EXCERPT

DIGITAL IQ INDEX: FASHION 2016

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L2 DIGITAL IQ INDEX

FASHION

November 28, 2016

NEW NORMAL

As the innovation halo awarded to early movers in digital fades, luxury brands are questioning the impact of new investments once thought certain to drive growth. Shifting consumer behavior underscores that affluent customers continue to allocate resources to "experiences" versus tangible luxury goods.[1] To add insult to injury, historically robust US numbers failed to offset lackluster global performance, weakening luxury sales growth.[2,3]

E-commerce sales of personal luxury goods now account for $19B in revenue, or seven percent of the market. If categorized as a region, this segment would rank third behind the US and Japan.[4] Over the next five years, e-commerce is projected to drive two thirds of growth in the sector.[5] Moreover, regardless of where the end purchase occurs, 60 percent of luxury good purchases are influenced by digital touchpoints.[6] With no growth engine on the horizon, mastery of digital channels for discovery, influence, and sales is an increasingly salient indicator of a brand's prospects.

1. "Keep up With the Kardashians," Andrea Felsted and Elaine He, Bloomberg, October 21, 2016.
2. "Retail's Pain is Self-Inflicted," Shelly Banjo, Bloomberg, May 25, 2016.
3. "The Global Personal Luxury Goods Market Holds Steady At €249 Billion Amid Geopolitical Uncertainty," Bain, October 20, 2016.
4. Ibid.
5. Ibid.
6. "Luxury facing a digital-or-die dilemma: BCG," Sarah Jones, Luxury Daily, September 22, 2016.

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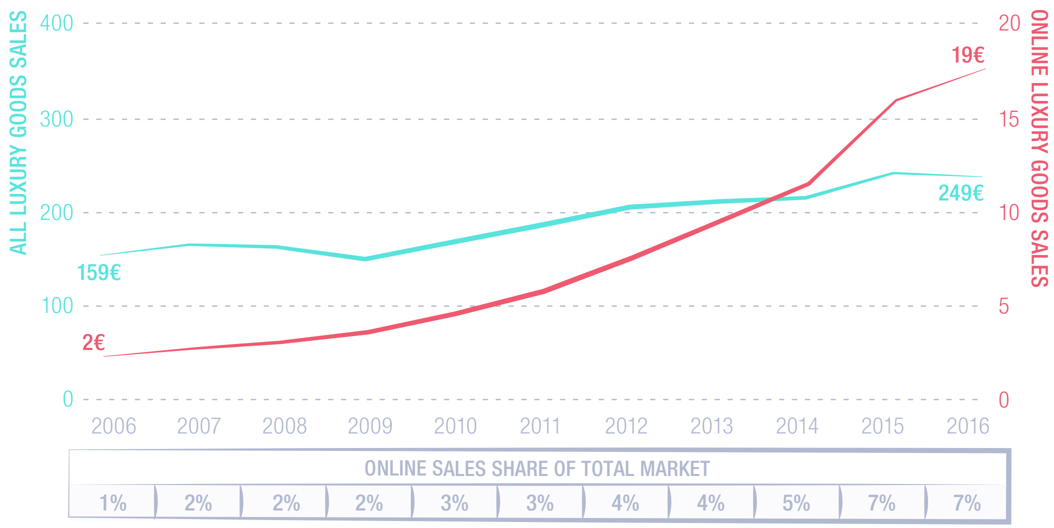
L2 research is based on data-driven analysis. Our findings, rankings, and recommendations are objective, unbiased, and independent of membership.

