

Sample

NYU Stern and NYU School of Law

Fashion Law and Business

Instructors:

Barbara Kolsun

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Professor, International Trade and Marketing
Fashion Institute of Technology

Overview

Fashion law is the emerging business law specialty that provides legal counsel to fashion executives and entrepreneurs as they make strategic decisions and confront problems in design, manufacturing, distribution and retail.

Fashion is not only a global \$1 trillion industry (as narrowly defined in terms of apparel, footwear, jewelry and cosmetics), but it has also become a driving force in the greater business world as the concept of fashion branding has spread to enhance such other product areas as eyewear, home products, hotels, automobiles, and electronics.

This course will teach students to develop effective synergies between strategic and legal perspectives in the growth of a fashion company. Students will practice analyzing business issues from a legal perspective -- and legal issues from a business perspective -- throughout the life cycle of a fashion company. The course will address the key challenges faced by companies as they move from entrepreneurship through domestic growth, brand extension through licensing, and international expansion via sourcing and distribution.

Although it has much in common with other consumer goods industries, the fashion complex faces a set of unique issues. No other industry has to design, generate and manufacture such a multiplicity of concepts every season and deliver them so rapidly and efficiently to global markets. Fashion's ability to create iconic brand status while profitably mastering a complex supply chain involves a range of capabilities that other business sectors are eager to imitate.

Approach

This course uses a combination of business and legal materials. Via practical exercises, case studies and simulations, students will learn to devise effective strategies for

intellectual property protection (including design protection and counterfeits), commercial operations and expansion of a brand (including fashion and apparel licensing), commercial agreements (including distribution agreements), contractual compliance with human rights standards, retail leasing and “shop in shop” strategies, and professional responsibility and practice pitfalls.

The instructors, an experienced in-house fashion lawyer (who has worked for Calvin Klein, Kate Spade, and Stuart Weitzman, among others) and a professor of international business (at the Fashion Institute of Technology), will emphasize the practical interplay and tension between commercial imperatives, regulatory compliance and legal risks.

This course aims to provide an arena for stimulating educational interaction between business and law students. Students will analyze fashion law cases not only from the legal perspective, but also as a window on actual fashion business practices. Likewise, students will read business school case studies not only from the perspective of strategic management, but also from the viewpoint of in-house counsel and legally-astute executives.

Learning Objectives and Competencies Acquired

Upon successful completion of the course students will be able to:

1. Devise and implement an effective brand and design protection strategy for a fashion company.
2. Enumerate the procedures and describe the costs and time required to obtain trademark, copyright and patent protection both domestically and internationally.
3. Identify profitable brand-extension licensing strategies and conduct a licensing negotiation from conception through final contract.
4. Develop a dispute-resolution or litigation strategy for dealing with typical I.P. and business conflicts in fashion.
5. Anticipate and avoid via a well-drafted contract the most common conflicts in commercial operations with major fashion buyers and suppliers.
6. Develop an international sourcing policy which complies with sustainability and transparency guidelines and minimizes the risk of human rights abuses.
7. Develop a comprehensive employment and outsourcing policy which protects I.P. and trade secrets while avoiding risks of litigation for discrimination or noncompliance with federal and state employment statutes.
8. Devise a fashion retail distribution strategy to select the optimal distribution mode in various markets from among the options of licensing, franchising, joint venture and directly-operated stores and which avoids the most common conflicts arising from commercial leases.

Text and Materials:

Textbook: The required case book for this course is *Fashion Law – A Guide for Designers, Fashion Executives and Attorneys*, edited by Guillermo Jimenez and Barbara Kolsun (Fairchild 2010, 1st Edition).

Business Cases (available through Harvard Business School Publishing via PDF download):

Warby Parker: Vision of a “Good” Fashion Brand
Radiant Cosmetics: What’s in a Pout?
Kate Spade
Geox: Breathing Innovation into Footwear
Calvin Klein v Warnaco: A Licensing Dispute
Moda Operandi: A New Style of Fashion Brand
Li and Fung: 2012
Zara: Managing Stores for Fast Fashion
(additional articles/interviews will be provided online)

In addition, students will be provided edited and/or complete versions of legal decisions, pleadings, regulations, and sample contracts (available on Blackboard – “BB”).

The instructors will also use and distribute in class selections from actual contracts, policies and practices, litigation and other relevant materials.

