long term. More detail on registering trade marks can be found in the trade mark paper in this series.

The licensing strategy that is adopted may depend on how much the designer is able or willing to invest in their company. If a designer does not have sufficient cash flow for certain running costs (for example manufacturing equipment or sales employees), licensing may be an option to get their products on to the market and to generate additional income.

Licensing can also help a designer to maximise his or her profile. An emerging designer may benefit from a licensing arrangement with a high street retailer, through positive brand association, greater recognition and a tacit quality endorsement. Often in such arrangements, stock volumes may be kept purposely low in order to increase demand and perceived value. For example, some of the earliest designer collaborations within H&M were notable for both their low volume and high demand and press coverage.

When considering a licensing opportunity, a designer needs think of all the things that could go wrong if the deal went ahead and how these risks might be mitigated. This means considering the long-term impacts of a short-term deal.

### Case Study 2:

The Dolce & Gabbana story – Licensing for Growth:

*Dolce & Gabbana has capitalised on a number of different licensing opportunities throughout its history. As well as designing, manufacturing and distributing products itself, it also has less expensive diffusion lines such as D&G produced under licence. It has also licensed the use of its core brand on eyewear, watches and perfumes. For example it opened a franchised store in Tokyo in 1989; began licensing production and distribution of a range of scarves in 1991; licensed a range of ties and perfume in 1992, footwear and men's underwear in 1993, and so on.*

*By 1999 Dolce & Gabbana had become a financially strong company, and accordingly began to change its licensing strategy. Rather than licensing as much as it had done previously, it aimed to increase its control over production by ending some licensing agreements, establishing production in-house, and even buying up franchised retail outlets.*

### Case Study 3:

Ralph Lauren – from salesman to designer

*Ralph Lauren was a clothing salesman in 1967 when he persuaded Beau Brummel, a clothing manufacturer, to produce some ties he had designed. He followed this by founding Polo Fashions, Inc with a \$50k investment and was able to design, manufacture and distribute lines of ties, shirts, suits and sportswear for men. However, rapid expansion and a strategy of controlling every stage from design to distribution meant that financially the company was in trouble. The solution was to refocus the business on design and licence out other stages, including getting a 5-8% return on the licensed manufacture of the Ralph Lauren womenswear range.*

#### ADVANTAGES OF LICENSING:

When considering whether to accept licensing opportunities, a designer needs to determine whether the opportunity fits with the objectives for the business. Licensing can have many advantages, including:

**Reducing risk:** Licensing the manufacture and sale of products based on the designer's IP provides revenue to the designer, without the risks associated with manufacturing, marketing and bringing those products to the market.

**Increasing revenue:** Whilst a designer is selling their own products, they can enter into licensing agreements with other commercial partners to sell the same products in other territories, or use the IPR on different products in order to raise additional income. Through such licences the designer will receive injections of working capital through fees and royalty payments.

**Increasing market profile:** Well-constructed licensing deals with higher profile partners can raise brand awareness of emerging designers. Licensing deals that provide increased high street presence, additional PR coverage and positive brand associations can aid the growth and profile of an emerging fashion business.

**Increasing market penetration:** A designer can provide a licence to a commercial partner to manufacture and distribute products in new geographical territories which the designer may not have the capacity, finance, or local knowledge to exploit.

Licensing can also open up new market segments that a designer may not be able to exploit. For example, luxury brands often grant licences for sunglasses and fragrances, making their brands accessible to a new, broader market, i.e. a customer who purchases Prada frames or Gucci perfume may never have been able to afford a designer outfit from either company but many aspire to and enjoy a small part of the brand through a more modest purchase of sunglasses or perfume.

A designer can also consider licensing their IP to a manufacturer who is capable of producing and distributing their designs to greater scale than they can achieve alone.

**Reducing costs:** Licensing can be a cautious way for a designer to expand its business at a lower cost and with less hassle than investing in the necessary infrastructure, overheads and knowledge to expand itself. For example, by licensing out manufacture and distribution.

An initial licensing agreement can enable the designer to test the market, without investing in new tooling, equipment or building relationships with new retailers.