Fashion 2016: Global Sales vs. Online Sales In Luxury Goods

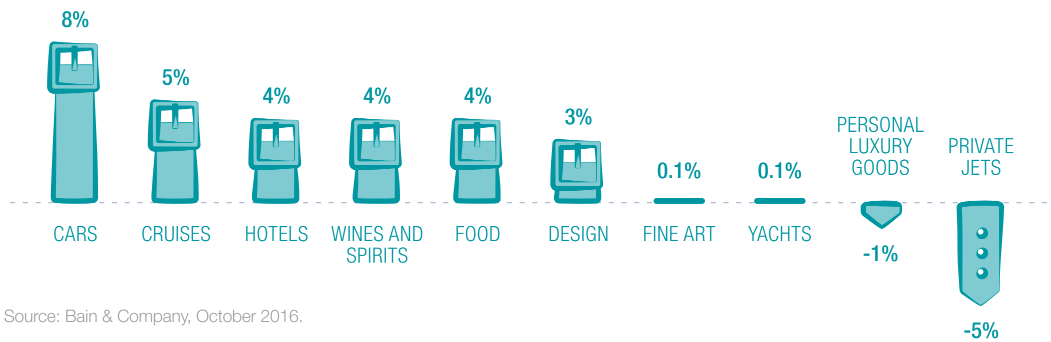
2006–2016E (in € billions) All Luxury Good Sales Online Luxury Goods Sales



Source: Bain & Company.

Luxury Goods: Global Sales vs. Online Sales

2015-2016E



Source: Bain & Company, October 2016.

The Elephant in the Room

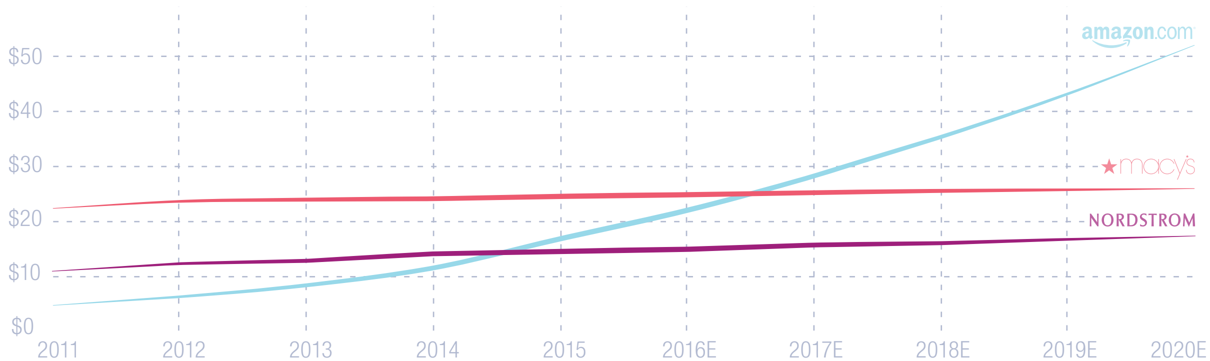
With Amazon expected to surpass Macy's as the largest apparel retailer in the US by early 2017, brands are re-examining opportunities on the platform.[7] While "masstige" brands have partnered with the retailer, luxury brands have been recalcitrant. Only 25 percent of Index brands distribute on Amazon, despite 92 percent distributing across other online retailers (e.g. Bergdorf Goodman, Saks Fifth Avenue, Nordstrom). LVMH, which posted its third straight quarter of sales growth in September, recently reiterated there's "no chance" of its brands working with Amazon for the foreseeable future.[8,9]

Yet, the Seattle behemoth's success has many brands staring at their navel, contemplating the future of fashion and wondering if to fight Amazon is quixotic. Following Burberry's lead, brands including Gucci and Fendi have taken e-commerce in house, providing a level of control not afforded to industry peers that remain heavily reliant on partnerships with third-party platforms.[10] In response, Yoox Net-a-Porter Group, the platform of choice for a quarter of the Index, has partnered with IBM to advance its omnichannel capabilities and provide a more personalized online shopping experience.[11]

7. Cowen Group, October 2016.
8. "LVMH Third-quarter Sales Beat Forecast," Reuters, October 10, 2016.
9. "LVMH Says No Way Will Do Business with Amazon," Reuters, October 11, 2016.
10. "Luxury Web Battle Looms as LVMH, Hugo Boss Develop E-Commerce," Andrew Roberts, Bloomberg, October 5, 2015.
11. "Yoox Net-a-porter Group, IBM Partner on Software, Tech Development," Samantha Conti, WWD, March 8, 2016.

Apparel & Accessories: US Sales by Amazon vs. Leading Department Stores

2011–2020E



Source: Quartz (original data from Cowen and Company), November 2016.