It is important to read all items posted on BB each week.

Grading:

Written assignments: 40%

There will be 4 written assignments: 3 short papers (length, details and due dates for each memo provided in the syllabus), and a team negotiation-simulation which requires the drafting of a fashion licensing agreement.

Class participation: 20%

Students will be called upon to discuss cases in class and in-class exercises will require students, either individually or in teams, to demonstrate completion and mastery of reading materials.

Final exam: 40%

The final exam, taken online, will consist of two parts: 1) a series of multiple choice questions and short answers; and an essay exam requiring analysis of a business case (the exam will have a two-hour limit). A review sheet consisting of a list of topics to be addressed will be provided two sessions prior to the final exam.

Note: “Icebreaker Assignment” -- This is a mandatory but ungraded written assignment required for the first class session: online on Blackboard, provide a 1-2 profile of yourself which indicates any background you may have in fashion and the reason for your interest in fashion, along with other personal background information as indicated.

Recommended additional materials:

During the semester, students should view read fashion periodicals, such as Vogue and/or Women's Wear Daily, and seek to view at least two of the following four films, widely available for rental, "Valentino – The Last Emperor", "The September Issue", "Bill Cunningham New York", and "Schmata."

Office hours/consultations:

While the instructors will not maintain regular office hours, they will seek to respond promptly to reasonable student requests for course guidance. They may be contacted as indicated below:

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Course Schedule and Session Topics

The instructors will give considerable weight to the expressed interests of students, as well as to important legal and fashion business developments which occur throughout the semester, and will expand or vary the course topics as appropriate. The following reflects the instructors' goals for the course, subject to change upon notice to the class.

Class 1: The Fashion Landscape and the Scope of Fashion Law

Topics: Introduction to fashion law and the fashion business; differences between fashion and other consumer goods sectors; scope of Fashion Law and differences between Fashion Law in practice and other business law specialties; the role of business attorneys and in-house counsel in advising fashion designers and executives; the business, finance and legal issues facing a fashion start-up or young designer.

Reading

Business cases: Kenneth Cole (interview); Manolo Blahnik (interview); Kate Spade (case); Warby Parker (case) [note - read these first business cases for background on the fashion industry and on start-up practices, not yet for financial or strategic analysis]

Legal cases and materials: Walmart v Samara Bros.; Knitwaves v. Lollytogs.

Discussion questions (be prepared to answer these in class):

On business cases/articles: Manolo Blahnik and Kenneth Cole introduce us to something that might be called "fashion sensibility" and Kate Spade and Warby Parker go into detail about how to build a hit fashion brand from the ground up. Is there a commonality to all of these kinds of companies? What is it? Would you be comfortable working for companies like these – why or why not? What kind of competencies and skills seem to be required for success in fashion?

Warby Parker is an example of a recent Internet start-up -- how do these companies differ from what might be called "traditional" fashion companies? What are the top 5 legal decisions that Warby Parker had to make in the first 3 years of its existence? How would you prioritize these decisions?

On legal cases and "knocking off": What do these cases teach us about how business is actually conducted in the fashion industry? What do we learn from them about how to protect ideas and brands? Do you agree with the Supreme Court's decision in Walmart v Samara?

Written Assignment 1 – Fashion Entrepreneurship (due online by noon on the day preceding Class 2): Propose a fashion concept inspired by the creative entrepreneurship of Kate Spade and Warby Parker. For example, think about how you use fashion products and what you need that the market does not yet provide. Spot a potential business gap in the fashion marketplace and create a business concept for it. Then, come

up with two possible trademarks for your new business (2 -3 pages) and indicate any other design or intellectual property concepts that you might need to protect.

Class 2: Brand Protection in Fashion – Trademark and Trade Dress

Topics: Brand protection in fashion apparel, accessories, beauty and textiles; trademarks, trade dress (brief comparison to protections and scope of copyright, design patent, utilities patents and trade secrets, which will be covered in detail in subsequent sessions.

Reading:

Textbook: Chapter 1 – Introduction to Fashion Law; and Chapter 2 – Intellectual Property in Fashion

Legal cases and materials: Christian Louboutin v. Yves Saint Laurent America (Case and Amicus Briefs of Law Professors, Tiffany and Co., and INTA); Gucci America v Guess; Adidas v. Payless.

