DIGITAL IQ INDEX®

BEAUTY

December 17, 2015

Watch the Video

Robust

E-commerce growth is robust in the $32 billion[1] U.S. Beauty industry, accounting for eight percent of sales.[2] For Estée Lauder, the number is higher: 12 percent in the U.S., and eight percent globally (roughly $800 million).[3,4] L'Oréal is poised to break the $1 billion mark in online sales across markets in FY 2015.[5]

Seven Dwarves

But brand.com e-commerce remains a sliver of the $300 billion U.S. e-commerce market. The top 10 e-commerce players in the U.S.—mostly retailers—clock half of e-commerce sales, and the top four command 40 percent of e-commerce sales. The goliaths? Amazon, Apple, Walmart, and Staples, with Amazon responsible for a full quarter of online sales. The Seattle behemoth registered $72 billion in web sales in 2014[6] and 28 percent growth in the most recent quarter, vs. Walmart's 10 percent.[7,8] E-commerce is becoming Amazon and the seven dwarves.

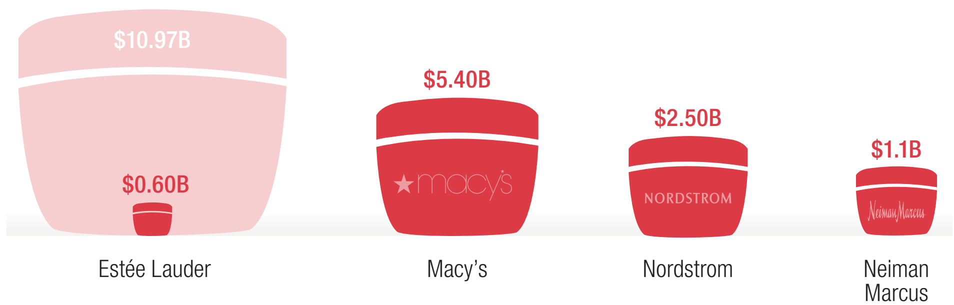
Despite inroads of brand sites, the majority of online shoppers prefer to purchase through retailers—70 percent.[9] L'Oréal reports one-quarter of online sales come directly from the brand, but three-quarters come from retailer sites.[10] Put in context, Estée Lauder's combined $600 million of web sales from brand sites in 2014 pales in comparison to the individual e-commerce revenue streams of its department-store partners (e.g., Macy's $5.4bb, Nordstrom $2.5bb). Brand sites have become the journey, but not the destination, for purchase: Amazon is among the top five downstream destinations for 45 percent of Index sites, vs. Sephora, at 15 percent.

1. Euromonitor.
2. NPD Group.
3. "Estee Lauder's Digital, China and Retail Goals," CEW Beauty Insider, September 15, 2015.
4. "Estee Lauder wants more South Korean web sales," Mark Brohan, Internet Retailer, October 27, 2015.
5. "L'Oreal projects one billion euros in e-commerce sales in 2015," Matt Lindner, Internet Retailer, August 4, 2015.
6. "E-commerce sales grow six times faster for U.S. Top 500 merchants than total retail sales," Mark Brohan, Internet Retailer, April 13, 2015.
7. "Amazon posts second straight profit powered by Web Services," Anya George Tharakan and Alexandria Sage, Reuters, October 22, 2015.
8. "The Big Cloud Hanging Over Walmart's Improving Sales? Soft E-commerce Growth," Phil Wahba, Fortune, November 17, 2015.
9. "2015 Digital Consumer Preferences Survey," BrandShop, September 17, 2015.
10. "Online Beauty: L'Oréal's E-Commerce Strategy," L'Oréal Monthly Digest, November 2015.

Beauty: Estée Lauder Sales vs. Department Store Sales

In Billions

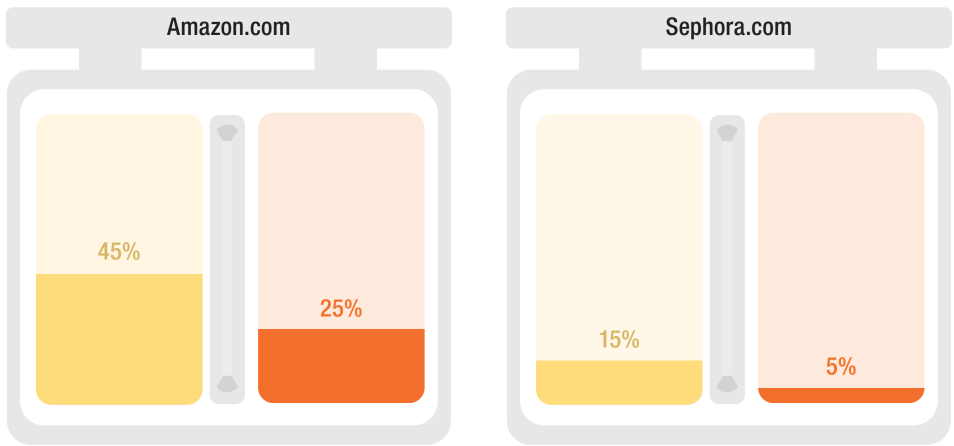
2014 All Sales Total E-Commerce Sales



Source: L2 Digital IQ Index®: Beauty, December 2015.

Beauty: Comparative Rank of Amazon vs. Sephora in Outbound Traffic from Brand.com

September 2015, n= 95 Beauty Brand Sites Top 5 Destination Top 3 Destination



Source: L2 Commerce IQ®.

New Arbiter

Instagram is the coolest platform on the block, with retail concepts dedicated to selling Beauty products that are trending on the platform.[11] More tellingly, there is a correlation between offline success and engagement on Instagram. Index newcomer Anastasia Beverly Hills, which posts 62 photos per week on Instagram and claims a third of total share of voice on the platform, has translated online engagement into sales growth: it's the fastest growing prestige brand in off- and online sales.[12]

Reaching the millennial consumer has become a key initiative for brands—millennial women are among the most voracious consumers.[13] Estée Lauder's 19 mentions of "millennial" in its latest Annual Report compared with none last year is a barometer for the industry. The flagship brand's partnership with Kendall Jenner in 2014 was a deft move—the average @esteelauder Instagram photo featuring the model registers twenty times the engagement of a non-Kendall photo.

