

LAW À LA MODE

Issue 16 – May 2015

CO-BRANDING OF WEARABLE
TECHNOLOGIES

THE INTERNET OF THINGS AND THE
RETAIL SECTOR

INTEGRATING TECHNOLOGY INTO
FASHION STORES

A WORD FROM THE INDUSTRY'S
MOUTH: TERRI DIPAOLO

USING TECHNOLOGY TO COMBAT
RETAIL CRIME

LEGAL CHALLENGES OF 3D PRINTING

CONCRETE STRATEGIES FOR DIGITAL
RETAILERS



Fashion, Retail and Design Group

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Editorial

The United States editorial team is delighted to bring you the sixteenth edition of *Law à la Mode*, the quarterly legal magazine produced by DLA Piper's Fashion, Retail and Design Group for distribution to clients and contacts of the firm worldwide.

In April 2014, we published our thirteenth edition, and focused on numerous matters relating to technology in the retail and fashion space. But technology moves as fast as fashion, so we bring you this issue one year later both as an update to Issue 13 and to discuss new and exciting developments in the space, particularly from a legal perspective.

Wearable technology is here to stay (read more on page 12), but for a product to succeed, it needs to be both tech savvy and fashion forward. One growing solution to meet both of these needs is collaboration between technology and fashion companies. There are key terms to consider in these types of cobranding agreements. Read more on page 5.

Another advancement relates to how fashion retailers utilize technology. On page 8, we explore the integration of technology into brick and mortar locations to help maximize the consumer experience, while on page 16, we discuss the emergence of omnichannel retailing in Asia. We also address issues surrounding electronic point-of-sale solution agreements (page 4) and servitization, the manufacturer bundling of services with products (page 9).

Our team also tackles the intellectual property protection available for sports apparel (page 18), and reviews the legal issues surrounding retailer use of Big Data (page 20). And, of course,

a technology issue would not be complete without a discussion of the legal ramifications of 3D printing; read more on page 14 for a discussion of how 3D printing and the legal concerns implicated in this growing field are developing in Europe.

Finally, this season, we are thrilled to have sat down with Terri DiPaolo of Authentic Brands Group, whose brands include Juicy Couture, Judith Leiber, and the Estate of Marilyn Monroe, to discuss the company and the challenges that brand owners face. Read our Word From The Industry's Mouth interview with Ms. DiPaolo on page 10.

We hope you enjoy this edition of *Law à la Mode*. If you have any comments, please get in touch with the Fashion, Retail and Design Group via our email address: fashion@dlapiper.com.



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KEY CONSIDERATIONS FOR NEGOTIATING ELECTRONIC POINT OF SALE SOLUTION AGREEMENTS

By Amanda Pilkington (Sheffield)

An electronic point of sale (EPOS) solution provides direct interface with the end consumer, processing the payment made at the cash register, and it therefore is of critical importance to a retailer. This article examines some of the key legal issues pertinent to EPOS solution agreements.

- **Integration risks:** the EPOS solution must function within the retailer's computing environment. However, the EPOS vendor will not want to take any interoperability risk without having first had the opportunity to undertake significant due diligence. Even assuming the opportunity for due diligence, a vendor will include a number of contractual caveats (for instance, requiring the retailer to maintain minimum hardware and network specifications).
- **Unavailability:** this is perhaps the retailer's greatest concern. Imagine the scenario: it's the busiest shopping weekend of the year and no transactions can be processed because the EPOS is unavailable. The EPOS vendor may be able to satisfy the retailer that the solution is suitably resilient and the risk of unavailability is remote. However, the retailer may seek further contractual protection including, for instance, the right to recover direct loss of profits due to an outage.
- **Data loss:** the EPOS will process data vital to the retailer's business, notably transaction data, but also personal consumer information, store card information, returns and stock management data. The consequences of any loss of personal data would be costly to the retailer's reputation and finances. Thus, the retailer will want to know the location at which data is processed, by whom it is processed and, crucially, what security measures are in place to safeguard this data.
- **Service levels:** the operation of the EPOS must be underpinned by robust and meaningful service levels covering not only the provision of support (response, repair times, etc.) but also availability of the service desk and any hosted platform, together with appropriate contractual remedies (such as service credits and ultimately a right of termination) if service levels are not achieved.
- **PCI DSS:** the retailer will expect the EPOS solution provided to be Payment Card Industry Data Security Standard (PCI DSS) compliant. Up for debate: what is meant by compliance? EPOS vendors will argue that responsibility for compliance ultimately rests with the retailer, the EPOS being a single element of end-to-end PCI DSS processes and procedures.
- **IP ownership:** the question of IP ownership may arise in the context of particular adaptations or customisations made to the generic EPOS solution, requested by the retailer because it believes such adaptations will provide a competitive advantage. The retailer may seek to restrict the EPOS vendor's ability to re-use or replicate that adaptation. Conversely, the EPOS vendor will want to reuse any generic coding contained within the adaptation.



FASHION FORWARD AND TECH SAVVY

The co-branding of wearable technologies

By Melinda Upton and Nicholas Boyle (Sydney)

The market for wearable technologies – mobile devices that gather and display information – is large and growing. Market researchers estimate that some 21 million wearable devices were sold in 2014¹ and it seems that the smart watch will be one of the most successful products of 2015.

The challenges of wearables is to deliver a product that is both fashionable and contains compelling and intuitive technology. The overlap between technology and fashion creates opportunities for technology and fashion companies to work together to develop, market and sell wearables – as Google Glass and Luxottica, Fitbit and Tory Burch, and Samsung and Swarovski have done.

There are a number of benefits for such collaborators, among them:

- a fashion company can provide design input that creates a more elegant and aesthetic product, while the technology company can focus on the functional and innovative aspects;
- co-branding enables the participants to leverage their reputations in their respective fields of fashion and technology and may also increase brand recognition; and
- where the parties have different distribution channels, co-branded products are accessible to more and different customers and markets across their combined channels.

However, there are practical challenges in getting technology products to market. For example, manufacturing problems delayed shipment of the Jawbone UP3 fitness tracker from December 2014 to mid-2015. Such challenges mean that fashion companies should consider the reputation, image and protection of their brands when exploring co-branding opportunities – particularly because of their importance in



the fashion industry. Fashion companies might also consider mitigating certain challenges through well-crafted legal documents. Key legal issues include:

- **Exclusivity:** it may be appropriate to prohibit a party from entering into co-branding, co-marketing or strategic alliance agreements with competitors of the co-branding partner to protect and maximize the arrangement's value.
- **Term:** the initial term should be relatively short with renewal options providing flexibility for changes in business strategy and allowing enough time to successfully implement the co-branding strategy.
- **Product liability:** allowing the use of a trademark on a product may expose the owner of the brand or trademark to product liability actions in different jurisdictions. Even if remedies such as indemnities are available under the agreement, it is often difficult to repair reputational damage arising from these types of claims.
- **Specifications:** co-branding agreements should specify how the respective trademarks will appear and be positioned on the products (i.e. location, colour, size, proximity).

