

# Types Of Agreement In The Fashion Industry

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In the constantly changing world of fashion, where creativity intersects with commerce, the transition from idea to consumer involves more than just design and trends. Fashion product developers navigate a complicated terrain of regulations and compliance that dictate the industry. This journey encompasses ensuring product safety, honouring intellectual property rights, and adopting sustainable practices, making the delivery of fashionable creations closely linked with numerous legal and ethical factors.

In this article, we set out on a journey through the complexities of navigating fashion regulations and compliance. Whether you are an experienced industry expert or an emerging designer, grasping the legal frameworks and ethical standards is crucial for the success and sustainability of your fashion pursuits. Read further as we untangle the connections between creativity and responsibility, examining the essential elements that every fashion product developer must comprehend to excel in a responsible and compliant fashion environment. Fashion-forward, indeed!

The fashion industry has undergone significant evolution in a remarkably brief timeframe. This sector employs a vast number of individuals and plays a crucial role in bolstering a nation's economy. This article will concentrate on the different Agreements that facilitate the efficient operation of the industry while minimising liability. Organised into three phases, we will examine the key aspects of contracts that are essential for managing the fashion business.

- A. **STAGE-1:** Making of the product
- B. **STAGE-2:** Breaking the product out
- C. **STATE-3:** Expanding the Brand/Product

## STAGE-1: MAKING THE PRODUCT

This represents the preliminary phase. In this section, we will examine the Agreements essential to produce the products, specifically Manufacturing Agreements and Private Label/White Label Agreements.

1. **Manufacturing Agreements:** A manufacturing agreement is established between two parties: the designer and the manufacturer. In this context, the product designer requests the manufacturer to produce the goods (such as clothing items, accessories, footwear, bags, etc.) on his or her behalf. The Manufacturing Agreement must include the following clauses:
  - Quantity of the Product: How much would be the quantity of the ordered goods.
  - Shipment: How will the products be shipped to the designer by the manufacturer.
  - Modes of Payment: What shall be the outstanding amount, and how will the payment be made.
  - Dates of Delivery: When will the product be delivered?
  - Product Specifications: Maintaining the quality of the product.
  - Details about the manufacturer: All the geographical and account related details of the manufacturer.
  - Intellectual Property (IP) Rights: Designers' ownership of the intellectual property.
  - Liability of both Parties: Liabilities of both the parties must be disclosed in advance.
2. **Private Label/ White Label Agreements:** Under Private Label/White Label Agreements, designers offer products that are produced under their brand name. The manufacturing firms supply the designers with their products, while the company promotes these products as if they were its own. This approach to management and expenses optimises time management and alleviates the pressure on the designer. A

well-known instance of a Private Label (Lamb) is Amazon Basics. This is Amazon's in-house brand, featuring a wide range of products from electronics to household items, all available at significantly lower prices compared to competing brands. The Private Label/White Label Agreements should encompass the following provisions:

- Price of the Product.
- Quantity of the Product.
- An assurance of the quality of the product.
- Right to sell the product under a specified trademark.
- Liability of both parties.'

## STAGE 2: BREAKING THE PRODUCT OUT

In the second stage, we will examine the Agreements required for the product to enter the market, specifically the Consignment Agreement, Showroom Agreement, and Independent Sales Representation Agreement.

1. **Consignment Agreement:** A Consignment Agreement (Practical Law Commercial) is a legal contract established between the designer and the retailer, wherein the designer authorises the retailer to sell the design in their marketplace for a specified duration. Should the retailer fail to sell the goods, they are to be returned to the designer's company. The Consignment Agreement should encompass the following provisions:
  - Term and Termination of the Agreement.
  - Terms of Sale for the Designer Goods.
  - Percentage/Profit Percentage each party tends to receive.
  - Effect of non-sale on the Designer Goods.
2. **Showroom / Dealership Agreement:** A Showroom/Dealership Agreement is a formal contract established between the showroom owner and the designer. The dealer provides the designer with authorisation to display his or her products within the showroom. The dealer is obligated not only to exhibit these items but also to present the products to potential buyers and facilitate their sale. A Showroom/Dealership Agreement should encompass the following provisions:
  - Term and Termination of the Agreement.
  - Quantity and Quality Assurance of the Products.
  - Modes of Payment.
  - Shipping Policy.
  - Dates and Methods of Delivery.<sup>2</sup>
  - Specifications of the Product(s).
  - Details of the Designer.
  - Intellectual Property Rights
  - Liability of both Parties.
3. **Independent Sales Representation Agreement:** An Independent Sales Representative Agreement (also referred to as Sales Rep Agreement) is a contract established between the design firm and a sales representative. In this agreement, the company designates the representative to showcase their collection to the representative's customer base. The representative is required to accept orders and relay the information to the design firm. The designer company provides representatives with a commission based