Thunderdome

Video's influence remains in full force in Beauty. While brands are advertising on both Facebook and YouTube, vloggers still favor YouTube which now boasts two million Beauty videos in English, half dedicated to make-up.[14] Earned media remains a powerful vehicle for brand awareness and path to purchase: 23 percent of heavy Beauty purchasers indicate that YouTube specifically is important to their purchase decisions.[15] But brand-owned content requires extensive paid support to achieve a fraction of the views that vloggers command organically. A strong video strategy coupled with authentic creative is a powerful cocktail as Facebook and YouTube offer more views to brands in the thunderdome showdown for video supremacy.[16]

11. "New York City beauty retailer sells only makeup discovered on Instagram," Deanna Utroske, CosmeticsDesign.com USA, August 25, 2015.
12. "Independent Beauty Brands Seeing Big Growth Within Prestige Beauty," NPD Group, July 27, 2015.
13. "2014 Beauty Consumer Insights Study," TABS Group, December 18, 2014.
14. "Beauty on YouTube," Pixability, 2015.
15. "2014 Beauty Consumer Insights Study," TABS Group, December 18, 2014.
16. "Facebook video ads are coming – so look out, YouTube," Patrick Kulp, Mashable, July 1, 2015.

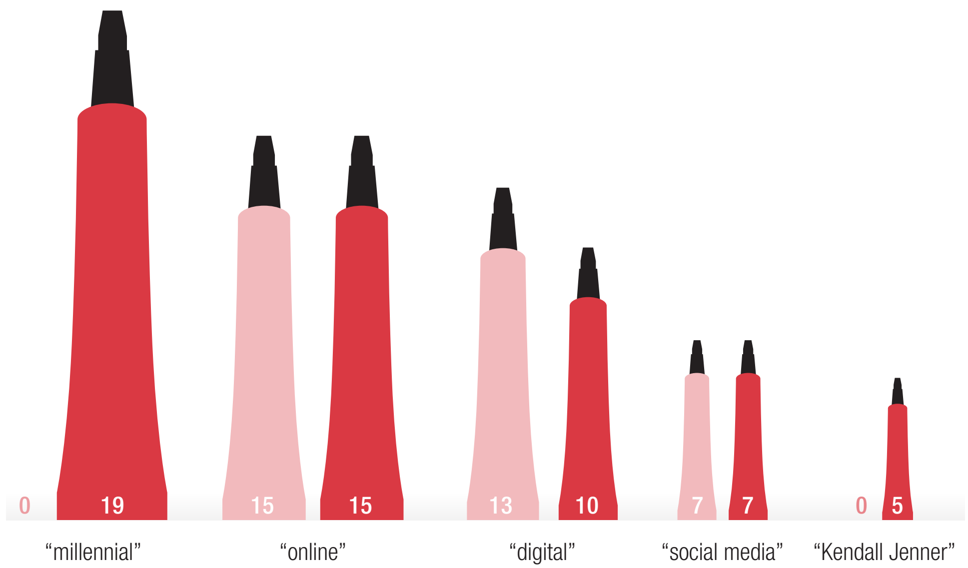
Digital IQ = Shareholder Value

This year's Digital IQ Index® benchmarks 106 U.S. Beauty brands across the Color Cosmetics, Fragrance, Nail, and Skincare categories. Our aim is to provide a robust tool to diagnose digital strengths and weaknesses, helping managers achieve greater return on incremental investment. Like the medium we are assessing, our approach is dynamic. Please reach out with comments to help improve our methodology and findings.

Regards, **L2**

Beauty: Buzzword Mentions in Estée Lauder Annual Reports

2014–2015 ■ 2014 ■ 2015



Source: L2 Digital IQ Index®: Beauty, December 2015.

ABOUT THE RANKING

DIGITAL IQ INDEX® BEAUTY

Methodology

SITE & E-COMMERCE

40%

BRAND.COM

Navigation, Search, Technology:
Load Time, Analytics, Video Content, Guided Selling Tools, UGC, Site Search, Sorts & Filters

Product Merchandising:
Content, Video, Usage & Ingredients, User Reviews, Cross-Selling

Customer Service & Account:
Contact Us, Live Chat, User Account, Loyalty Program, Store Locator

E-Commerce:
Third-Party Handoff*, Ease of Checkout, Shipping & Returns, Auto-Replenishment

RETAILER.COM*:

Merchandising, Review Count Discoverability & Visibility
Amazon, Walmart, Target, Nordstrom, Macy's, Sephora, Ulta

Amazon Gray Market Cleanup
(Prestige Beauty Only)

DIGITAL MARKETING

25%

Brand Search:
Traffic, Web Authority, SEO/SEM

Category Search:
Frequency of Appearance & Search Rank on Category-Specific Keywords

Web Advertising:
Impressions & Creative Units on Desktop Display & Video Pre-Roll (Pathmatics), Share of Traffic from Display

Earned Media:
Brand Mentions Across Beauty-Specific Communities

Email:
Ease of Signup, Incentives, Frequency, Content, Trigger Emails, Mobile Optimization, Personalization Efforts

MOBILE & TABLET

20%

Mobile Site:
Compatibility, Functionality, Mobile Feature Set, M-Commerce

Tablet Experience:
Responsiveness, UI/UX Optimization for Touch Input, Checkout & Cart Persistence

Mobile Advertising & Innovation:
Impressions & Creative Units on Mobile & Tablet Browsers (Pathmatics), Apps*

Mobile Search:
"Above-the-Fold" Visibility, "Mobile-Friendly" Designation, Paid Search Extensions

SOCIAL MEDIA

15%

Facebook:
Reach, Engagement, Programming, Native Video

YouTube:
Search Visibility, Channel Experience, Total Video Views, Paid Support

Instagram:
Reach, Engagement, Programming, #Brand Mentions

Twitter:
Reach, Engagement, Tweet Frequency

Emerging Platforms:
Pinterest

* If Applicable

Classification

GENIUS 140+	GIFTED 110–139	AVERAGE 90–109	CHALLENGED 70–89	FEEBLE <70
Digital competence is a point of competitive differentiation for these brands. Creatively engineered messaging reaches consumers on a variety of devices and in many online environments.	Brands are experimenting and innovating across site, mobile, and social platforms. Digital presence is consistent with brand image and larger marketing efforts.	Digital presence is functional yet predictable. Efforts are often siloed across platforms.	Limited or inconsistent adoption of mobile and social media platforms. Sites lack inspiration and utility.	Investment does not match opportunity.