Whether fashion companies are looking to maximize their opportunities or simply keep pace with their competitors in the rapidly expanding field of wearables, they should carefully consider the commercial and legal aspects of any proposed arrangement for the co-branding of wearables.

¹ The Economist (14 March 2015), citing research by IDC. See <http://www.economist.com/news/business/21646225-smartwatches-and-other-wearable-devices-become-mainstream-products-will-take-more>.



THE INTERNET OF THINGS WILL ROCK THE EUROPEAN RETAIL SECTOR

By **Giulio Coraggio** (Milan)

According to an SAP report, The Internet of Things (IoT) will generate US\$329 billion of revenue in the retail sector by 2018. But such massive growth comes along with legal issues concerning privacy and cybersecurity, as well as product liability.

WHAT IS IoT?

The Internet of Things is the constellation of inanimate objects designed with built-in wireless connectivity – a vast network of personal devices that allow users to connect to the worldwide web from anywhere and allows usage to be monitored, controlled and linked over the Internet, often via a mobile app. In the world of fashion and retail, IoT allows companies to better know their customers and customize and improve purchasing experiences and services by utilizing sensors and big data analytics. It is still early to predict the major areas of growth for the IoT, but the following are some of the most interesting apparent trends:

Multichannel retail

Commonly known as “me-tailing”, this refers to retailers’ ability to collect real-time data about customers from different sources, such as mobile, social media, in-store channels and wearable technologies, so that retailers can offer very personalized interactions with customers.

Understanding customer tendencies is essential to showing customers products that are right for them. Multichannel retail is already common for online stores and increasingly popular for physical stores, but it entails detailed filtering and profiling of customer preferences.

Likewise, increasing simplicity of payments is one of the most relevant areas of growth for IoT technologies. Smartphones, smartwatches and other wearable technologies can communicate with retailers’ payment systems to facilitate the payment process.



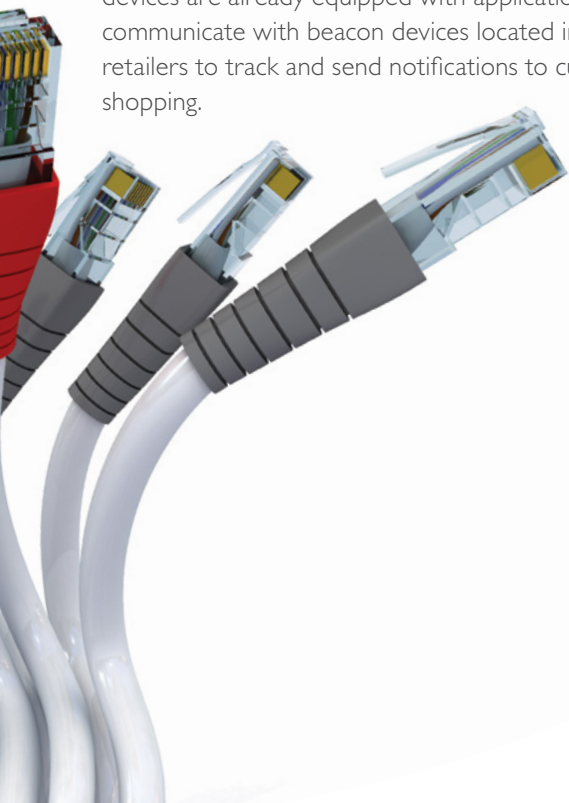


Tracking

As in the US, RFIDs (radio frequency identification chips) are already commonly used by retailers in Europe to prevent theft, but can now also be used to collect additional information on customer preferences and location, as well as for inventory management due to integration with the retailer's online sales channel. QR (quick response) codes on product labels provide customers with additional information about items and enable retailers to perform in-store marketing activities.

Retailers can use IoT sensor technology to change the environment when shoppers are in proximity – for example, by projecting an interactive display. IoT sensor technology can also be used for in-store analytics, such as tracking and measuring customer flow in specific areas of stores.

Some commentators view Bluetooth Low Energy (BLE) applications – commonly known as beacons – as the future of the European retail sector. Most smartphones and wearable devices are already equipped with applications that can communicate with beacon devices located in shops, enabling retailers to track and send notifications to customers while shopping.



The main advantage of beacons is their ability to accurately detect approximate customer location, making in-store marketing, tracking and payments more effective. Customers might even receive push marketing notifications on their smartphones as they approach discounted products.

WHAT ARE THE LEGAL RISKS?

Various legal issues arise from these and other IoT technologies that collect information about consumers, either individually or in the form of aggregate “big data.” Some of the most prevalent legal risks for retailers are outlined below.

Privacy

European privacy regulators recently raised concerns about IoT technologies in the retail sector, and, in particular, their apparent lack of transparency. Customers are not told when, how or for what purpose their personal data is collected or processed, or to whom such data is communicated. The extent of information collected and the type of customer consent required to utilize such technologies also pose issues, especially since even anonymized collected data can be used to generate detailed user profiles. The European Commission is already attempting to find efficient privacy solutions with respect to RFIDs, but similar solutions must be explored for IoT technologies.

Cybersecurity

IoT technologies that permit the exchange of large data volumes present serious cybersecurity risks. In addition, loss of customer data resulting from use of IoT technologies can lead to privacy-related liability for the data breach, resulting in fines of up to 5 percent of the retailer's global turnover under new EU privacy regulations. However, implementing stringent security measures might lead to practical inefficiencies in the effective use of IoT technologies.

Liability for different involved entities

A common issue arising from IoT technologies relates to the liability of different entities involved in managing the technology. Indeed, retailers often rely on technologies provided by information technology suppliers that, in turn, manage a cloud database through subcontractors. The issue arising from this scenario, in which a number of parties are involved, is how retailers should be protected – both in terms of service levels from their counterparties and in terms of managing potential reputational damage in case of data loss or cybercrime. Another open question relates to which of these parties “owns” the collected data that triggers the compliance obligations mentioned above.

As IoT technologies are adopted in retail sectors, retailers will have to confront these legal issues in a manner that balances business focus with providing adequate customer protection in a way that is financially feasible for retailers and suppliers alike.



INTEGRATING TECHNOLOGY INTO FASHION STORES BEYOND THE BRICKS AND MORTAR

By Ann Ford and Naomi Abraham (Washington, DC)

Fashion retailers are integrating cutting-edge technology into their bricks and mortar locations to create a branded and effortless shopping experience to consumers. There are numerous legal issues that brands should consider before embracing such technology. These issues include consumer data privacy and the rights of publicity.