Realignment

Not many years ago, digital innovation helped level the playing field between small, scrappy brands and slow-moving giants. As investment requirements for technology deployment, paid media visibility, and production processes adjust to meet wider demand, the empire (including Kering and LVMH) has struck back, and flexed digital muscles that mirrors their offline performance.

This realignment is underscored by this year's new Index leader; Gucci proves adept at translating core brand association to digital channels, over-invests in customer service, and maximizes visibility across both search engines and authorized retail partners. Last quarter, Gucci announced record quarterly sales growth (best since 2012, pushing the stock to levels not seen since 2001).[12]

12. "Kering Jumps as Gucci's Strong Sales Bode Well for Christmas," Corinne Gretler, Bloomberg, October 26, 2016.

Digital IQ=Shareholder Value

This study attempts to quantify the digital competence of 85 Fashion brands. 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 accessing, our approach is dynamic. Please reach out with comments that improve our methodology and key findings.

Regards, **L2**

SITE & E-COMMERCE

35%

Performance:
Homepage Load Time, Page Speed, Reliability

Search & Navigation:
Filtering & Sorting Options, Quick View Functionality, Keyword Search, Guided Selling Tools

Customer Service & Store Locator:
Contact Us, FAQs, Live Chat, Store Locator & Mapping Direction

Product Pages:
Images Per Product, Video Collateral, User-Generated Content, Cross-Selling, Fit & Sizing Tool

E-Commerce & Omnichannel:
Checkout Experience, Cart Persistence, Fulfillment Options, Return Policy, Inventory Integration & Omnichannel Functionality

E-Tailer Visibility & Promotion:
Barneys New York; Bergdorf Goodman; Bloomingdales; Farfetch; Neiman Marcus Net-a-Porter / Mr. Porter; Nordstrom; Saks Fifth Avenue

DIGITAL MARKETING

30%

Brand Search:
Traffic & Web Authority, SEO/SEM, Share of First-Page Real Estate and Average Search Rank Across 2,500+ Branded Terms (e.g. "Gucci Handbag")

Category Search:
Relative Visibility Across 2,200+ Non-Branded Keywords in Best-Performing Category (Accessories, Apparel, Bags, Intimates, Luxury, Shoes, Watches & Jewelry, by Gender)

Web Advertising:
Display & Video Impressions, Efficiency, Quality of Ad Placements

Email Marketing:
Ease of Sign-up & Opt-in Incentives, Frequency, Content, Triggered Emails, Personalization & Localization, Estimated List Size & Read Rate

SOCIAL MEDIA

15%

Facebook:
Reach, Engagement, Average Interactions Per Post, Post Frequency, Video Views, Page Features

Instagram:
Reach, Engagement, Average Interactions Per Post, Post Frequency, Video Views, Social Commerce Integration

YouTube:
Search Visibility, Channel Experience, Video Views, Optimization of Most-Viewed Content

Twitter:
Reach, Engagement, Tweet Frequency, Programming Tactics

Pinterest:
Active Presence, Reach, Support for 'Buy Now' from Mobile App

MOBILE

20%

Smartphone Experience:
Compatibility & Functionality, Geolocation, Click-to-Call, Mobile Checkout, Support for Expedited Payment Methods

Mobile Search:
Branded & Unbranded Search Visibility, Modification of Paid & Organic Listings to Cater to Local Intent (Click-to-Call, Directions, etc.)

Mobile Advertising:
Mobile & Tablet Impressions, Efficiency, Quality of Ad Placements

Mobile Apps:
Support for iOS & Android, Rank History, Featured Status, Location Services, Touch ID Support, In-App Commerce, In-Store Functionality

CLASSIFICATION

GENIUS +140

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.

GIFTED 110–139

Brands are experimenting and innovating across site, mobile, and social platforms. Digital presence is consistent with brand image and larger marketing efforts.

AVERAGE 90–109

Digital presence is functional yet predictable. Efforts are often siloed across platforms.

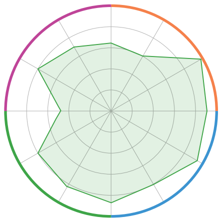
CHALLENGED 70–89

Limited or inconsistent adoption of mobile and social media platforms. Sites lack inspiration and utility.

