

LEGAL

## Trade secrets: What fashion and luxury brands should know

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*The World Intellectual Property Organization (WIPO) reviews various trade secrets used in the fashion industry. Image credit: World Intellectual Property Organization*

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Trade secrets are one of the big four recognized forms of intellectual property.

Yet many fashion and luxury goods companies neglect this protection, perceiving that trade secret law only applies to companies involved in technology-driven businesses. That is a misconception.

Trade secret protection can be invaluable to many companies, including fashion and luxury goods companies.

In this article, we examine the basics of trade secret law: what qualifies as a trade secret, what kind of protection can be had, what steps a business can take to ensure protection, and what remedies are available if a trade secret is stolen.

What is a trade secret?

The Defend Trade Secrets Act (DTSA), passed in 2016, provides a federal civil remedy for trade secret theft. The law broadly protects trade secrets, which until then were only protected by state law.

A review of its provisions is a good way to understand the basics of trade secret law.

The definition of a trade secret broadly includes any financial, business, scientific, technical, economic or engineering information, if two conditions are met:

1. The owner has taken reasonable measures to keep such information secret
2. The information derives independent economic value from not being generally known or ascertainable by others who could obtain value from knowing it

Whenever a business gains a competitive advantage from the secrecy of its information and has taken "reasonable measures" to keep the information secret, then it owns a trade secret. This covers many kinds of information that a business might use.

While this would include secret technical information the secret formula for Coca-Cola is probably one of the most famous trade secrets some common examples of trade secrets that fashion businesses might own include:

- Customer lists and preferences
- Identities of key suppliers
- Marketing and other business strategies
- Manufacturing and design methods
- Survey methods
- New designs for the next season
- Negative know-how what methods do *not*

A report of the World Intellectual Property Organization (WIPO) reviews various trade secrets used in the fashion industry, and gives an example:

*The Spanish retail fashion chain, Zara, uses a proprietary information technology (IT) system to shorten their production cycle i.e.m the time from identifying a new trend to delivering the finished product to a mere 30 days. Most of their competitors take from 4 to 12 months. The company receives daily streams of email from store managers signaling new trends, fabrics and cuts, from which its designers quickly prepare new styles. The fabric selected is immediately cut in an automated facility and sent to workshops. A high-tech distribution system, with some 200 kilometers of underground traces and over 400 chutes, ensures that the finished items are shipped and arrive in stores within 48 hours.*

Trade secrets may include temporarily secret information. Suppose a luxury goods company has plans to release new designs next season. Before they are released, there may well be considerable value to the company in maintaining their secrecy and keeping competitors in the dark.

True, trade secret protection will be lost once the new designs are released. But until that time, the new designs would enjoy trade secret protection and the business would gain the value of the lead time in designing, producing and then introducing the new designs.

Reasonable efforts

Critical to maintaining the protection of the trade secrets is that the business has taken "reasonable measures" to keep such information secret.

One critical step to have in place is agreements with actors to whom the secrets are revealed, requiring them to maintain confidentiality. Most prominently, this includes employees.

The vast majority of trade secret cases involve employees who "jump ship" to a competitor and take valuable information. Agreements with such employees should be in place, providing a duty to maintain the company's trade secrets and confidential information.

Agreements with other actors are also important. Companies generally often have vendors, suppliers, shipping agents and others as part of their business. If trade secret information is revealed to these actors as part of the business relationship, then contractual agreements to maintain secrecy are a must.

Cybersecurity is another critical area where "reasonable measures" must be taken.

Virtually all business information today resides in computer systems. This means that, to maintain the trade secret protection for any such information, reasonable efforts must be made to keep it secure.

In a few cases, courts have rejected trade secret claims because the owner's cybersecurity efforts were inadequate.

Among other things to consider when assessing cybersecurity:

1. Is the confidential information robustly protected with passwords?
2. Is access limited to key employees with a "need to know" the information?
3. Where is the information stored? In a secure server? The cloud?
4. If the information is being conveyed through email communications, are they secure? And, again, limited to

those with a need to know? Watch the indiscriminate "reply all."