Several retailers have incorporated RFID chips into apparel items that trigger different devices throughout the store to provide an innovative customer experience. For example, when a consumer with an RFID-embedded item enters one retailer's dressing room, the mirrors morph into video displays showing looks from the runway and images of matching accessories available for purchase.

Despite the ingenuity and clear marketing benefits, the integration of RFID chips in clothing raises several concerns. Specifically, RFID chips can track the consumers' location in and around the store. But, if the RFID chip is not deactivated or removed upon purchase, the company risks unknowingly collecting and storing customer data. In the event of a data breach, private customer data could be released, exposing the company to potential liability.

High-tech retailers are also experimenting with "smart mirrors," which are actually cameras that shoppers control using a mobile application. When a shopper tries on an outfit, she can use the smart mirror to snap and save her image. She can download the image, share it across social networks or send it to friends.

The smart mirror interface also benefits retailers and sales associates by directly connecting them to customers. Smart mirrors allow retailers to collect a wealth of data and analyze in-store shopper behavior. But smart mirrors, like RFID chips, raise important privacy issues. For example, a retailer must

be attuned to whether the shopper images are permanently stored and if so, retailers should employ proper security measures that control access to the images. Another privacy concern is whether retailers obtain consent from shoppers prior to taking their photograph. Before launching a "smart" shopping experience, retailers should consider the issues raised by these questions.

The retail experience is an ever-changing landscape, and the integration of new technology to track and capture consumer data poses novel questions in the context of the retail experience. While innovative brands are eager to provide consumers with an unforgettable high-tech retail experience, brands should seek legal counsel regarding the potential implications of a technologically enhanced retail store.





SERVITIZATION

AN EASY NEW REVENUE STREAM OR TOO MANY RISKS?

By Paddy Dwyer (Liverpool)

“Servitization” is the bundling, by manufacturers, of services with their products. This may look very different across various manufacturers depending upon the technology environment, commercial viability of solutions, and resources available. Examples include:

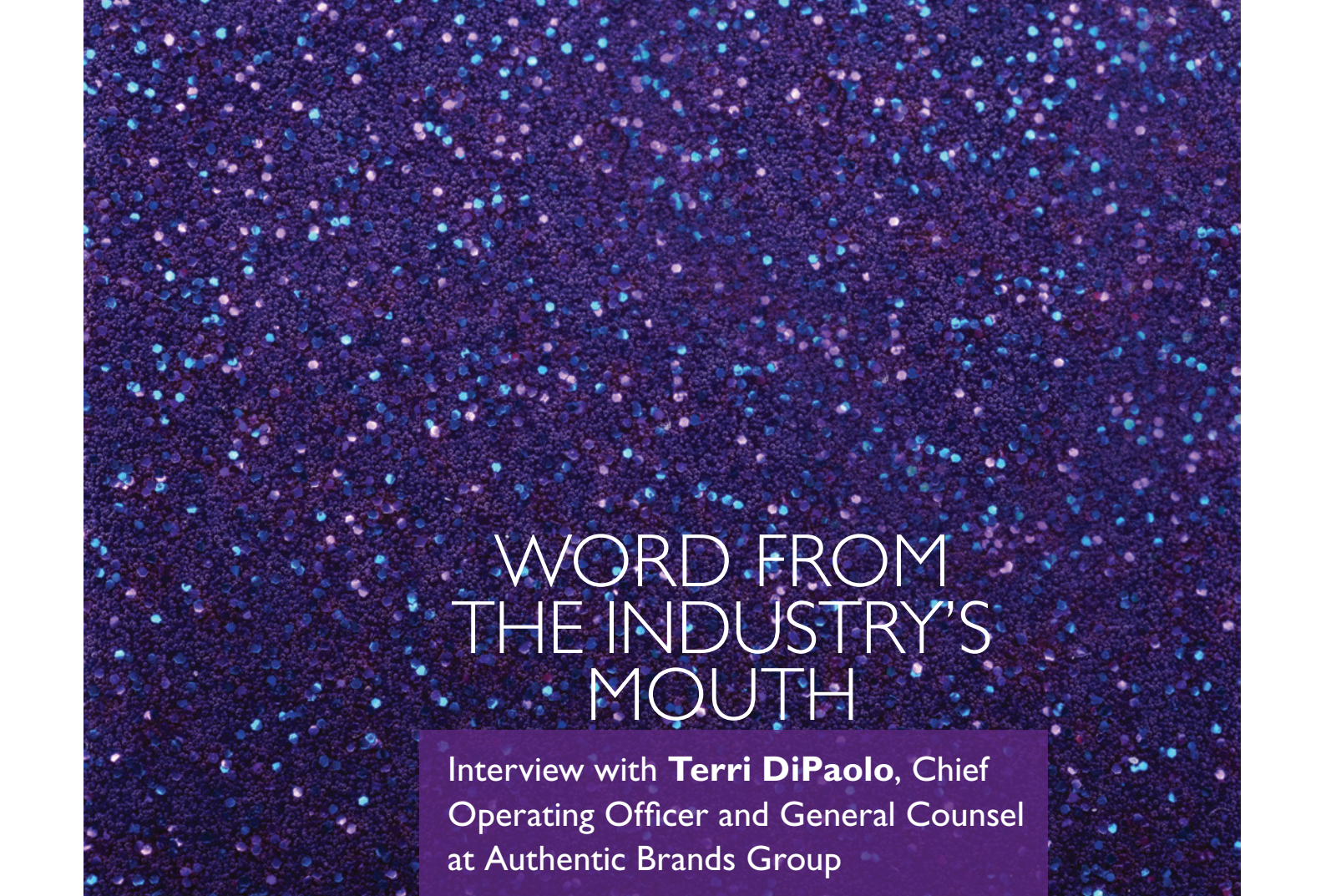
- **Consumer-led design:** UnitedStyles (a Shanghai-based company) allows consumers to design, order, share and preview their own clothing through a Facebook Connect-enabled service leading to brand loyalty and bespoke products unavailable anywhere else.
- **Ongoing service relationships:** many watch manufacturers provide ongoing maintenance services. Some offset a lifetime guarantee against a condition that products are serviced on a periodic basis (at cost).
- **Styling service:** certain brands now offer personal styling services. ASOS, for example, has an online personal styling service allowing consumers to speak to stylists through its website.