FEEBLE <70

Investment does not match opportunity.

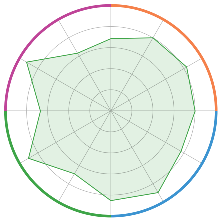
RANKING: THE TOP 10



GUCCI

Kering

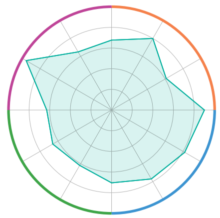
RANK	1
GENIUS	145



BURBERRY

Burberry Group

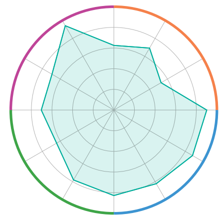
RANK	2
GENIUS	142



COACH

Coach, Inc

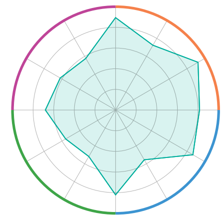
RANK	3
GIFTED	139



RALPH LAUREN

Ralph Lauren Corporation

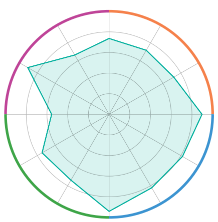
RANK	3
GIFTED	139



TORY BURCH

Tory Burch

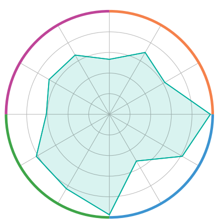
RANK	5
GIFTED	138



kate spade

Kate Spade & Company

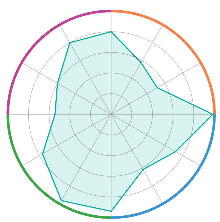
RANK	6
GIFTED	137



MICHAEL KORS

Michael Kors Holdings Limited

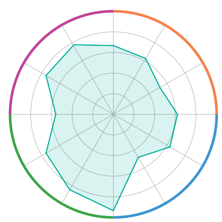
RANK	6
GIFTED	137



LOUIS VUITTON

LVMH

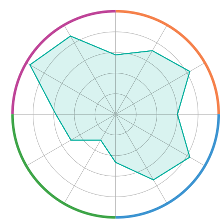
RANK	8
GIFTED	131



TOMMY HILFIGER

PVH Corp.

RANK	9
GIFTED	128

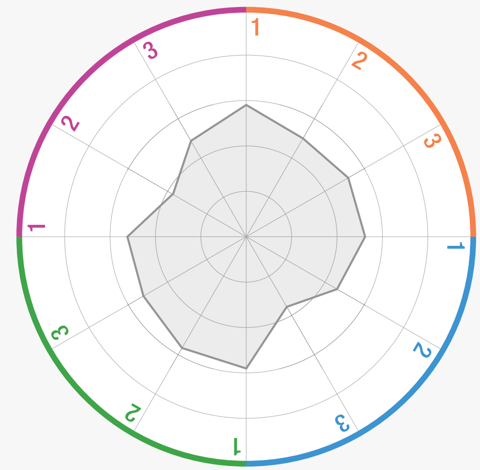


COLE HAAN

Apax Partners Worldwide

RANK	10
GIFTED	124

INDEX AVERAGE



SITE & E-COMMERCE
1 Customer Relationship Management
2 Product Pages & E-Commerce
3 E-Tailer Visibility

DIGITAL MARKETING
1 Traffic & Web Authority
2 SEO / SEM
3 Web Advertising

SOCIAL MEDIA
1 Facebook
2 Instagram
3 YouTube

MOBILE
1 Mobile Site Optimization
2 Mobile Advertising
3 Mobile Search

GIFTED

RANK	BRAND	DIGITAL IQ
10	STUART WEITZMAN Coach	124
12	Calvin Klein PVH Corp	120
12	Salvatore Ferragamo Salvatore Ferragamo Italia S.p.A.	120
14	BOSS HUGO BOSS Hugo Boss	119
14	CHANEL Chanel	119
16	Dior LVMH	116
17	TOM FORD Tom Ford International LLC	115