DIGITAL IQ INDEX RANKING

DIGITAL IQ INDEX® **BEAUTY**

IN THE COMPANY OF GENIUS **GIFTED**

RANK	BRAND		DIGITAL IQ
1	URBAN DECAY (beauty with an edge)	L'Oréal Group	149
2	MAYBELLINE NEW YORK	L'Oréal Group	145
3	L'ORÉAL PARIS	L'Oréal Group	144
3	LANCÔME PARIS	L'Oréal Group	144
5	benefit SAN FRANCISCO	LVMH	142
6	CLINIQUE	The Estée Lauder Companies	138
6	MAC	The Estée Lauder Companies	138
8	SINCE Kiehl's 1851	L'Oréal Group	137
9	ESTĒE LAUDER	The Estée Lauder Companies	135
10	COVERGIRL	Procter & Gamble	134
10	OLAY	Procter & Gamble	134
12	BOBBI BROWN	The Estée Lauder Companies	133
12	Sally Hansen	Coty, Inc.	133
14	bareMinerals	Shiseido Co., Ltd.	132
15	smashbox COSMETICS	The Estée Lauder Companies	131
16	AVON	Avon Products, Inc.	130
16	O·P·I	Coty, Inc.	130
18	Neutrogena	Johnson & Johnson, Inc.	129
19	essie	L'Oréal Group	124

GENIUS
Urban Decay
Maybelline New York
L'Oréal Paris
Lancôme
Benefit Cosmetics

GIFTED
Clinique
MAC Cosmetics
Kiehl's
Estée Lauder
CoverGirl
Olay
Bobbi Brown
Sally Hansen
bareMinerals
Smashbox Cosmetics
Avon
OPI
Neutrogena
Essie
NYX
Too Faced
Chanel
Dior
Dove
NARS Cosmetics
Origins
Philosophy
Tarte Cosmetics
L'Occitane en Provence
Revlon
Giorgio Armani Beauty
Aveda
Make Up For Ever
Shiseido
e.l.f. Cosmetics
Garnier
Proactiv
Charlotte Tilbury
Clarisonic
Clarins
Laura Mercier
Murad
Kat Von D

AVERAGE
Calvin Klein
Dolce & Gabbana
Vichy
Victoria's Secret
Fresh
Simple
Dermalogica
Skinceuticals
Jo Malone
YSL Beauty
Gucci
La Mer
La Roche-Posay
Dermablend
Mary Kay
Ralph Lauren Fragrances
SK-II
Stila Cosmetics
StriVectin
Aveeno
Burberry
Rimmel London
Christian Louboutin
Kate Somerville
Marc Jacobs Beauty
Elizabeth Arden
Michael Kors
Perricone MD
Deborah Lippmann
La Prairie
Thierry Mugler
Prada
REN Skincare
Wet 'n' Wild
Anastasia Beverly Hills
Formula X
Marc Jacobs Fragrance
Hourglass Cosmetics
Nivea

CHALLENGED
Artistry
Jimmy Choo
butter London
Sisley
Bite Beauty
Hugo Boss
Juicy Couture
Trish McEvoy
Almay
Guerlain
Ole Henriksen
Pond's
Viktor & Rolf
GLAMGLOW
Lacoste
DKNY Fragrances
Donna Karan
New York Color
BECCA Cosmetics
Eau Thermale Avène
Nina Ricci

FEEBLE
Issey Miyake Parfums
Jean Paul Gaultier
Vera Wang Fragrances

December 17, 2015

DIGITAL IQ INDEX RANKING

DIGITAL IQ INDEX® **BEAUTY**

GIFTED

RANK	BRAND		DIGITAL IQ
19	NYX	L'Oréal Group	124
19	Too Faced Cosmetics	Too Faced Cosmetics, LLC	124
22	CHANEL	Chanel S.A.	123
22	Dior	LVMH	123
22	Dove	Unilever	123
22	NARS	Shiseido Co., Ltd.	123
26	ORIGINS	The Estée Lauder Companies	122
27	philosophy	Coty, Inc.	120
28	tarte high-performance naturals	KOSÉ Corp.	119
29	L'OCCITANE	The L'OCCITANE Group	118
29	REVLON	Revlon, Inc.	118
31	GIORGIO ARMANI	L'Oréal Group	117
32	AVEDA	The Estée Lauder Companies	116
32	MAKE UP FOR EVER PROFESSIONAL PARIS	LVMH	116
32	SHISEIDO	Shiseido Co., Ltd.	116
35	elf eyes lips face	J.A. Cosmetics US, Inc.	115
36	GARNIER	L'Oréal Group	114
36	proactiv+	Guthy-Renker LLC	114
38	CT Charlotte Tilbury	Charlotte Tilbury Beauty, Inc.	113
38	clarisonic	L'Oréal Group	113
40	CLARINS	Clarins SA	112

L2

GENIUS
Urban Decay
Maybelline New York
L'Oréal Paris
Lancôme
Benefit Cosmetics

GIFTED
Clinique
MAC Cosmetics
Kiehl's
Estée Lauder
CoverGirl
Olay
Bobbi Brown
Sally Hansen
bareMinerals
Smashbox Cosmetics
Avon
OPI
Neutrogena
Essie
NYX
Too Faced
Chanel
Dior
Dove
NARS Cosmetics
Origins
Philosophy
Tarte Cosmetics
L'Occitane en Provence
Revlon
Giorgio Armani Beauty
Aveda
Make Up For Ever
Shiseido
e.l.f. Cosmetics
Garnier
Proactiv
Charlotte Tilbury
Clarisonic
Clarins
Laura Mercier
Murad
Kat Von D

AVERAGE
Calvin Klein
Dolce & Gabbana
Vichy
Victoria's Secret
Fresh
Simple
Dermalogica
Skinceuticals
Jo Malone
YSL Beauty
Gucci
La Mer
La Roche-Posay
Dermablend
Mary Kay
Ralph Lauren Fragrances
SK-II
Stila Cosmetics
StriVectin
Aveeno
Burberry
Rimmel London
Christian Louboutin
Kate Somerville
Marc Jacobs Beauty
Elizabeth Arden
Michael Kors
Perricone MD
Deborah Lippmann
La Prairie
Thierry Mugler
Prada
REN Skincare
Wet 'n' Wild
Anastasia Beverly Hills
Formula X
Marc Jacobs Fragrance
Hourglass Cosmetics
Nivea

CHALLENGED
Artistry
Jimmy Choo
butter London
Sisley
Bite Beauty
Hugo Boss
Juicy Couture
Trish McEvoy
Almay
Guerlain
Ole Henriksen
Pond's
Viktor & Rolf
GLAMGLOW
Lacoste
DKNY Fragrances
Donna Karan
New York Color
BECCA Cosmetics
Eau Thermale Avène
Nina Ricci

FEEBLE
Issey Miyake Parfums
Jean Paul Gaultier
Vera Wang Fragrances

DIGITAL IQ INDEX RANKING

DIGITAL IQ INDEX® **BEAUTY**

GIFTED AVERAGE

RANK	BRAND		DIGITAL IQ
40	laura mercier	Gurwitch Products, LLC	112
40	Murad	Unilever	112
43	Kat Von D	LVMH (Kendo Holdings Inc)	110
44	Calvin Klein	Coty, Inc.	109
44	DOLCE & GABBANA	Procter & Gamble	109
44	VICHY LABORATOIRES	L'Oréal Group	109
44	VICTORIA'S SECRET	Limited Brands	109
48	fresh	LVMH	107
48	simple	Unilever	107
50	dermalogica	Unilever	106
50	SKINCEUTICALS	L'Oréal Group	106
52	JO MALONE LONDON	The Estée Lauder Companies	105
52	YVES SAINT LAURENT	L'Oréal Group	105
54	GUCCI	Procter & Gamble	104
54	LA MER	The Estée Lauder Companies	104
54	LA ROCHE-POSAY LABORATOIRE DERMATOLOGIQUE	L'Oréal Group	104
57	DERMABLEND PROFESSIONAL	L'Oréal Group	103
57	MARY KAY	Mary Kay	103
57	RALPH LAUREN	L'Oréal Group	103
57	SK-II	Procter & Gamble	103
57	stila cosmetics	Patriarch Partners, LLC	103