#### Case Study 4:

Tommy Hilfiger Womenswear

*Tommy Hilfiger had already established itself as a menswear brand when in 1996 the company decided to expand into womenswear. After initial design and planning, the company determined that launching its own line would be prohibitively expensive and eventually licensed it to Pepe Jeans International, who already produced a Hilfiger jeans range.*

#### Accessing expertise:

This is particularly key if a designer wants to use their IP in new product categories or territories. The designer can seek out a licensee with all the required knowledge, experience and expertise to access these new markets and product lines.

#### Case Study 5:

White Knight Licensing Deals

*'White Knights' are 'friendly' investors, whose intention is to assist the business they are investing in typically by stopping an unfriendly investor from acquiring it. White Knights may also take licences from designers. They can make good licensees since they will already have good industry connections and an infrastructure to provide the designer with capabilities in sourcing, buying, manufacturing, quality control, sales and distribution. They can also advise on pricing and quality expected by their network of international retailers, and may also arrange shipping, insurance, import and export regulatory compliance, as well as taking on the burden of set up costs associated with textile and print designs.*

*One of the key benefits is that the licensee is taking on the administrative burden of running the business, leaving the designer free to focus on creative output. Additionally such arrangements can be attractive to potential retail buyers who may have concerns about the ability of small designers to meet order requirements; a White Knight's expertise and financial weight may allay such concerns.*

*The cost of these advantages is that the designer typically only receives 10% of gross turnover. Under such a deal the licensee is unlikely to make capital investments in the small designer, nor will the designer be able to develop its own knowledge of the market, customers, retailers and processes through direct experience, as the licensee will manage these relationships.*

*As sales and profit increase, so might the capacity for the designer to manage more in-house and at this stage the licensing arrangement should be reviewed. For this reason, careful attention must be paid to the duration and termination clauses of a licensing agreement.*

**Collaboration:**

Businesses may want to work together to expand to new product areas, or appeal to new customers. In the fashion industry an example would be a designer working with retailers or accessory companies.

**Case Study 6:**

Donna Karan Hosiery

*In 1987 Donna Karan had already established a high-end womenswear brand, when she determined that the hosiery market was not meeting the needs of consumers willing to pay more for better quality. Lacking experience in this sector, she designed a range in partnership with Hanes, who produced them under licence - thereby confounding critics who thought that the market was too competitive for a new entrant.*

**DISADVANTAGES OF LICENSES:**

There are also reasons to be wary of licensing, which may include:

**Loss of maximum revenue:**

If a designer's business is capable of fully commercialising its own IPR, it will normally make greater returns if it achieves this on its own. As a licensor, a designer will typically receive only a percentage, for example, 10% of gross profits from licensed sales; however, if the designer has the financial stability to produce and distribute its own designs, it will receive the full profits of the venture.

**Over extending:**

Some licences may reduce the value of the IPR, for example, by extending the brand too far or reducing the exclusivity of the product.

**Case Study 7:**

Pierre Cardin

*Designer Pierre Cardin has licensed intellectual property rights in his business to hundreds of licensees over the years, some of whose products are quite removed from the fashion industry such as bicycles, strollers, restaurants and even toilets. Financially this has proved successful, but some fashion commentators also feel that it has diluted and damaged Pierre Cardin's core brand image.*

**LICENSING DIFFERENT TYPES OF INTELLECTUAL PROPERTY RIGHTS:**

It is possible to enter into a licensing agreement in relation to a number of IPR assets, such as:

- Trade marks
- Copyrights
- Registered or unregistered design rights

**Trade Mark:**

Registered or unregistered trade marks are very commonly licensed. For a fashion design business this is likely to be the designer's name, label name, brand name or the name of a particular product range. For more established fashion brands, it may also be a design or image that has become synonymous with the brand and registered as a trade mark, such as the Paul Smith striped pony.

The licensing options for trade marks include:

- Allowing a licensee to use the trade mark on a range of products that they design and produce (for example, Pierre Cardin's policy on licencing, discussed above).
- Allowing a licensee to use the trade mark on a range of products that are designed and produced by the licensee (such as Italian sunglasses manufacturer Luxottica, which has by the licensor/designer produced sunglasses for designers such as Chanel and Ray-Ban under licence).
- Allowing a licensee to use the trade mark alongside their own brand on a range of products designed in collaboration with the designer (for example, womenswear designer Peter Pilotto's collaboration with Kipling Bags).
- Allowing a licensee to use the trade mark in a new geographic territory or to meet a new target group, either with or without design collaboration.
- Working with a licensee to develop a new trade mark to feature on a diffusion range of products, such as H! by Henry Holland and Debenhams or D&G by Dolce & Gabbana.