With the development of techwear, a servitized solution may become even more technologically advanced: for instance, embedding technology in garments which automatically inform consumers of whether they are caring correctly for their products to enable a longer life span and increase brand loyalty; an ability to track (subject to privacy laws) the destination of an item so that labels can consider where to locate their next store or targeted advertising (for example in an area of high conglomeration of their goods); for specialty wear items (such as sporting equipment), technology which translates wear of the item into performance data may set a particular brand apart. The possibilities for the fashion sector are endless.

What are some of the benefits and hurdles?

BENEFITS	HURDLES
Closer relationships with customers	Supply chains may have existing service offerings
Product improvement as a result of real time interaction with, and input from, customers	Lack of skills and resource to provide services/develop technology
Predictable revenue streams where service packages are modelled on a subscription basis	Conventional revenue streams may reduce due to longer life span of goods
Locking out of competitors where service agreements are entered into on a long term, exclusive basis	Inappropriate contracts – moving from sale of goods to provision of a solution brings different legal challenges which may include how to deal with intellectual property; understanding customer requirements and placing certain obligations on an end user, and how to exploit legally collections of data
The ability to exploit new markets such exploiting of management information	

While there are challenges, many early adopters have increased their revenue and resilience in difficult market conditions. With legal counselling, fashion entities can take advantage of the potential expansion of service offerings and overcome the challenges from this increasing trend.



WORD FROM THE INDUSTRY'S MOUTH

Interview with **Terri DiPaolo**, Chief
Operating Officer and General Counsel
at Authentic Brands Group

By **Gina Durham** (San Francisco), **Tamar Duvdevani**
(New York), and **Melissa Reinckens** (New York)

Juicy Couture, Judith Leiber, The Estates of Marilyn Monroe and Elvis Presley, Hickey Freeman, Prince Tennis, and Spyder Active Sports are only a few of the powerhouse brands owned and managed by New York based Authentic Brands Group (ABG). We sat down with COO and GC Terri DiPaolo to garner her insights on the company and the challenges brand owners face.

Terri, can you tell us a little about your company?

ABG owns a portfolio of brands and develops them internally, elevating each brand through innovative marketing and licensing strategies.

What is your role at ABG?

I have been with ABG since its inception in 2010. I am currently responsible for overseeing both the business and the legal aspects of ABG's comprehensive portfolio of brands. For example, our first acquisition was of Tapout, which we have managed

through a transition from its core association with mixed martial arts through to its newly repositioned status as a fitness lifestyle brand. We just recently announced that Tapout is now the official fitness and training partner of the WWE.

Was it always ABG's plan to have a diverse portfolio?

ABG is an entrepreneurial company and is always looking for new acquisitions of best in class brands that have global reach and optimal

potential for growth. This has been a guiding force of our company from the outset.

How do the brands that you own bring value to those to whom you license?

We provide our licensed partners the opportunity to leverage the halo of the brands that ABG owns. We focus on brand strategy, planning, and development to build global brand awareness for new products that drive revenue growth.

Do you see any trends with licensing in the apparel industry?

Licensing companies are starting to realize that the way to really break into foreign territories is through partnerships with local entrepreneurs who understand the retail landscape of the territory. For instance, ABG has partnered with ITOCHU in Japan for their brand Airwalk, and with DMG in China for "Mini Marilyn," a stylized character property based on Marilyn Monroe. These relationships are crucial to our success in these territories.

What is a challenge that you see facing the fashion industry right now?

The evolution of the top level domain names through ICANN. It is an expensive proposition for retailers to have to register innumerable variations of relevant domain names on the one hand and also very frightening to leave such names open to registration on the other. While ABG is committed to protecting its brands and has historically done what is necessary to make sure its brands are registered and

protected, for some brands, economic resources will likely limit the approach that can be taken for protection of top level domain names through ICANN.

If you could have dinner with one fashion designer, who would it be and why?

Miuccia Prada. When you really think about it, my choice needs no explanation. To be at once classic and innovative is always going to make for interesting conversation.

Are there any challenges that you see for protecting celebrity brands in particular?

New technologies that allow companies to make digital recreations of a living person are at the forefront of the discussion surrounding celebrity brand protection and something that needs to be addressed.

What is your favorite quote?

"Life is too short for bad shoes." Believe it or not, it came from a JAMS mediator. Words to live by.





WEARABLE TECHNOLOGIES

Watch Out For Fashion's New Market Opportunities and Challenges

By Carol A. F. Umhoefer and Caroline Chancé (Paris)



Wearable technologies took centre stage at the 2014 Consumer Electronics Show in Las Vegas. Since then, new devices featuring refined design and even more inventive functionalities have hit the market. Yet wearable technologies still have not gone mainstream, as the recent mothballing of Google Glass shows. Generally not fashionable, too expensive and dependent upon other devices, barriers to the democratization of wearables persist.

Some think the wearable technology market might take off with the launch of smart watches by a leading brand in April 2015. Recent announcements by Tag Heuer and Gucci of their entrance into the wearables market support this thought. So too do the rumours that technology companies are now exploring augmented reality devices, hoping to succeed where Google Glass failed.

While much of the industry waits – gauging whether this is just a fad – analysts predict that the wearable technology market could grow rapidly. IDTechEx has reported that the market for wearable technology should reach \$70 billion by 2025, against \$20 billion in 2015.

Beyond the opportunities to team tech geeks with design mavens to create a new class of consumer products, wearable technology promises to revolutionize fashion marketing. With smartphones, marketers are able to capture data such as a user's geolocation and purchasing habits. Wearable technology can provide marketers with an entirely new set of data, including physical and emotional states, resulting in more detailed intelligence on consumer behaviours and motives. Relaying contextually relevant information in real time adds a new dimension for companies using wearable technology. Moreover, wearable devices offer easier accessibility than smartphones: users are unlikely to miss notifications displayed right before their eyes or strident vibrations on the wrist (and no more hassle getting the smartphone from your handbag).

This level of intimacy between device and user inevitably raises personal data and privacy issues. Wearable technology offers limitless data collection possibilities. Endless inferences can be drawn from the power of analytics: heart rate and respiration, typically used to track sporting activities, could actually be used to infer a host of other (addictive) behaviours. Mood, social environment, health – nothing slips under the radar, which raises consumer concerns about the use and security of highly sensitive information and requires more user trust in the brands they wear. Challenge accepted?

USING TECHNOLOGY TO COMBAT RETAIL CRIME IN THE UK

By Chloe Hersee (London)



With retail crime on the rise, an increasing number of retailers are looking at implementing innovative new IT systems to try and combat this growing, expensive problem.

In stores, the trend towards allowing customers to try-before-you-buy means that retailers are investing in updating their security surveillance cameras and systems, so that they reflect the ways that customers now move around the stores and engage actively with products. Mobile point of sale technology, which allows employees to move around the shop floor facilitates further surveillance and a roaming physical presence can also act as a powerful crime deterrent.