<sup>1</sup> Private Label Agreements, like Amazon Basics, allow designers to brand third-party products as their own, simplifying supply chains

<sup>2</sup> The Consignment Agreement allows retailers to sell designer goods on behalf of the designer, usually for a fixed time, after which unsold items are returned

on the sales made. This Agreement bears similarities to the Showroom Agreement. The Sales Rep Agreement should encompass the following clauses:

- Term and Termination of the Agreement.
- Representative's Obligations.
- Exclusivity of the Products.
- Products and Territories covered by the Representative.
- Commission of the Representative.
- Guaranteed Percentage of Orders by the Representative.
- Showroom Tariff.

### **STAGE-3: EXPANDING THE BRAND/PRODUCT**

The third phase involves the expansion of our fashion brand through the implementation of various agreements, namely the Licensing Agreement, Joint Venture (JV) Agreement, and Distribution Agreements. These agreements are designed to protect and enhance the operations of the designer company.

1. **The Licensing Agreement:** A Licensing Agreement is a contractual arrangement between the design firm and another party, granting permission to utilise the trademark within a defined geographical area for a predetermined duration. This approach is typically employed to expand territorial presence and guarantee a steady flow of products without requiring substantial financial investment. Designer firms can circumvent the challenges associated with establishing new production facilities and developing the sales network. A Licensing Agreement should encompass the following provisions:

- Term and Termination of the Agreement.
- Assignment of Products.
- Clause of Exclusivity.
- Channel of Sale.
- Royalty Payments.
- Use of Manufacturers
- Use of Retailers
- Use of Wholesalers
- Licensed Trademarks
- Intellectual Property Rights (IP) Rights
- Liability of both Parties.

2. **Joint-Venture Agreement:** A Joint Venture (JV) Agreement is a legal contract formed between two companies that collaborate to establish a new entity utilizing their respective expertise. In a Joint Venture, both parties contribute capital and share the generated revenue along with the profits. A Joint Venture (JV) Agreement should encompass the following essential clauses:

- Term and Termination of the Agreement
- Initial Investments by both Parties.<sup>3</sup>
- Classification of Products.
- Registered Trademarks and Licenses.
- Intellectual Property (IP) Rights.
- Renewal of the Agreements.
- Profit Division.<sup>4</sup>
- Advertisement & Marketing.
- Rights of Audit

<sup>3</sup> Joint Venture Agreements involve strategic alliances where two parties create a new entity combining resources and profits

3. **Distribution Agreement:** A Distribution Agreement is a legal contract utilised to establish trading relationships between the distributor and retail outlets. The distributor acquires products from the designer company and sells them to retail establishments. Distribution Agreements may be categorised as Exclusive, Non-Exclusive, Selective, or Sole.

- i. Exclusive Distribution Agreement: Under the Exclusive Distribution Agreement, the manufacturer permits only a single distributor to sell the products to retail outlets.
- ii. Non-Exclusive Distribution Agreement: Under the Non-Exclusive Distribution Agreement, the design firm permits several distributors to sell the products to retail establishments.
- iii. Selective Distribution Agreement: Under the Selective Distribution Agreement, the company allows distributors to sell to designated retail establishments. This type of agreement is frequently utilized by luxury brands.
- iv. Sole Distribution Agreement: Under the Sole Distribution Agreement, the supplier designates a single distributor as their exclusive distributor within a specified geographical region.

A Distribution Agreement must include the following clauses:

- Reserved Channels.
- Classification of Products.
- Intellectual Property (IP) Rights.
- Renewal of the Agreements.
- Distributor's Obligations.
- Fashion Company's Right to Terminate.
- Terms of Delivery
- Royalty Payments

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