GENIUS
Urban Decay
Maybelline New York
L'Oréal Paris
Lancôme
Benefit Cosmetics

GIFTED
Clinique
MAC Cosmetics
Kiehl's
Estée Lauder
CoverGirl
Olay
Bobbi Brown
Sally Hansen
bareMinerals
Smashbox Cosmetics
Avon
OPI
Neutrogena
Essie
NYX
Too Faced
Chanel
Dior
Dove
NARS Cosmetics
Origins
Philosophy
Tarte Cosmetics
L'Occitane en Provence
Revlon
Giorgio Armani Beauty
Aveda
Make Up For Ever
Shiseido
e.l.f. Cosmetics
Garnier
Proactiv
Charlotte Tilbury
Clarisonic
Clarins
Laura Mercier
Murad
Kat Von D

AVERAGE
Calvin Klein
Dolce & Gabbana
Vichy
Victoria's Secret
Fresh
Simple
Dermalogica
Skinceuticals
Jo Malone
YSL Beauty
Gucci
La Mer
La Roche-Posay
Dermablend
Mary Kay
Ralph Lauren Fragrances
SK-II
Stila Cosmetics
StriVectin
Aveeno
Burberry
Rimmel London
Christian Louboutin
Kate Somerville
Marc Jacobs Beauty
Elizabeth Arden
Michael Kors
Perricone MD
Deborah Lippmann
La Prairie
Thierry Mugler
Prada
REN Skincare
Wet 'n' Wild
Anastasia Beverly Hills
Formula X
Marc Jacobs Fragrance
Hourglass Cosmetics
Nivea

CHALLENGED
Artistry
Jimmy Choo
butter London
Sisley
Bite Beauty
Hugo Boss
Juicy Couture
Trish McEvoy
Almay
Guerlain
Ole Henriksen
Pond's
Viktor & Rolf
GLAMGLOW
Lacoste
DKNY Fragrances
Donna Karan
New York Color
BECCA Cosmetics
Eau Thermale Avène
Nina Ricci

FEEBLE
Issey Miyake Parfums
Jean Paul Gaultier
Vera Wang Fragrances

December 17, 2015

DIGITAL IQ INDEX RANKING

DIGITAL IQ INDEX® **BEAUTY**

AVERAGE

RANK	BRAND	DIGITAL IQ
57	StriVectin StriVectin Operating Company, Inc.	103
63	Aveeno Active Naturals Johnson & Johnson, Inc.	102
64	BURBERRY Burberry Group	101
64	RIMMEL Coty, Inc.	101
66	Christian Louboutin Christian Louboutin LLC	99
66	Kate Somerville Skin Health Experts Unilever	99
66	MARC JACOBS BEAUTY LVMH (Kendo Holdings Inc)	99
69	Elizabeth Arden Elizabeth Arden, Inc.	98
69	MICHAEL KORS The Estée Lauder Companies	98
71	Perricone MD N.V. Perricone , LLC	97
72	deborah lippmann Lippmann Enterprises, LLC	96
73	la prairie SWITZERLAND Beiersdorf AG	95
73	Thierry Mugler Clarins SA	95
75	PRADA Puig SL	94
75	REN CLEAN SKINCARE Unilever	94
75	wet n wild Markwins International Corp.	94
78	ANASTASIA Beverly Hills Anastasia Beverly Hills, Inc.	93
79	FORMULA X LVMH (Kendo Holdings Inc)	92
79	MARC JACOBS FRAGRANCES Coty, Inc.	92
81	HOURGLASS Hourglass Cosmetics	91
82	NIVEA Beiersdorf AG	90

GENIUS
Urban Decay
Maybelline New York
L'Oréal Paris
Lancôme
Benefit Cosmetics
GIFTED
Clinique
MAC Cosmetics
Kiehl's
Estée Lauder
CoverGirl
Olay
Bobbi Brown
Sally Hansen
bareMinerals
Smashbox Cosmetics
Avon
OPI
Neutrogena
Essie
NYX
Too Faced
Chanel
Dior
Dove
NARS Cosmetics
Origins
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Tarte Cosmetics
L'Occitane en Provence
Revlon
Giorgio Armani Beauty
Aveda
Make Up For Ever
Shiseido
e.l.f. Cosmetics
Garnier
Proactiv
Charlotte Tilbury
Clarisonic
Clarins
Laura Mercier
Murad
Kat Von D
AVERAGE
Calvin Klein
Dolce & Gabbana
Vichy
Victoria's Secret
Fresh
Simple
Dermalogica
Skinceuticals
Jo Malone
YSL Beauty
Gucci
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La Roche-Posay
Dermablend
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StriVectin
Aveeno
Burberry
Rimmel London
Christian Louboutin
Kate Somerville
Marc Jacobs Beauty
Elizabeth Arden
Michael Kors
Perricone MD
Deborah Lippmann
La Prairie
Thierry Mugler
Prada
REN Skincare
Wet 'n' Wild
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Almay
Guerlain
Ole Henriksen
Pond's
Viktor & Rolf
GLAMGLOW
Lacoste
DKNY Fragrances
Donna Karan
New York Color
BECCA Cosmetics
Eau Thermale Avène
Nina Ricci
FEEBLE
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Jean Paul Gaultier
Vera Wang Fragrances

December 17, 2015

DIGITAL IQ INDEX RANKING

DIGITAL IQ INDEX® **BEAUTY**

CHALLENGED

RANK	BRAND	DIGITAL IQ
83	ARTISTRY Amway	88
83	JIMMY CHOO Inter-Parfums, Inc.	88
85	butter LONDON butter London LLC	86
86	SISLEY Sisley Cosmetics USA, Inc.	85
87	BITE LVMH (Kendo Holdings Inc)	84
87	HUGO BOSS Procter & Gamble	84
87	Juicy Couture Elizabeth Arden, Inc.	84
90	Trish McEvoy Trish McEvoy Ltd.	83
91	ALMAY Revlon, Inc.	82
92	GUERLAIN PARIS LVMH	80
92	OLEHENRIKSEN LVMH (Kendo Holdings Inc)	80
94	POND'S Unilever	77
95	VIKTOR&ROLF L'Oréal Group	76
96	HOLLYWOOD, CALIFORNIA GLAMGLOW The Estée Lauder Companies	75
96	LACOSTE Procter & Gamble	75
98	DKNY The Estée Lauder Companies	74
99	DONNA KARAN NEW YORK The Estée Lauder Companies	73
99	NYC NEW YORK COLOR Coty, Inc.	73
101	BECCA BECCA, Inc.	71
102	EAU THERMALE Avène Pierre Fabre	70
102	NINA RICCI Puig SL	70