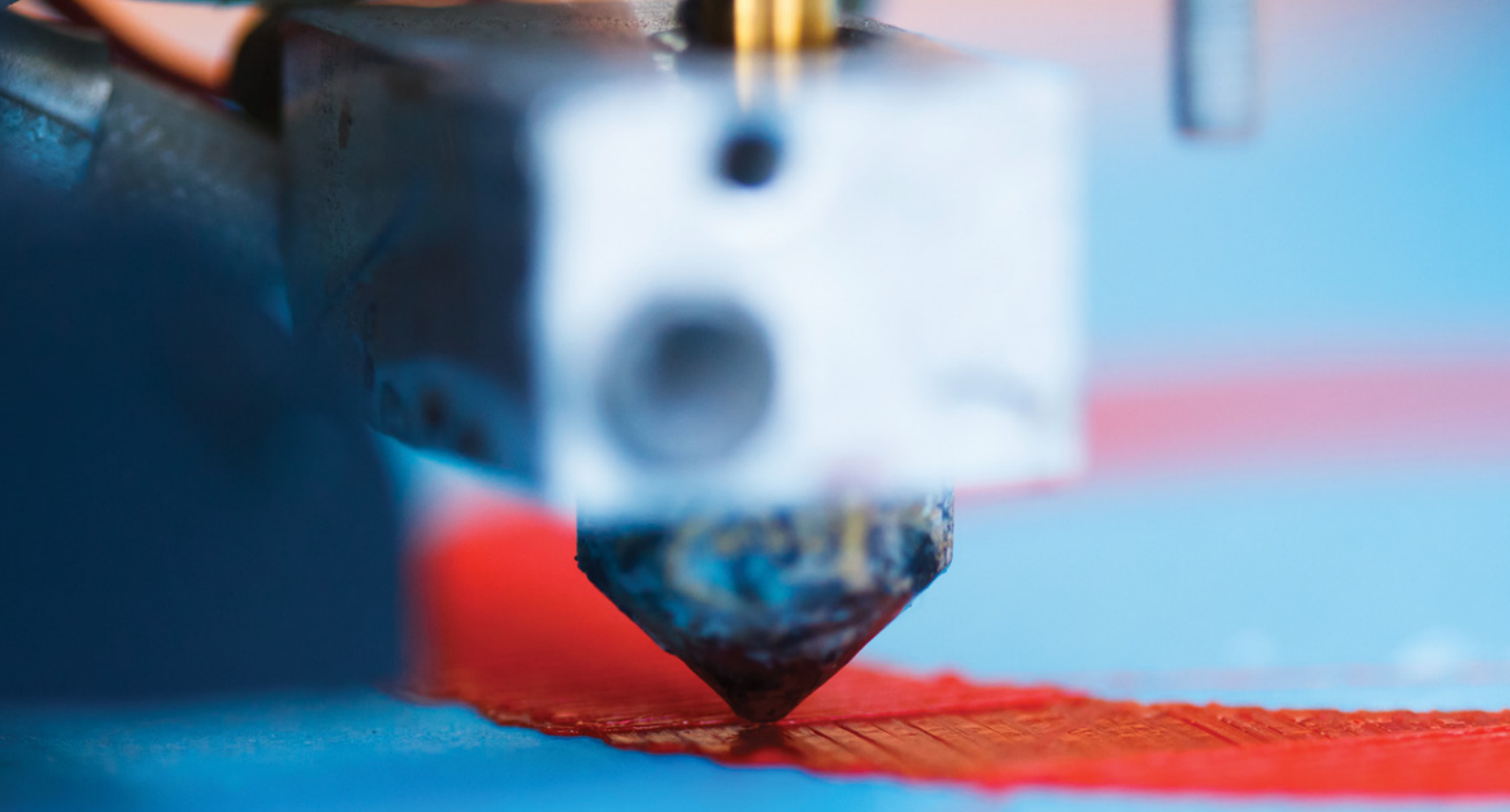
There is also a trend towards pairing video analytics with security cameras, allowing real-time analysis of the way in which customers move around the shop floor, and identifying suspicious activity. This can also be integrated with point-of-sale technology to allow for identifying loss patterns in relation to employees which may also be engaging in theft from the retailer.

Another key trend is a movement towards implementing Radio Frequency Identification (RFID) technologies, which allow a business to track individual products and components throughout the supply chain from production to point-of-sale. These systems allow retailers to monitor issues within the supply chain, for example, at distribution centres and warehouses, and when in-store, to improve stock security.

They also allow a retailer to more accurately identify high-risk outlets and ranges. The costs associated with RFID tagging have recently fallen making it particularly attractive to retailers.

Changes to retailers' routes to market, for example, the increasing consumer trend towards multi-play interaction, has also led to more emphasis on cyber security. Online, compliance with payment card industry standards remains a key concern for retailers, which needs to be flowed down the supply chain. Full penetration and vulnerability testing on systems to identify any issues and weaknesses is also key.

Crime is a constant battle for even the most sophisticated of retailers and, in our experience, those that are best placed to combat it are those that embrace new technology. It is therefore increasingly important to ensure that retailers have robust legal agreements in place with their technology providers, ensuring compliance with regimes payment card industry standard and data protection, as well as appropriate allocations of risk and reward, service levels in respect of downtime and incident resolution and the ability for retailers to seek to recover losses incurred as a result of third party IT failures.



3D PRINTING 101

ATYPICAL LEGAL CHALLENGES

By Patrick Van Eecke and Julie De Bruyn (Brussels)

The concept of 3D printing no longer needs an introduction. The sky is the limit when it comes to the possibilities 3D printing (often referred to as additive manufacturing) has to offer, both to consumers and businesses. The added value for and influence in the fashion and retail sector is undeniable, and many organizations consider welcoming 3D printing into their business model – whether acting as a 3D print shop, software provider, 3D printer or ink manufacturer, template developer, intermediary offering 3D printed products, product user or rights holder. As with any technological development however, there are legal considerations.

Of course, intellectual property rights, in particular patents, copyright, models and design rights, and trademark rights, immediately come to mind. For a discussion on the intersection between 3D printing and trademarks, we refer to a previous *Law à la Mode* article, “3D Printing – A new dimension for trademarks” which can be found in the special INTA 2014 Issue.

This article introduces some atypical legal challenges – apart from intellectual property rights – under the EU legal framework, which may not be immediately apparent when discussing 3D printing.