**Copyright:**

This is especially relevant to designers who may produce print or textile designs, since these are likely to be of interest or potential commercial value in a range of product areas beyond your own. For example a print design could be licensed for use on soft furnishings, luggage or stationery. Options include:

- Allowing a licensee to reproduce and market the copyright design on a range of their products (for instance, Takashi Muramaki's designs used on Louis Vuitton handbags).
- Allowing a licensee to reproduce the copyright design on a range of their products designed in collaboration, such as Tracey Emin's design of a range of luggage also carrying reproductions of her artwork in collaboration with Longchamp.

**Registered Designs or Unregistered Design Rights:**

Registered and unregistered designs protect three-dimensional products or parts of products. Options for licensing designs include:

- Allowing a licensee to reproduce the design in a new geographic territory.
- Allowing a licensee to reproduce the design in a way that they appeal to a new target market, perhaps through use of lower priced materials or production methods.

It is possible for a licence arrangement to include the right to use more than one type of IPR, for example by exploiting the goodwill associated with the trade mark or brand, together with signature design features or original prints which are associated with the designer.

**ASSESSING LICENSING PARTNERS:**

Potential licensing partners for fashion designers include:

- apparel retailers (fast fashion, department stores and designer retailers);
- garment manufacturers;
- accessory companies (luggage, footwear, watches, jewellery etc.);
- home interiors companies (soft furnishings, wall coverings, fabrics, DIY, etc.);
- automobile manufacturers;
- consumer goods producers;
- perfume houses;
- exporters; and
- clothing distributors.

Where the brand of the licensee will be publicly known (so that there is a direct association between licensor and licensee in the public domain), the licensor should ensure that the licensee is a suitable match. The reputation and image of the licensor and licensee should be complementary and they should share the same core values.

It is possible to compromise in some areas, for example a well-planned high street retailer deal can create excellent short term exposure for an emerging haute couture brand, but the long-term impact needs to be considered. A brand based on ethical values appearing in a retailer known for sourcing from sweatshops will damage the designer's reputation.

Additionally the licensor should conduct careful investigations into the financial condition of its prospective licensee. As well as a fit between the brands, the designer should do background checks to ensure the licensing partner is in a sound financial state; has the resources and expertise it claims to have; is capable of meeting the expected quality requirements; and is of good repute and has not engaged in any activities which might reflect unfavourably on the designer.

In recent years established designers have increasingly recognised the value high street licensing deals can bring to their brand; building brand awareness, increasing profits and expanding their customer base. Fast fashion high street retailers have proved a very successful and lucrative partner for emerging and established designers alike. While the quality of materials and finish will not reach the designer's usual standard, the price points clearly distinguish the catwalk and the high street ranges to the consumer. Consequently, lower cost diffusion ranges or collaborations can provide additional income and exposure without detriment to their designer's high end core customers.

The degree of control a designer chooses to have over these arrangements is a matter for negotiation and will be based on issues such as trust and capacity. In some cases, the licensee might be allowed to design and manufacture the ranges, with the designer only being involved to ensure quality control. In other cases, the designer might play an integral part of the design process.

**LICENCE DURATION:**

A licensing deal can be agreed for any length of time and this duration will have a bearing on the value of the contract. The length of any licence agreement should accord with the designer's business strategy and be appropriate to the right that is being licensed e.g. trademarks. A long-term arrangement can secure guaranteed income, but it might not be appropriate to the business' changing needs over time.

A short-term arrangement will give the parties an opportunity to test the relationship, but might not provide sufficient time to render benefits to the designer's profile. Each case is different and a designer should seek legal advice in relation to the agreement. The designer should ensure that it has the right to terminate the contract on notice and in specific circumstances (for example, if the licensee becomes insolvent, or is contractually required to make minimum sales which it does not meet). The licence may also include the option to renew the agreement or renegotiate a new agreement, so that the designer can extend the licence if the collaboration is a success.

#### **INTERNATIONAL LICENSING:**

The licence agreement should state in which country or territories the licensee can exploit the IPR. For example, the licensee may need to decide whether to grant a licence in respect of the UK, Europe-wide or worldwide.