GENIUS
Urban Decay
Maybelline New York
L'Oréal Paris
Lancôme
Benefit Cosmetics

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Kiehl's
Estée Lauder
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Olay
Bobbi Brown
Sally Hansen
bareMinerals
Smashbox Cosmetics
Avon
OPI
Neutrogena
Essie
NYX
Too Faced
Chanel
Dior
Dove
NARS Cosmetics
Origins
Philosophy
Tarte Cosmetics
L'Occitane en Provence
Revlon
Giorgio Armani Beauty
Aveda
Make Up For Ever
Shiseido
e.l.f. Cosmetics
Garnier
Proactiv
Charlotte Tilbury
Clarisonic
Clarins
Laura Mercier
Murad
Kat Von D

AVERAGE
Calvin Klein
Dolce & Gabbana
Vichy
Victoria's Secret
Fresh
Simple
Dermalogica
Skinceuticals
Jo Malone
YSL Beauty
Gucci
La Mer
La Roche-Posay
Dermablend
Mary Kay
Ralph Lauren Fragrances
SK-II
Stila Cosmetics
StriVectin
Aveeno
Burberry
Rimmel London
Christian Louboutin
Kate Somerville
Marc Jacobs Beauty
Elizabeth Arden
Michael Kors
Perricone MD
Deborah Lippmann
La Prairie
Thierry Mugler
Prada
REN Skincare
Wet 'n' Wild
Anastasia Beverly Hills
Formula X
Marc Jacobs Fragrance
Hourglass Cosmetics
Nivea

CHALLENGED
Artistry
Jimmy Choo
butter London
Sisley
Bite Beauty
Hugo Boss
Juicy Couture
Trish McEvoy
Almay
Guerlain
Ole Henriksen
Pond's
Viktor & Rolf
GLAMGLOW
Lacoste
DKNY Fragrances
Donna Karan
New York Color
BECCA Cosmetics
Eau Thermale Avène
Nina Ricci

FEEBLE
Issey Miyake Parfums
Jean Paul Gaultier
Vera Wang Fragrances

December 17, 2015

DIGITAL IQ INDEX RANKING

DIGITAL IQ INDEX® BEAUTY

FEEBLE

RANK	BRAND	DIGITAL IQ
104	ISSEY MIYAKE Shiseido Co., Ltd.	51
104	Jean Paul GAULTIER Shiseido Co., Ltd.	51
106	VERAWANG Coty, Inc.	50

L2

GENIUS
Urban Decay
Maybelline New York
L'Oréal Paris
Lancôme
Benefit Cosmetics

GIFTED
Clinique
MAC Cosmetics
Kiehl's
Estée Lauder
CoverGirl
Olay
Bobbi Brown
Sally Hansen
bareMinerals
Smashbox Cosmetics
Avon
OPI
Neutrogena
Essie
NYX
Too Faced
Chanel
Dior
Dove
NARS Cosmetics
Origins
Philosophy
Tarte Cosmetics
L'Occitane en Provence
Revlon
Giorgio Armani Beauty
Aveda
Make Up For Ever
Shiseido
e.l.f. Cosmetics
Garnier
Proactiv
Charlotte Tilbury
Clarisonic
Clarins
Laura Mercier
Murad
Kat Von D

AVERAGE
Calvin Klein
Dolce & Gabbana
Vichy
Victoria's Secret
Fresh
Simple
Dermalogica
Skinceuticals
Jo Malone
YSL Beauty
Gucci
La Mer
La Roche-Posay
Dermablend
Mary Kay
Ralph Lauren Fragrances
SK-II
Stila Cosmetics
StriVectin
Aveeno
Burberry
Rimmel London
Christian Louboutin
Kate Somerville
Marc Jacobs Beauty
Elizabeth Arden
Michael Kors
Perricone MD
Deborah Lippmann
La Prairie
Thierry Mugler
Prada
REN Skincare
Wet 'n' Wild
Anastasia Beverly Hills
Formula X
Marc Jacobs Fragrance
Hourglass Cosmetics
Nivea

CHALLENGED
Artistry
Jimmy Choo
butter London
Sisley
Bite Beauty
Hugo Boss
Juicy Couture
Trish McEvoy
Almay
Guerlain
Ole Henriksen
Pond's
Viktor & Rolf
GLAMGLOW
Lacoste
DKNY Fragrances
Donna Karan
New York Color
BECCA Cosmetics
Eau Thermale Avène
Nina Ricci

FEEBLE
Issey Miyake Parfums
Jean Paul Gaultier
Vera Wang Fragrances

Product Merchandising

In the online environment, compelling product merchandising is quickly becoming the "new" product packaging, replacing in-store displays and beauty counter specialists that dominate the offline retail experience. Enhancing product merchandising on site with additional collateral, such as videos (49 percent), how-to content (30 percent), and UGC (16 percent) not only extends the reach of these materials but also creates a more effective selling environment.

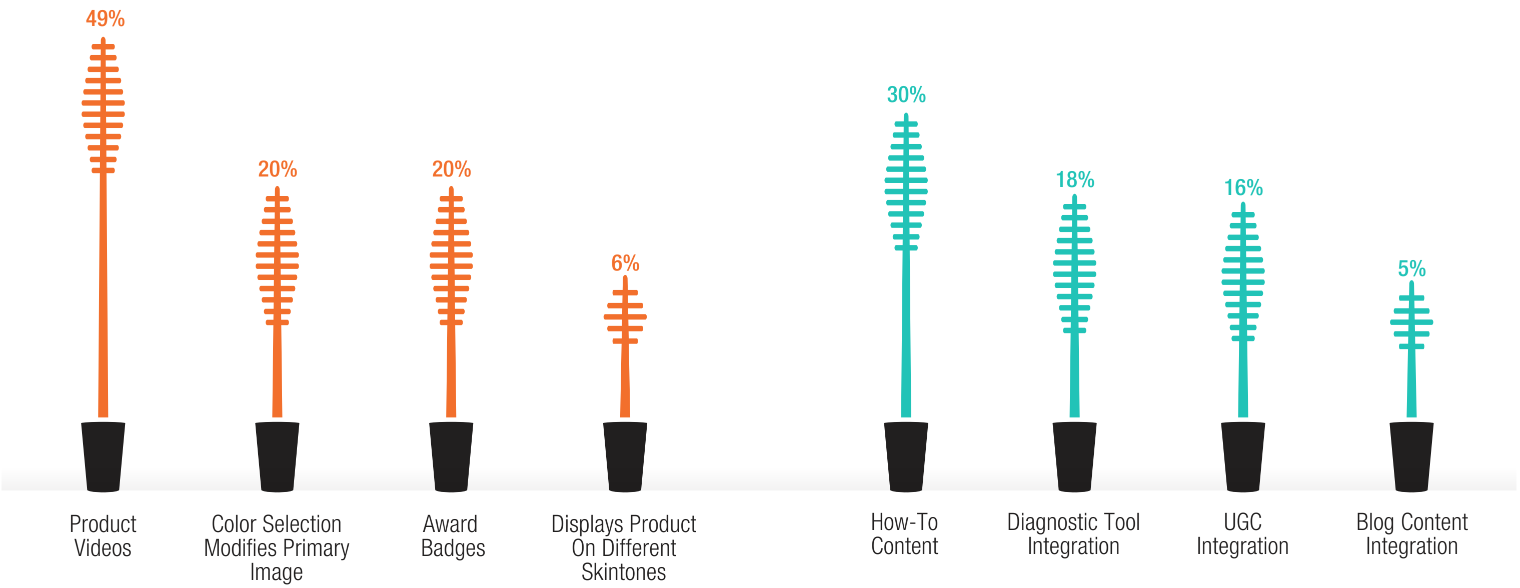
While not all features make sense for every brand to implement (e.g., displaying products on different skintones), brands should actively consider the types of information and decisions that their consumers make and supply materials accordingly. For example, among Color Cosmetics brands, bareMinerals provides the most comprehensive product detail pages. A product page for tinted moisturizer includes relevant how-to product videos, as well as a visual link to a shade-matching diagnostic tool. The bareMinerals site also boasts sophisticated user reviews that can be filtered by both reviewer profiles (a feature shared by 24 percent of sites) and product characteristics (12 percent).