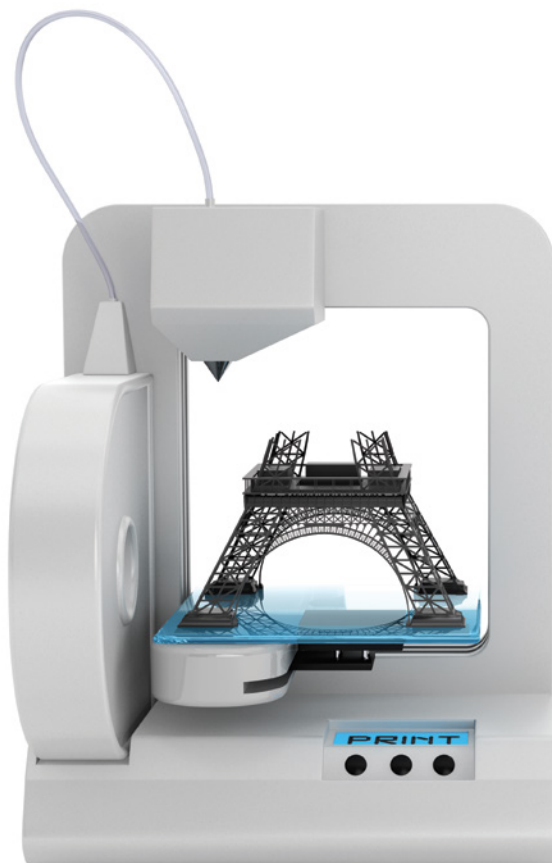
PRODUCT SAFETY AND LIABILITY

Particular categories of products are subject to legal rules regulating the safety and proper use of such products, and should not to be overlooked in the context of 3D printing. Relevant legal instruments on the EU level include, for example, the European General Product Safety Directive (2001/95/EC) and the European Directive on Toy Safety (2009/48/EC). Product safety also comes into play with respect to the raw materials (or “ink”) used in the 3D printing process, as these may not always be subject to prior quality controls.

Under the principle of product liability, a product manufacturer can be held liable for harm caused by a defective product. Directive 85/374/EEC establishes a liability without fault for producers; this means that a product will be deemed defective if it does not provide the safety which a person is entitled to expect, taking all circumstances into account, including the presentation of the product, the reasonable use of the product and the moment the product is put into circulation. In a 3D printing context, product liability is relevant for manufacturers of 3D printers as well as to manufacturers of 3D printed objects, to the extent they are commercialized and sold to the public. Product liability may not apply, however, to a supplier that makes 3D templates and sells them directly to consumers for 3D printing at home, because of the law’s exemption applicable to products not put into circulation by the manufacturer himself.

IMPORT RESTRICTIONS AND TAXATION

Certain products may be subject to import restrictions imposed by a particular country. Typical examples are



weaponry, medication and currency. By selling 3D templates of a product to individuals located in countries where an import restriction applies to that product, both the template seller as well as the buyer who prints the object may be inadvertently violating the import restriction. In addition, 3D printing shortens traditional supply chains by allowing for domestic manufacturing, resulting in the transaction potentially bypassing border controls on the importation of goods, as well as any associated import taxes. Many jurisdictions are currently reviewing their existing customs legislation to determine whether it is necessary to change the current rules in light of this rapidly evolving technology.

COUNTERFEIT

3D printer and 3D template providers are particularly at risk of being considered an accomplice to counterfeit where an individual prints counterfeit money (coins or bank notes) using a 3D printer. Anti-counterfeit software, similar to that applied to

paper photocopiers, is an example of a way to mitigate the risk of unlawful use of the printer or template.

PRODUCT LABELLING

Within the EU, the labelling of certain categories of product is governed by dedicated rules, notably by Regulation 1169/2011 for foodstuff and a separate legal framework for non-foodstuff such as cosmetics, footwear and textile products. The primary purpose of labeling is to inform and to guarantee safe use of the product by the consumer.

It can be concluded from the non-exhaustive overview above that – as in other fields of technological development, such as the Internet of Things – the current framework seems to leave unanswered the question as to who is responsible for complying with the applicable requirements.



CLICKS AND BRICKS

CONCRETE STRATEGIES FOR DIGITAL RETAILERS

By Janice Yau Garton and Karen Cheng (Hong Kong)

The emergence of omnichannel retailing in Asia is forcing retailers and landlords to rethink their approach to real estate. While blurring the lines between in-store and online sales can enhance customer satisfaction, it poses several important questions for leasing negotiations.

OMNICHANNEL RETAILING IN ASIA

Omnichannel retailing integrates traditional and digital sales channels and focuses on providing exceptional customer service by creating a seamless shopping experience where customers can buy online, in-store and a mix of options in between. In recent years, retailers have used bricks-and-mortar stores to fulfill online orders, placed technology within stores and used mobile and social media as sales channels.

Using bricks-and-mortar stores as fulfillment centres can increase online sales, decrease fulfillment costs, reduce in-store markdowns, and lead to quicker delivery times. Large online retailers, such as eBay, have been providing “click and collect” services allowing customers from all over the globe to take advantage of local convenience. For instance, UK

customers can collect their purchases from one of Argos' 150 outlets, while Taiwanese customers can collect their purchases from a locker at their local 7Eleven store.

China overtook the US as the world's largest e-commerce market in 2013 and by 2018 it will be the world's largest retail market overall. PricewaterhouseCoopers and the Economist Intelligence Unit predict Asian retail sales will grow 4.6 percent in 2015 and reach US\$10.3 trillion in 2018. In 2015, Asian online spending alone is forecast to overtake North America's for the first time, making the region the world's e-commerce capital.

Asian consumers, however, want more from their retailers. Studies reveal that Asia has the lowest e-commerce satisfaction rate globally, mostly due to the limited delivery options available. Today's customers demand a seamless experience across all points of contact with their retailers. As a result, retailers are working hard to improve customer satisfaction with various omnichannel strategies.

RECENT RETAIL EXAMPLES

French sporting goods retailer Decathlon opened its first Singapore store in November 2014. The 7,000 square foot concept store on Kim Yam Road has no cashiers. This "experiential zone" allows customers to try any of 13,000 products and is fully equipped with computers at every corner so customers can purchase items on Decathlon's website, with the option of taking the items immediately or having them delivered to their home. Decathlon plans to open five more retail stores in Singapore to complement its robust online marketing channel.

Founded in early 2012, Zalora has quickly become one of Southeast Asia's largest online shopping portals, selling apparel, accessories, shoes and beauty products. Last year, Zalora launched pop-up stores across Asia to increase local brand awareness. From October 2014 to January 2015, Zalora operated Southeast Asia's first interactive pop-up store, leasing 4,000 square feet at ION Orchard mall in Singapore. From within the pop-up store, customers were able to try on over 30,000 products and browse through Zalora's entire online catalogue. The bright and trendy displays and racks were each equipped with a brand new tablet to enable ordering once the shopper has chosen exactly what he or she wants. Since July 2014, the retailer has also run pop-up stores in South Jakarta, Indonesia and several in Malaysia.