As part of an international growth strategy, licensing deals can support geographical expansion. A designer without the capacity, knowledge or language skills to exploit overseas markets may choose to enter into a licence with a local manufacturer to produce, market and distribute their existing ranges. The agreement can provide the designer with access to a new range of consumers, some of whom may already be aware of the designer's brand due to the international nature of the fashion media.

IPRs offer territorial protection and therefore, the designer should ensure it has the relevant IPR in the territories of interest. If a designer is considering using licensing to expand its brand into new territories, protecting the trade mark in those territories should be done in advance. It is not uncommon for speculators to pre-emptively register somebody else's trade marks, especially if the brand is becoming known and desirable in the territory. While such brand theft can be challenged in the relevant court or trade mark registry, this can be a very expensive process.

#### **Case Study 8:**

Nike's trade mark in Spain

*Nike had been trading globally for a number of years before they decided to register their trade mark widely. Whilst looking at registering across the EU they discovered that their former distributor in Spain had registered the trade mark a number of years previously. Not wanting to work with the former distributor, Nike were restricted to using the swoosh logo alone on their Spanish products until, after many years, the Supreme Court of Spain granted them the trade mark rights in their Nike mark.*

#### **Revenues from Licensing:**

There are different payment options for licensing deals; the choice will invariably depend on the stage of growth of the licensor, their immediate financial requirements and an estimation of the volumes of licensed stock likely to be sold. Another factor which will influence the payment under the licence is the parties' relative bargaining positions. This is likely to be based on the relative size of the two businesses and the brand awareness, reputation and 'buzz' surrounding the designer. Often, emerging designers have a weaker bargaining position and they should try to avoid accepting unfavourable terms, such as an extremely long duration without the ability to terminate or re-negotiate the payment received under the agreement.

The parties should discuss payment early on to ensure they have sufficiently similar expectations to proceed with the negotiations.

There are a number of remuneration models available. These include fixed fees, royalties or a combination of both.

#### **Fixed Fee:**

A designer may agree to design a fixed number of products per season for a lump sum, which may be paid in advance or by instalments. For emerging designers fixed fee deals are often preferable to a royalty arrangement, because:

- they provide a lump sum injection of cash to fund the core business; and
- sales volumes are uncertain, particularly with a little known name and production volumes are likely to be low, making the potential royalty return rate low.

A fixed fee without royalties is unusual for fashion licences which relate to products.

#### **Case Study 9:**

Fast Fashion Retailer

*An increasingly common opportunity for emerging designers is to design a small, capsule clothing range for a fast fashion, high street retailer. Often comprising only 8 – 10 items, produced in very low quantities and listed only in flagship stores, the royalty return would be very low if a typical 70% sell through is achieved. In such cases a fixed design fee is likely to provide greater returns to the designer.*



### **ROYALTIES:**

Royalty rates are based on a percentage of sales of the licensed goods. Within the fashion industry royalties of between 5% - 15% are known, although the higher rate is very rare.

A designer can also negotiate a minimum royalty fee, a set figure, which is based on a royalty rate. This might work as follows. For each year of the licence term, the licensee must pay a total royalty of at least (say) £10,000 - whether or not the actual royalties accrued meet this figure. If the actual royalties accrued are greater than this minimum figure, then the designer will receive the royalty over and above the minimum figure as well. The percentage retained by the licensee might increase in increments if it reaches certain targets, as an incentive to maximise sales.

### **LICENSED PRODUCT QUALITY CONTROL:**

Quality control is a critical component of any licensing deal for a designer. This is because the output of the licensee will directly reflect on the reputation and goodwill of the designer and his or her brand.

One of the purposes of a trade mark is to guarantee a certain level of quality to the consumer. This is particularly important in the UK as a licensor who does not include quality control provisions in the agreement and does not monitor the quality can risk losing a UK trade mark registration.

Failure to monitor the quality of any licensed products could irrecoverably damage the brand and goodwill, and alienate customers. For lower quality products produced as part of a diffusion range, the designer may consider a separate name to indicate there is a difference in quality. For example a couture designer with a range in a high street retail chain, will expect some of the materials and finishing to be of lower quality in order to satisfy a fast fashion price point and a new consumer group. Care should still be taken that this will not damage the core brand.