Discussion questions: How important is the red sole to Louboutin’s business? Was the lawsuit against YSL well-advised? Did the Court of Appeals decide correctly? What have you learned about using color accents as a trademark?

Critique the business and legal decisions made by Gucci and Guess: what did each of them do wrong, and what should they have done?

Do you think any customers ever confused Adidas with the Payless knockoff? Why did Adidas win such a large judgment?

Written assignment 2: You will be assigned to act as a potential attorney for one of the student “brands” submitted in assignment 1. Provide an opinion memo that indicates the availability and strength of the suggested mark, and suggest strategies for obtaining domestic and international protection, with an indication of advisability and cost. Advise the brand owner on any other important legal decisions that should be made in the first year or two of business. Take the position of a lawyer or law firm who is seeking the entrepreneur as a client.

Class 3: IP Screening: Name, Style and Design Searches

Topics: Trademark searches in general and the necessity of searching style names for individual fashion items.

Reading

Business case and article: Radiant Cosmetics: What’s in a Pout? ; U.S. and EU Trademark Protection (HBS Note).

Legal Cases and materials: Glen A. Gunderson, *Trademark Searching* (INTA, 2000) (Chapters 1 and 2 on Blackboard); Example of Full Trademark Search for “MAGGIE JONES”; Zazu Designs v L’Oreal; International Star Class Racing Ass’n v. Tommy Hilfiger.

Discussion:

On business case: Should Radiant Cosmetics obtain design patent, trademark and/or utility patent protection in Europe? Why?

On legal cases: What do the Zazu and L'Oreal cases teach us about the right and wrong ways to conduct a trademark search?

On homework: What were the best business ideas that your fellow students came up with? Were there any suggested brand names that you thought were inadvisable – why? Were there any suggested names that could not be registered in certain countries or areas? What would be the best international brand-protection strategy for a company with a limited budget?

Homework assignment: You will be assigned to one side of the congressional debate on legislative proposals for a US Design Piracy Act. Prepare notes so as to debate the issue at the next class session: what are the strongest reasons in favor/or against, the IDPPA? What is your analysis of the arguments made by Raustiala and Sprigman in the Piracy Paradox? If knockoffs are good for fashion, why is Europe still a fashion leader despite strong fashion design protection?

Class 4: Protecting Designs: Copyright, Design Patent and Utility Patent

Topics: Design protection in fashion apparel, accessories and textiles; the scope, procedures and extent of coverage provided by copyright and design patent, and the differences between these two options; utility patent protection for technical innovations and processes – availability and procedures for obtaining patents and trade secrets; recent attempts to expand U.S. copyright protection of fashion; protection of fashion designs in the EU.

Reading:

Business case: Geox: Breathing Innovation into Shoes.

Business case for/against Design Protection: View the Johanna Blakley TED talk on design protection; The Piracy Paradox; Excerpt from the Knockoff Economy.

Legal materials: Innovative Design Protection and Piracy Prevention Act H.R. 2511; Rogers v. Koons; Yves Saint Laurent v. Louis Dreyfus; S. Victor Whitmill v. Warner Bros. Entertainment; U.S. Copyright Office Decision, “Alex.”

Discussion: Debate the pros and cons of the IDPPA – what are the strongest arguments in favor and against. Then make up your own mind: what is your position on the IDPPA? Is your position based primarily on economics, law or ethics? How do you compare the US and EU views?

Is Geox really built on patents – or on the marketing of technology? How will Geox be affected when its patents expire and go into the public domain (do they have anything to learn from Gore-tex in this regard)?

Negotiation assignment, part 1 (more detailed instructions handed out in class): You will be assigned to a 4-person team to represent either licensor or licensee in a licensing

negotiation simulation. The goal over a 3-week period is to negotiate and draft a license contract. In the first part, your team will devise a proposed term-sheet (you will present it to the other side at the next class session). At the next class you will be given 30 minutes of class-time to assemble your team, agree on your negotiating strategy, and start the negotiation.

Class 5: Brand Extension through Fashion and Apparel Licensing

Topics: Business case for fashion and apparel licensing; key terms in license agreements; negotiation of licenses; managing and terminating licenses; licensing litigation.

Reading:

Textbook: Chapter 3 – Fashion Licensing.

Business cases / materials: Calvin Klein v Warnaco. The Scope of Fashion Licensing (set of news articles on licensing in fashion).