Some bricks-and-mortar retailers have adopted omnichannel strategies that involve rolling out tech-infused stores and equipping store associates with mobile devices so that they can assist customers and process payments anywhere in the store, thereby shortening lines and opening up space. Whether predominately online or in-store, omnichannel strategies are gaining ground as retailers go in search of higher sales, higher margins and better branding.

KEY CONSIDERATIONS

An omnichannel strategy can be very costly and vastly more complex than traditional e-commerce or bricks-and-mortar business models. Retailers must integrate back-office technologies to allow inventory to be visible regardless of location, and implement a single profit and loss statement for all sales regardless of channel. Treating bricks-and-mortar stores as fulfillment centres also requires logistics services, retraining sales associates and considerable investment in technology across the entire retail enterprise.

Omnichannel retailing also has important implications for retailers' real estate strategies, with the location of retail spaces becoming more important than ever. Stores must be conveniently accessible for customers, but must also make sense from a logistics standpoint if they act also as fulfillment centres for online orders. The size and layout of stores must be appropriate to allow for increased onsite inventory.

Leases are another key consideration. Unless plenty of vacant space is available in the market, retailers may find it difficult to lease temporary space for a pop-up store in a prime location, since landlords generally prefer longer leases. An important consideration for short-term leases is whether the arrangement would allow for transition to a permanent lease if the pop-up shop proves to be successful.

Omnichannel retailing also complicates turnover rent calculations. Typically, turnover rent provisions require the tenant to pay a percentage of gross sales as rent. As bricks-and-mortar and online sales channels intertwine, retailers will have to consider and negotiate more carefully as to what should be included in gross sales. Some landlords have already added provisions in lease agreements specifying that gross sales will include orders made from a computer situated within the store and online orders fulfilled in the store. The precise definition in each lease will come down to skillful negotiations.





IP PROTECTION FOR SPORTS APPAREL IN THE US

By Melissa Reinckens and Matt Ganas (New York)

For some time now, sports apparel as a category has been outpacing the growth of the overall retail industry. Market research company NPD Group reported a boom in the activewear sales in 2014 relative to the sluggish retail market. As recent trends in consumer demand spell dollar signs for sports apparel retailers, companies seek creative ways to secure exclusive rights in their products through intellectual property protection.

Characteristics unique to sporting wear may make it amenable to intellectual property protection in areas that traditionally short change the fashion design industry. The US patent law system, for example, provides less exclusive rights to clothing items compared with other industries because so much of the fashion industry is trend-based, ephemeral in nature and not “innovative” from a patent law perspective. And when patent law does provide an avenue for protection, it is usually through design patent protection. While a design patent can cover original ornamental or aesthetic aspects of a clothing product and can be a powerful tool, such patents are generally afforded a narrow scope of protection against virtually identical garment designs.

Sporting apparel is better positioned to bridge the gap between the fashion industry and the utility patent system. While design patents protect the way an article of manufacture *looks*, utility patents cover how an article is *used* and *works*. Some advantages of utility over design patents include a potentially longer term of exclusivity, the ability to claim protection for multiple embodiments of an invention and a broader scope of protection against functionally equivalent products in the marketplace. Unlike most other fashion-

industry garments, activewear (e.g., yoga pants, spandex shorts, gym socks) often incorporates inventive synthetic fabric and anti-odour technologies. Such innovations may be protectable by utility patents, and thus potentially provide an added layer of exclusive benefits for retailers.

Sports apparel also presents unique opportunities for companies from a trademark protection perspective. US trademark law generally protects brand names, logos and symbols that are associated with the source of goods in commerce. The related concept of trade dress can protect the design of garments, or their packaging, to the extent that consumers associate them with the source or origin of a commercial product. Colour schemes and combinations in the fashion industry, however, often prove more difficult to protect due to the hurdles in proving that colours are not merely ornamental and actually signify source. Colours and colour combinations in sports teams uniforms tend to be the exception to this rule: because the consuming public often associates certain professional teams or university athletic programs with their team colours, there is increased potential for sporting organizations to protect and monetize their brands, inclusive of “their” colours.

THE ACT ON CONSUMER RIGHTS

Striking the right balance between consumer protection and business competitiveness

By Michal Orzechowski (Warsaw)

In December 2014, Poland finally implemented Directive 2011/83/EU on consumer rights by the adopting the Act on Consumer Rights (AOCR). The AOCR is the first comprehensive legal act which harmonizes consumer rules in several important areas in order to adapt Polish law to ongoing changes in the consumer environment.

The AOCR supersedes previous legal acts concerning consumer protection – i.e. the Act on the Protection of Certain Consumer Rights and on Liability for Damage Caused by a Dangerous Product and the Act on Special Terms of Consumer Sales and on Amending the Civil Code. The AOCR thus aims to become the single act regulating general consumer rights.

The AOCR contains several key elements:

- New provisions on liability for the quality of goods sold and elimination of the three-regime system which previously existed in Poland. The implementation of a single regime for liability concerning defects of goods, including common rules that apply throughout the EU.
- Revision of the definition of “consumer” that extends legal protection for consumers.
- Standardization of rules concerning common aspects of distance and off-premises contracts, giving the consumer the right to withdraw from any contract within 14 days and increased scope of information requirements to be met by online traders. In practical terms, it means that there is now an obligation for the trader to provide the consumer with information in a clear and comprehensible manner on its website.
- Provision of a “model” of a well-oriented trader who should be aware of the new obligations, e.g. communication requirements and confirmation of each additional payment notification.

The new rules have placed a considerable burden on businesses by requiring an adjustment of general terms and conditions, as well as certain contractual documentation. Additionally, the President of the Competition and Consumer Protection Office (CCP) is now focusing its attention on compliance with consumer protection rules, especially with respect to distance selling.

Non-compliance with the new rules may affect the validity of concluded contracts and result in considerable administrative fines being imposed by the CCP. Therefore, the AOCR requires traders to verify and adjust their standard contractual documentation to bring them into line with the new requirements.





MITIGATING AND ALLOCATING RISK IN THE BUSINESS OF FASHION

21ST CENTURY CONSIDERATIONS

By Airina Rodrigues and Kerry O'Neill (New York)

A significant theme of this issue of *Law à la Mode* is fashion retailers' increasing embrace of new technological innovations in the areas of Big Data and the Internet of Things (IoT) to better communicate with and respond to customers in a personalized and intimate manner, as well as to more effectively streamline their own business processes – for example, improving inventory and supply chain management. The myriad of legal issues associated with such new and exciting innovations are discussed elsewhere in this issue. This article focuses on how retailers can better allocate and mitigate risks arising from the brave new world of Big Data.