5. Does the information reside on portable devices, such as an employee's laptop or smartphone? What happens if the employee loses that is there a protocol to disable access remotely and, if needed, retrieve the information?

Many companies conduct trade secret audits, so they can assess what trade secrets they have and what measures are being taken to protect them. This often overlaps substantially with cybersecurity assessments, so it is well advisable to do them at the same time.

Trade secrets are misappropriated, not infringed

The technical term for theft of a trade secret is "misappropriation," different from "infringement," the usual term used in intellectual property. This is more than just a semantic difference.

Misappropriation means that "improper means" have to be used to obtain the information. "Improper means" could include theft, bribery, fraud, breaching or inducing another to breach a duty of confidentiality (typically an employee), computer hacking, or electronic espionage.

The DTSA extends misappropriation to acquiring information that one knows was acquired through improper means or knowing that the information was acquired with a duty to maintain secrecy.

Thus, a competitor who acquires information from someone else it knows used improper means is itself guilty of "misappropriation."

What misappropriation does *not* include, however, is legitimate development of the same information. Someone who independently creates the same information is not guilty of misappropriation.

Misappropriation also does not include "reverse engineering."

If a product is sold to the public, a competitor is free to buy samples, analyze them, learn what it can from them, and then use that information for its own business.

Likewise, a competitor could review and analyze a company's advertising and promotions released to the public and use what it learns for its own business.

In this way, trade secrets are more limited than patents someone can always develop the same information independently, or learn what it can from publicly available sources, and then use that in its business.

Thus, trade secret protection is only useful when the information is not easily learned without improper access to the trade secret.

Cybersecurity can sometimes be helpful in showing misappropriation.

In one trade secret case brought by Nike against adidas, Nike alleged that three designers who left its employment to work for Adidas copied sensitive design and business documents from their computers, including drawings for an unreleased shoe made for one of Nike's sponsored athletes.

Nike also alleged that the designers tried to hide their tracks by erasing incriminating emails and text messages from their work-issued mobile phones and laptops, which it had been able to trace.

Thus, Nike was able to follow the "cyber-trail" to document how the faithless employees had both stolen the secret information and then tried to hide their tracks.

A company would be well advised to consult with its IT department to see if tracking and like software could be implemented to follow such misdeeds.

Remedies

So, what happens if trade secrets are misappropriated? The DTSA provides for extensive remedies.

A court can issue a preliminary or permanent injunction against use of the trade secrets. It can award money damages both losses to the trade secret owner, and an award of the wrongful profits gained by the misappropriator. Punitive damages and attorney's fees may also be awarded.

One remedy that the DTSA introduced is seizure of property typically computers, but also documents to prevent trade secret misappropriation. This was modeled after the seizure provisions of the Trademark Act, which many luxury

goods companies have used to seize counterfeit goods and records of their sales from counterfeiters.

Like trademark counterfeiting seizures, a court may order this *ex parte*, meaning without notice to the other side. And, like counterfeiting seizures, Congress set out rigorous requirements that a court must find before ordering a seizure, lest the provisions be abused.

In extreme cases, one might be able to convince a court to order seizure of laptops and other computers to prevent use of the stolen trade secrets. Of course, one must act quickly before the information is copied, rendering the seizure ineffective.

#### Whistleblower immunity

The DTSA also enacted "whistleblower" immunity, a broad immunity from liability to someone who discloses trade secrets, in confidence, to a government official or attorney, and made solely for the purpose of reporting suspected violations of the law, or in a sealed legal filing.

Congress also required that this be disclosed to employees in any contract that governs the use of trade secrets. Failure to do so limits the available remedies under the DTSA. So, companies should make sure this is included in their employment agreements.

TRADE SECRETS CAN be as valuable to fashion and luxury goods companies as the other forms of intellectual property.

Trade secrets are different from all other intellectual property in that there is no governmental involvement at all in securing the rights.

Patents are issued by the Patent Office. Trademarks and copyrights are registered with their respective government offices. But trade secrets are secured solely through due diligence of the business that uses them.

So, understanding how trade secrets work, and how to effectively implement a trade secret strategy, is crucial to gaining the business value of these rights.



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