Legal cases and materials: Calvin Klein v. Linda Wachner, Warnaco Group; Jones Apparel Group v. Polo Ralph Lauren Corp.; The Levy Group, Inc. v. L.C. Licensing Inc. and Liz Claiborne, Inc. (Complaint and Decision/ Order).

Discussion: Did Calvin Klein make a winning case against Warnaco – was his brand tarnished by distribution in Costco? How can you anticipate the development of future channels of distribution in a licensing arrangement?

Negotiation assignment 3, part 2: You will be given 30 minutes of class time to meet with your team and agree on your negotiation goals. You may begin negotiation of the key terms in your proposed licensing arrangement.

Class 6: Negotiating the Licensing Agreement

Topics: Key parameters of a licensing agreement; drafting tips and potential pitfalls;

Reading:

Business case: Bernd Beetz: Creating the new Coty (excerpt focusing on J.Lo fragrance licensing).

Legal materials: Tips on negotiating a license agreement (Sesame Street). Paula Deen debacle (set of articles).

Discussion: How was Coty able to negotiate a contract with J.Lo so rapidly? What do we learn from their approach? What should you include to protect you from a sudden decline in a celebrity's image (Kate Moss and Paula Deen examples)? What can you do in your contract to allow escape from a "Paula Deen" situation?

What's the best way to calculate royalties – on gross sales, net sales or profits – and why? How do you anticipate how long a license term should be?

Negotiation assignment, part 3 (written contract is considered Written Assignment 3): Your team will finalize negotiations and agree on a final contract; you may delegate final contract-drafting to a member of the team, and the team must submit a final contract to be grade.

Class 7: Counterfeiting, Gray Market and I.P. Enforcement

Topics: Impact of counterfeiting on fashion designers and luxury retailing and the various civil and criminal methods of policing counterfeit goods, including contributory and vicarious liability and domain name piracy.

Reading:

Textbook: Chapter 4 - Counterfeiting

Business case: Can Knockoffs Knock out Your Business?

Legal materials: Tiffany v. eBay; United States v. Lam; Gucci America, Inc. v. Frontline Processing; Zino Davidoff v. CVS Corp; § 231 of New York Real Property Law 15 U.S.C. § 1116 ; N.Y. Penal Law § 163; William Hennessey, Sixth Annual Baker Botts Lecture, “Protection of Intellectual Property In China (30 years and more): A Personal Reflection”.

Discussion: What would you do if you were Bill Bronson in the above case (Can Knockoffs Knock out Your Business?)

Homework assignment: Come up with a concept or concepts that you will pitch to the CEO of a luxury handbag company on strategies for creating a consumer campaign to discourage college students from buying counterfeit handbags on Canal Street in New York.

Class 8: Litigation of I.P. Disputes in Fashion and Retailing

Topics: Discussion of key cases in the fashion world; discussion of practical ways to resolve and avoid disputes with customers, designers, employees, regulatory agencies and vendors; litigation costs and strategies.

Readings:

Textbook: IP Litigation in Fashion by David Bernstein (manuscript for upcoming book)

Legal materials: Macy’s v. Martha Stewart and J.C. Penney; Victoria’s Secret v. Victor’s Little Secret; Louis Vuitton v. Haute Diggity Dog; J.A. Apparel v. Joseph Abboud; Bill Diodato v. Kate Spade; Polo Ralph Lauren v. Schuman.

Discussion: Could the Macy’s case have been avoided by better contract drafting? Were the Victoria’ Secret and Louis Vuitton lawsuits bad ideas? Why or why not?

Student teams will be given a fictional case study (1 page) in which a fashion company is faced with a legal problem – you will have 20 minutes to devise a dispute-resolution strategy.

Class 9: Buying and Selling in the Fashion Business

Topics: Working with factors, suppliers, vendors, wholesale and retail customers and sales agents; discussion of purchase orders, and the Uniform Commercial Code; website development and operations, including terms of use, privacy policies and retail sales agreements; California Transparency in Supply Chains Act of 2012; California Prop 65.

Reading:

Textbook: Chapter 6 – Commercial Agreements in Fashion

Legal materials: Atateks v. Private Label Sourcing; Sample Vendors Compliance Manual (Lord and Taylor); Sample Purchase Order; Independent sales representative agreement; Terms and Conditions of Sale.