Most retailers will not implement such innovative technology unaided, instead engaging third party vendors via services agreements. And, although data privacy laws hold a company ultimately accountable for any security breaches related to its data, financial exposure and risk can be at least partially mitigated and allocated in the retailer and technology vendor's services agreement.

Retailers should ask for specific representations about the nature, extent and quality of the vendor's data security measures and policies. In the event the vendor breaches its contractual representations, the retailer will have a damages claim allowing for at least partial offset of damages resulting from the vendor's failure to observe its security representations. Retailers should also push for rights to verify the vendor's security capabilities, including the right to conduct ongoing audits to determine if the vendor continues to observe the security representations it has made.

Retailers should also ensure that the services agreement contains breach notification provisions, under which the vendor will notify the retailer of even potential or suspected data breaches, allowing both parties to mobilize to prevent or mitigate more extensive harm. However, parties should be mindful of the business and security realities at play – in the event of a major incident, resources may be best focused on taking immediate steps to mitigate and repair the breach, as opposed to preparing notification letters.

Indemnity provisions remain crucial, and vendors and retailers will want to negotiate indemnity provisions that are fair, but which compensate the retailer for vendor negligence or breach of contractual representations.

Insurance is a classic way to allocate risk, and retailers should make sure that the vendor has sufficient policies in place to cover potential indemnification claims or claims for breach of contractual representations. Retailers should also assess and evaluate whether their own current insurance policies provide sufficient coverage for data breaches. Most commercial general liability policies exclude coverage for electronic data and intangible property damage. A more specialized technology errors and omissions policy can help fill in the gaps.

And, although not happily discussed, both parties should be mindful of what will happen in the event of a break-up. Retailers should consider requesting that the vendor either return customer data or destroy it, with a certification of its destruction.

Good housekeeping practices may require retailers to regularly conduct internal reviews of their services agreements to determine whether the security measures and protections in these agreements remain current, even as the technological landscape evolves at a rapid pace.

BUSINESS ROUNDUP

ASSOS AND ASOS TRADE MARK DISPUTE

The UK Court of Appeal decides

By Jack Randles and Ruth Hoy (London)

Asos, the online clothing retailer, has successfully defended a trade mark infringement case brought against it by Assos, a specialist cycle and clothing company, relying on its community trade mark for “ASSOS” in (amongst others) class 25 for “*clothing, footwear and headgear*”.

Own name defence

In response to the infringement proceedings, Asos successfully raised the “own name” defence. The success of the own name defence depended on whether Asos acted in accordance with “honest practices”. It was argued by Assos that Asos had not acted in accordance with “honest practices” as it had failed to undertake trade mark searches when it shortened its name from “As Seen On Screen” to Asos. Such searches would have highlighted Assos’ earlier rights.

Two of the three Court of Appeal judges found that Asos had acted honestly. They found that both parties had adopted their names separately and there was no intention on the part of Asos to confuse the public or trade off Assos’ reputation. Further, Asos had taken steps to reduce any overlap and risk of confusion once it became aware of Assos’ rights.

Trade Mark cancellation

Trade marks are registered in respect of particular goods and services. As is usual in these types of dispute, both parties applied to revoke the other’s trade marks in the main class of overlap, namely Class 25. Asos succeeded in forcing a limitation of the specification of the “Assos” CTM in class 25 to “*specialist clothing for cyclists; jackets, t-shirts, polo shirts, track-suit tops, track-suit bottoms, casual shorts, caps.*”

Asos also had its specification for its UK “Asos” mark in Class 25 limited to “*footwear; boots, shoes, slippers, sandals, trainers, socks and hosiery; scarves; gloves; mittens; blouses; swimwear; lingerie; ski jackets, parkas, ski wear; suits; dresses; skirts; culottes; jumpsuits, playsuits; shrugs and cardigans; knitwear; leggings; neckties; pyjamas; waistcoats; wristbands; legwarmers; childrenswear.*”

Conclusion

In relation to the “own name” defence, it is notable that a single dissenting judge did not agree that the failure to carry out searches was “honest”. This highlights the importance of carrying out searches where a fashion or retail business is considering a new brand or brand expansion. Searches will highlight existing rights and potential risks.





Fashion Lunch at the International Trademark Association Annual Conference – May 2015

More than 50 clients and friends of the Fashion, Retail and Design Group recently gathered together in San Diego for our annual fashion lunch. It was a great opportunity to network and also to hear about the hottest legal issues for the sector in jurisdictions around the world. The group was warmly welcomed at the event by Ann Ford, one of the global chairs of the Fashion, Retail and Design Group.

Ed Chatterton from our Hong Kong office kicked off the debate with an update on the implementation of the new China trade mark law now that we are one year in. He also spoke about the action which has been taken by the Chinese government recently to tackle the trade in counterfeit goods on Alibaba.

Kate Montazeri from our Dubai office gave an insight into the emerging markets in the GCC region, particularly Qatar and KSA. Expansion into these territories creates interesting issues for retailers – from a branding perspective, it can take three years for an unopposed trademark application to be granted, there are limited enforcement options

when it is, and registration of a franchisee as a commercial agent is compulsory in some circumstances, which can make termination of an underperforming franchisee/licensee very difficult.

Tamar Duvdevani from our New York office looked at some of the legal issues surrounding wearable technology (which are also covered in this edition of *Law à la Mode*).

Karine Disdier-Mikus of our Paris office updated the audience on the European decisions in relation to Google AdWords and when and how brand owners should use them.

Ruth Hoy from our London office presented an update on two recent UK judgments (the Court of Appeal judgment in the Rihanna case and *Thomas Pink v Victoria's Secret*) and their effect on litigating cases involving trademarks and passing off in the UK.

Finally Roberto Valenti wrapped up the session with information about the tax incentives that a brand owner can get from use of the Italian IP box and the impact of 3D printing for the fashion industry.

We look forward to welcoming you at a Fashion, Retail & Design Group event in the future.



L to R: Speakers Ruth Hoy, Karine Disdier-Mikus, Roberto Valenti, Ed Chatterton, Kate Montazeri. Absent: Tamar Duvdevani.

CALENDAR



London Menswear Fashion Week
13 – 15 June

Milan Menswear Fashion Week
20 – 23 June

Paris Menswear Fashion Week
24 – 28 June



Fashion Week Nederland
3 – 13 July

Paris Haute Couture
5 – 10 July

Mercedes-Benz Fashion Week Berlin
7 – 10 July

Swimweek Miami
16 – 20 July

If you have finished with this document, please pass it on to other interested parties or recycle it, thank you.

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