Fragrance brands, which typically rely more on splashy product launches and artistic campaigns, can enhance their product merchandising by embedding campaign collateral on relevant product pages, as Giorgio Armani Beauty has done for its Acqua di Gio line.

Beauty: Merchandising & Guided Selling Features on Product Detail Pages

October 2015, n=112 Brand Sites

Merchandising Guided Selling



Source: L2 Digital IQ Index®: Beauty, December 2015.

E-Tailers

While the brand site allows the most explicit influence over the consumer experience, 70 percent of digital buyers still prefer to purchase Beauty products on retailer sites.[17] Furthermore, the average Index brand site attracted only 110 thousand unique site visitors in the month of August—compared to Sephora's 4 million visitors.[18]

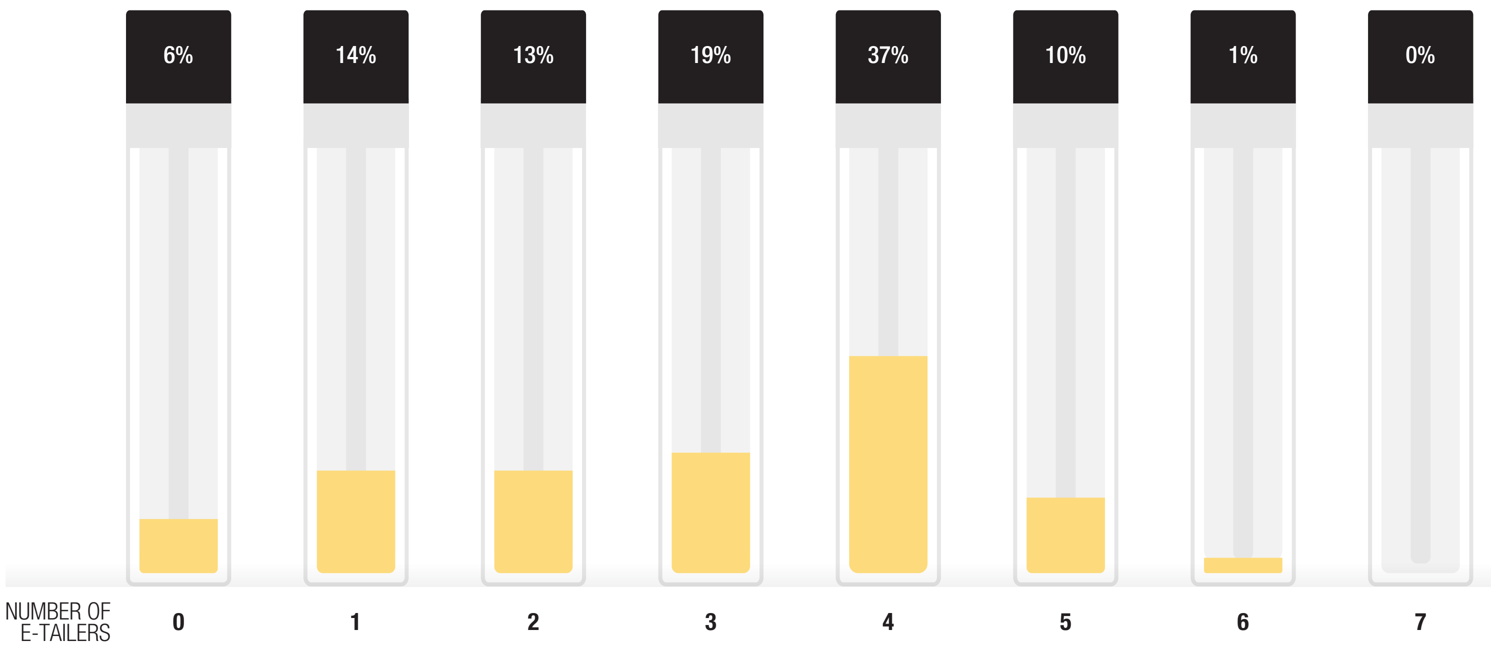
The majority of Index brands distribute through multiple retailers, imposing a delicate balancing act as brands negotiate with various outlets for their products (40 percent of Index brands are distributing through all three Beauty behemoths: Sephora, Nordstrom, and Macy's). Regardless of distribution strategy, brands need to optimize merchandising and search visibility on their priority retailers and strategically leverage any enterprise value (i.e., collective bargaining).

Though Amazon is a threat to all prestige Beauty brands and retailers, a unified front has yet to emerge. Each prestige enterprise is taking its own stance, with Estée Lauder and LVMH adopting the "head in sand" approach (and suffering the consequences).

17. "2015 Consumer Preferences Survey," BrandShop, September 17, 2015.
18. Compete.com.

Beauty: Scope of Distribution Efforts Across Leading E-Tailers
Percentage of Brands Selling Product on Indicated Number of Platforms
October 2015, n=106 Index Brands

Source: L2 Digital IQ Index®: Beauty, December 2015.