Class exercise: Student teams will be given short case problems involving application of the U.S. Uniform Commercial Code to wholesale fashion supply contracts – you will be asked to determine which party is right according to the UCC.

Discussion: Why did Target buy goods through Private Label Sourcing? What is the best contract-drafting strategy to follow if you want to avoid chargeback disputes?

Class 10: Employment Issues in Fashion and Retailing; Design Consulting Agreements

Topics: Federal and state employer obligations with an impact on fashion design and retail; discrimination, wage-and-hour (exempt v. non-exempt) and immigration laws; employee/independent contractor distinctions; offer letters and employment agreements; use of unpaid legal interns; non-competition clauses; ownership of intellectual property created by in-house designers and freelancers; hiring employees who have the “look” of the brand; dress codes; transgender employees.

Readings:

Textbook: Chapter 7 – Employment Law in Fashion

Business articles: John Galliano (press clippings).

Legal materials: Wal-Mart v. Dukes; Otsuka v. Polo Ralph Lauren; Estee Lauder Co. v. Batra.; Lataillade v. Marc Jacobs (Verified Amended Complaint); EEOC v. Abercrombie & Fitch; Kimbra Lo v. American Apparel; Vandiver Elizabeth Glenn v. Sewell Brumby.

Discussion: Student team will prepare (and then present) an outline of a Company Policy for a luxury brand regarding the hiring of “brand appropriate” personnel, including dress, tattoos, grooming policies, and religious headwear.

Written assignment 4: After reading next week's materials on the Bangladesh factory collapse, prepare an op-ed piece (2-3 pages) for the NY Times entitled: "How to end Human Rights Abuses in Fashion Production."

Class 11: International Business and Ethical Sourcing Issues in Fashion

Discussion: Expansion of fashion business internationally; international distribution, intellectual property filings, buying and sales agents; global sourcing and corporate responsibility, including human rights compliance; customs issues.

Reading:

Business Articles / Cases: Clothed in Misery (NY Times Op Ed Series); Monitoring Factories around the Globe: The Fair Labor Association and the Worker's Rights Consortium; Li and Fung 2012.

Textbook: Chapter 10 – International Development of the Fashion Company; Chapter 11 – Import and Customs Issues in Fashion.

Legal materials: U.S. v. Golden Ship Trading; Supplier Code of Conduct (on Blackboard); The California Transparency in Supply Chains Act of 2010; California Prop 65; Proposed Memorandum of Understanding between PVH and WRC for Bangladesh fire safety.

Discussion: What was your proposal to keep Bangladesh-type catastrophes from happening in the future? How will you spread your strategy to cover the entire industry? Was U.S. Customs' expectation of "reasonable" efforts by Hu (Golden Ship Trading) in itself reasonable?

Homework assignment: Organize a window-shopping expedition to either the Soho or Madison Avenue shopping districts and visit the retail premises of at least 3 of the following stores: Uniqlo, Zara, H&M, Prada, Marc Jacobs, Gucci, Stuart Weitzman; alternatively, visit Macy's or Bloomingdale's and observe 3 shop-in-shops or 3 beauty and cosmetics counters. Choose one store that especially interests you and observe the following: size of store; location and near-by stores; layout of merchandise when you enter the store; what's attractive and what isn't; age, "look" and response of store personnel.

Class 12: Fashion Operations Management: Stores and Retail Leases

Discussion: Opening of retail stores, including discussion of the following business issues related to commercial leases to be examined: tenant allowance; kiosk restrictions; radius restrictions; inspection process; permitting and time lines; kick-out; free rent; design criteria, landlord approval and co-tenancy provisions; discussion of architect and contractor form agreements.

Readings: Chapter 9 – Commercial Leasing in Fashion

Business cases: Zara: Managing Stores for Fast Fashion; Moda Operandi: A New Style of Fashion Retail.

Fresh Pond Mall Limited Partnership v. Payless Shoe Source, Inc.; Howard Opera House Associates et.al. v. Urban Outfitters, Inc.; South Bay Joint Venture v. G.C. Theatre Corp. of Cal.(unpublished).

Discussion: What did you learn from your store visits? Who impressed you and who did not? On Moda Operandi: what is the future of brick-and-mortar fashion retail in a world of fashion e-commerce?

FINAL EXAM: Online (2 hours)