Some of the common quality control options available to a designer to include within a licensing deal are:

**Sampling:** The licensee is required to provide physical samples (prototypes), images and manufactured samples which must be approved by the designer prior to going to market.

**Right to reject:** The designer has a right to reject a sample usually set between 7 to 21 days. Failure to respond within the contracted time could be deemed an acceptance of the sample.

**Approval:** The designer should sign off all aspects of the licensed product, for example, the fit, patterns and toiles of the garments, labelling, packaging, in-store position and advertisements.

**Inspection:** The designer may be given a right to inspect the licensee's premises, on reasonable notice, to ensure that the processes being used are acceptable.

### **NON-DISCLOSURE AGREEMENTS / CONFIDENTIALITY AGREEMENTS:**

Signing the licensing contract will be the final step in a long negotiation process during which both parties are likely to discuss plans and ideas that they would prefer to keep confidential from the marketplace. Whilst the UK has common law protection for confidential information, a non-disclosure agreement provides greater certainty and is easier to enforce.

A non-disclosure agreement imposes an obligation on the parties not to disclose confidential information disclosed to them as a result of their discussions; for example, trade secrets, know-how, details about the relevant IP, the parties' respective financial or business affairs and marketing plans.

Asking a potential licensee to sign a non-disclosure agreement does not signify distrust but, rather, a business-like approach. It signifies to potential business partners that you:

- take your IP seriously, and that you protect it, which is a positive sign for anyone considering licensing it;
- take a responsible business approach to negotiations; and
- expect to proceed in a responsible manner.

Before a designer considers pitching a new idea or negotiating with a distributor in a new territory, it is best to first enter into a confidentiality/non-disclosure agreement.

## LICENSING USEFUL RESOURCES:

### UK IPO ([www.ipo.org.uk](http://www.ipo.org.uk))

Free downloads

- IP Healthcheck Series: Non-Disclosure Agreements (WS0019), November 2010
- IP Healthcheck Series: Agreeing a Price for Intellectual Property Rights (DPS/C450/04-11), April 2011
- Search and Advisory Service
- MyIP: Intellectual Property Explained (WS0011DPS\MWL\11-10), November 2010
- IPO Crime Group, Supply Chain Toolkit (WS0020DPS/E100/06-10), June 2010
- IP Healthcheck Series: Licensing Intellectual Property (DPS/C450/06-11), June 2011
- IP Healthcheck Series: Choosing the Right IP Advisor (DPS/C450/08-11), August 2011

### Own-it Fact Sheets

(<http://www.own-it.org>)

Free downloads

- The Intellectual Property Guide to ... Fashion, Gallant MacMillan, 2009
- Factsheet: Confidentiality, Briffa, 2004

### Own-it Contract Templates

(<http://www.own-it.org>)

May be subject to a download fee

- Assignment of a Licence or Licence Agreement, CT266A
- Non Disclosure Confidentiality Agreement, CT239A
- Acknowledgement of Joint Ownership of Intellectual Property, CT240A (inc. patents, copyright, designs and trademarks)
- Prospective Investor Confidentiality Agreement, CT243A
- Joint Development and Commercialisation Agreement, CT245
- Intellectual Property Due Diligence Questionnaire, CT267
- Memorandum of Understanding in Relation to Negotiation of a Formal Joint Venture and Licensing Agreement, CT160
- Merchandising Licence, CT122
- Merchandising Agreement, CT135

### Own-it Podcasts

(<http://www.own-it.org>)

Free download

East meets west:

Fashion manufacture in China

- [www.own-it.org/uploads/files/93/original/east\\_meets\\_west\\_part\\_1.mp3](http://www.own-it.org/uploads/files/93/original/east_meets_west_part_1.mp3)
- [www.own-it.org/uploads/files/92/original/east\\_meets\\_west\\_part\\_2.mp3](http://www.own-it.org/uploads/files/92/original/east_meets_west_part_2.mp3)

## OTHER USEFUL RESOURCES

CFE IP Toolkits

- How a small business can develop an IP Strategy.
- How a small business can approach Licensing Opportunities.

CFE IP Guides

- Trade Marks
- Design Rights
- Copyright

The Centre for Fashion Enterprise (CFE) is London's pioneering business incubator that supports and nurtures emerging fashion design talent.