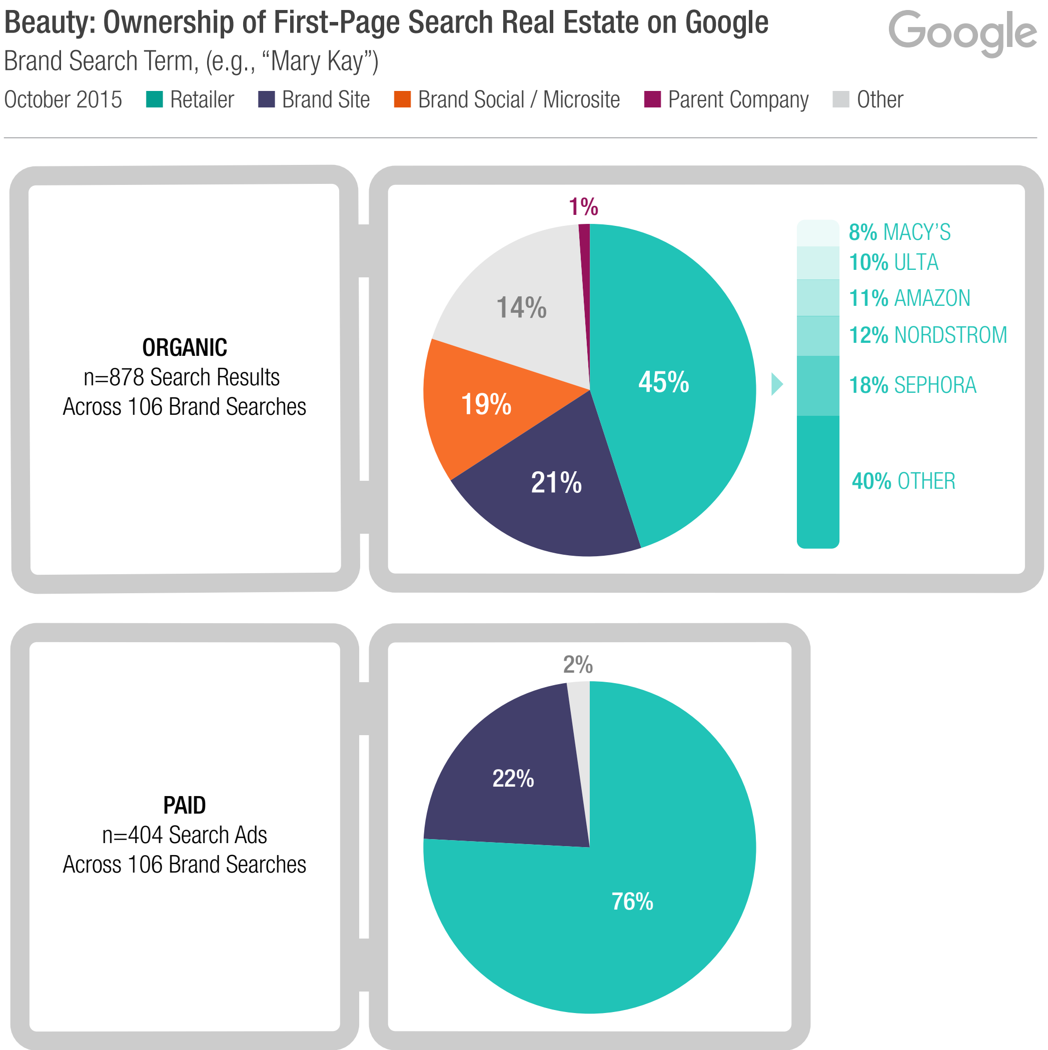


Retailers Win in Brand Search

The rift between retailers and brand sites continues to widen. Retailers are continuing to win in search for both specific brand terms (e.g., "Mary Kay") and broader, high-volume category terms (e.g., "best foundation"). Collectively, retail destinations own the largest share of first-page real estate, claiming 45 percent of first-page organic results for Index brand term searches, up from 35 percent last year. In comparison, brand-owned URLs (sites, social properties, and parent company sites) collectively maintain 41 percent ownership.

Of the brand search results owned by retailers, Sephora makes up the largest share (18 percent), followed by a cluster of e-tailers: Nordstrom (12 percent), Amazon (11 percent), Ulta (10 percent), and Macy's (eight percent). Amazon's notable presence among Beauty-specific retailers is a testament to its strength in the space and the growing threat as purchase paths are rerouted from traditional players. With 20 percent of U.S. shoppers of make-up products employing search engines to determine their ultimate purchase decisions (and an additional 10 percent navigating directly to retailers), brands face an increasingly challenging environment in which to maintain parity in search visibility.[19]

Beauty: Ownership of First-Page Search Real Estate on Google
Brand Search Term, (e.g., "Mary Kay")



Source: L2 Digital IQ Index®: Beauty, December 2015.

19. "What online sources did people use to make a purchase decision?" Google, The Consumer Barometer Survey 2014-2015, Accessed November 24, 2015.

Social Media is Not Created Equal

Sixty-five percent of U.S. adults and 76 percent of Internet users access at least one social media platform on a regular basis.[20] While the native reach of these platforms varies widely (1.55 billion active monthly users on Facebook, 400 million on Instagram, and 316 million on Twitter),[21] the engagement that these platforms inspire is not proportional to addressable audience. Instagram, the most visual platform, has repeatedly demonstrated its value to brands in terms of earned media mentions.[22]

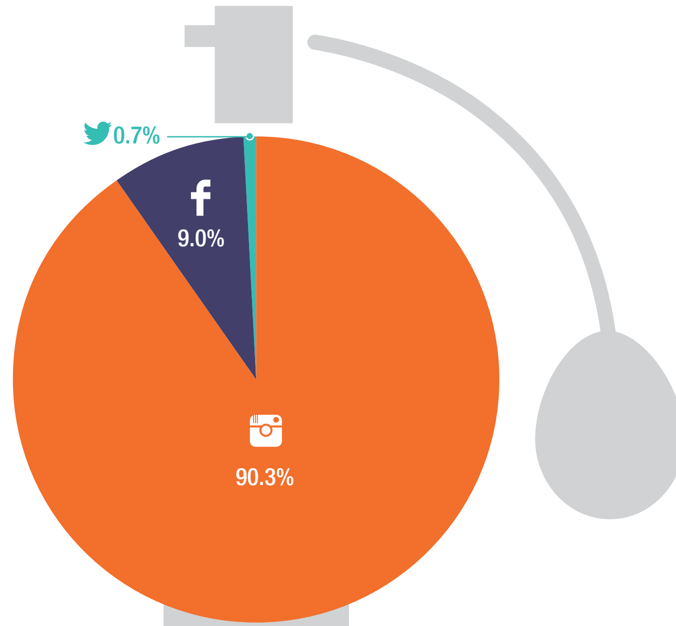
Instagram engagement has tripled year over year, while its sibling platform, Facebook, has experienced a sizable decline in total engagement following changes to its News Feed algorithm.[23] Facebook has invested heavily in native video in an attempt to grab advertising share from YouTube. With a lagging adoption rate, Pinterest is trying to find relevancy through buyability, rolling out shoppable Pins this year.

Twitter has stagnated in terms of consumer interaction, with its active user base dropping from 12 to eight percent year over year.[24] Its foray into live-streaming video, Periscope, has managed to pique the interest of 37 percent of Index brands as a tool for make-up demonstrations, event streaming, and new product promotions. Snapchat is a close second among emerging platforms, with a 34 percent adoption rate.

Beauty: Share of Total Post Interactions

Facebook, Instagram & Twitter

October 2014–October 2015



PLATFORM	INTERACTIONS
	Likes + Comments
	Likes + Comments + Shares
	Favorites + Retweets

Source: L2 Digital IQ Index®: Beauty, December 2015.

20. "Social Media Usage: 2005-2015," Andrew Perrin, Pew Research Center, October 8, 2015.
21. "Leading social networks worldwide," Statista, November 2015.
22. "La Mode May Cosmetics Edition," Christina Goswiller and Merissa Ren, Tribe Dynamics, May 2015.
23. "Facebook Changes News Feed Algorithm To Prioritize Content From Friends Over Pages," Amit Chowdhry, Forbes, April 23, 2015.
24. "Twitter user growth continues to stall," Laurie Beaver and Margaret Boland, Business Insider, October 28, 2015.

Mobile Site

At this juncture, over half of Beauty-centric keyword searches are now executed from a mobile device.[25] As brands increasingly recognize the mobile customer experience as the "primary" customer experience going forward, investment shifts beyond token investment in mobile site architecture to features and functionality that enhance conversion from mobile screens.

Over half of brands (58 percent) now make the consumer shopping experience more continuous among devices, enabling users to complete a recently saved cart session from another device login. Forty-three percent of brands also expedite the clunky mobile checkout process with PayPal integration.

The Estée Lauder brand's targeted mobile design is particularly noteworthy, where consumers can move through a series of questions leading up to a personalized product where they are prompted to purchase. A mobile-optimized chat button is static at the bottom of every page, providing consumers immediate, specialized support for beauty advice and order inquiries.

The recent spate of brand site re-launches from other Estée Lauder brands (Origins, MAC, and Bobbi Brown) all prioritize the mobile experience—the site architecture is clean and streamlined, free of distractions and clunky navigational elements. Origins, furthermore, adapts its innovative personalized search across screen devices. It's no surprise that the enterprise has thrown its weight behind optimizing the mobile purchase and guided selling experiences: mobile is now more than a third of its e-commerce business.[26]

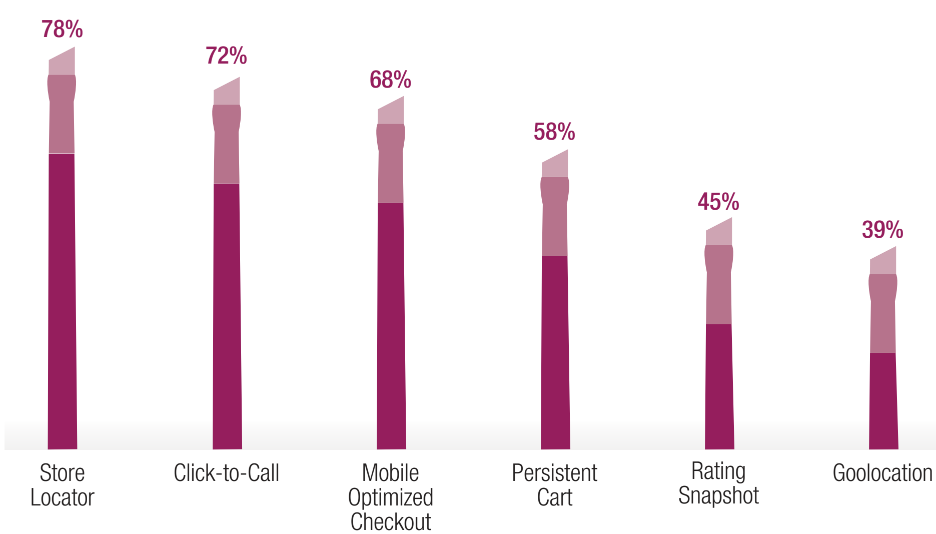
25. Google AdWords Keyword Planner Tool.

26. "Mobile is now more than a third of Estee Lauder's online business," Matt Lindner, Internet Retailer, November 3, 2015.

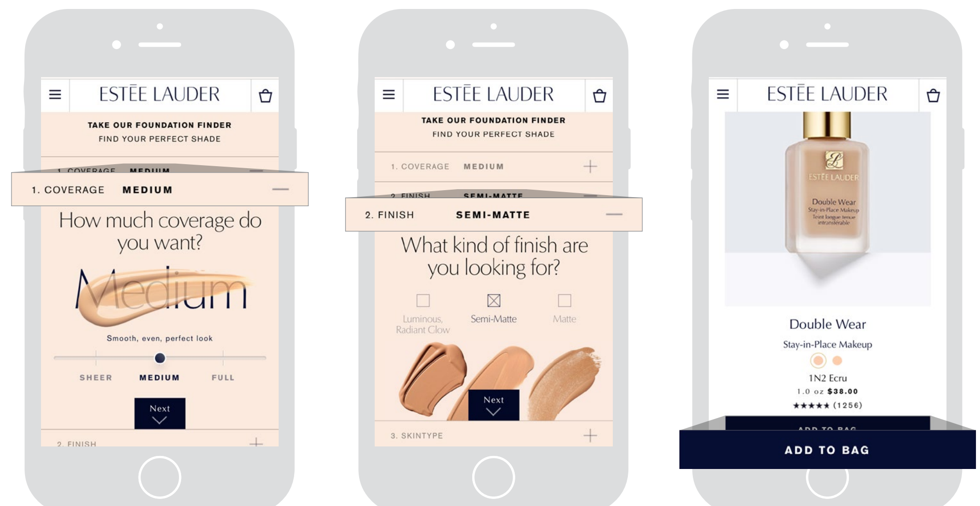
Beauty: Mobile Site Feature Adoption

Percentage of Mobile Sites with Feature

October 2015, n=101 Mobile-Optimized Sites



Source: L2 Digital IQ Index®: Beauty, December 2015.



ESTĒE LAUDER Estée Lauder's mobile site features a simple, intuitive diagnostic designed with mobile in mind.

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DIGITAL IQ INDEX® **BEAUTY**

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The definitive benchmark for online competence, Digital IQ Index® reports assess the digital performance of the top 60-100 brands across 12 industry verticals and 11 geographies. Brands are ranked against their peers on more than 850 data points diagnosing their digital strengths and weaknesses.

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Intelligence Reports complement L2's flagship Digital IQ Index® with a deeper dive into the platform or geographies of future growth. Critical areas of investigation include: Mobile, Video, Emerging Platforms, and Omnichannel Retail.

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