RANK	BRAND	DIGITAL IQ
18	JIMMY CHOO Jab Holding	114
18	REBECCAMINKOFF Rebecca Minkoff LLC	114
20	rag & bone Rag & Bone, Inc.	113
21	LACOSTE Tod's Spa	112
21	TOD'S Maus Freres S.a.	112
23	GIORGIO ARMANI Giorgio Armani Corporation	111

AVERAGE

RANK	BRAND	DIGITAL IQ
24	FENDI ROMA LVMH	108
24	Louboutin Christian Louboutin	108
26	BOTTEGA VENETA Kering	107
26	MARC JACOBS LVMH	107
28	HERMÈS PARIS Hermès International	105
28	Lilly Pulitzer Oxford Industries	105
28	SAINT LAURENT PARIS Kering	105
31	PRADA Prada Group	104

RANK	BRAND	DIGITAL IQ
31	VALENTINO Mayhoola For Investments S.p.c.	104
33	ALEXANDER McQUEEN Kering	102
34	BALENCIAGA Kering	100
34	VERSACE Gianni Versace S.p.A.	100
36	DVF Diane von Furstenberg	99
37	DOLCE & GABBANA Dolce&Gabbana Holding S.r.l.	98
38	john varvatos Lion Capital	97

RANK	BRAND	DIGITAL IQ
38	3.1 Phillip Lim Phillip Lim	97
40	Chloé Compagnie Financiere Richemont S.a.	96
40	sandro Smcp	96
42	BALMAIN PARIS Pierre Balmain, S.a.	94
42	CANADA GOOSE Bain Capital	94
42	Ermenegildo Zegna Ermenegildo Zegna	94
42	Theory Fast Retailing Co, Ltd	94

RANK	BRAND	DIGITAL IQ
46	BALLY Jab Holdings	93
46	BELSTAFF Jab Holdings	93
48	MaxMara Max Mara Fashion Group Srl	92
48	Mulberry Mulberry Group Plc	92
48	Paul Smith Paul Smith	92
51	VINCE. Vince Holding Corp	91
CHALLENGED 52	Alice and Olivia by stacey bendet Alice + Olivia	87

RANK	BRAND	DIGITAL IQ
52	STELLA McCARTNEY Kering	87
54	maje Smcp	86
55	ESCADA Escada Group	84
56	ALEXANDER WANG Alexander Wang Inc.	82
57	Oscar de la Renta Oscar De La Renta LLC	80
57	Proenza Schouler Proenza Schouler	80
59	Acne Studios Acne Studios	78

RANK	BRAND	DIGITAL IQ
60	ELIE TAHARI Elie Tahari, Ltd	77
60	miu miu Prada Group	77
62	MONCLER Moncler	75
62	MOSCHINO Aeffe S.p.A.	75
62	roberto cavalli Roberto Cavalli S.p.A.	75
65	GIVENCHY LVMH	74
66	dunhill LONDON Compagnie Financiere Richemont S.a.	73

RANK	BRAND	DIGITAL IQ
67	LOEWE LVMH	72
67	MANOLO BLAHNIK Manolo Blahnik International Ltd.	72
69	KENZO LVMH	71

FEEBLE

RANK	BRAND	DIGITAL IQ
70	Loro Piana LVMH	69
70	MARNI Otb Group	69
72	THOM BROWNE NEW YORK Thom Browne	66
73	BRUNELLO CUCINELLI Brunello Cucinelli S.p.A.	64

RANK	BRAND	DIGITAL IQ
74	HELMUT LANG Fast Retailing Co. Ltd	63
75	Maison Margiela PARIS Otb Group	62
76	CAROLINA HERRERA NEW YORK Puig	61
77	LANVIN PARIS Harmonie Sa	60
78	sergio rossi Kering	59
79	JIL SANDER Onward Holdings Co., Ltd	58
80	EMILIO PUCCI LVMH	53

RANK	BRAND	DIGITAL IQ
81	JASON WU Jason Wu	52
82	ELIE SAAB Elie Saab	49
83	CÉLINE LVMH	47
84	THE ROW The Row	40
85	COMME des GARÇONS Comme des Garcons	28

Site Investment Stalls

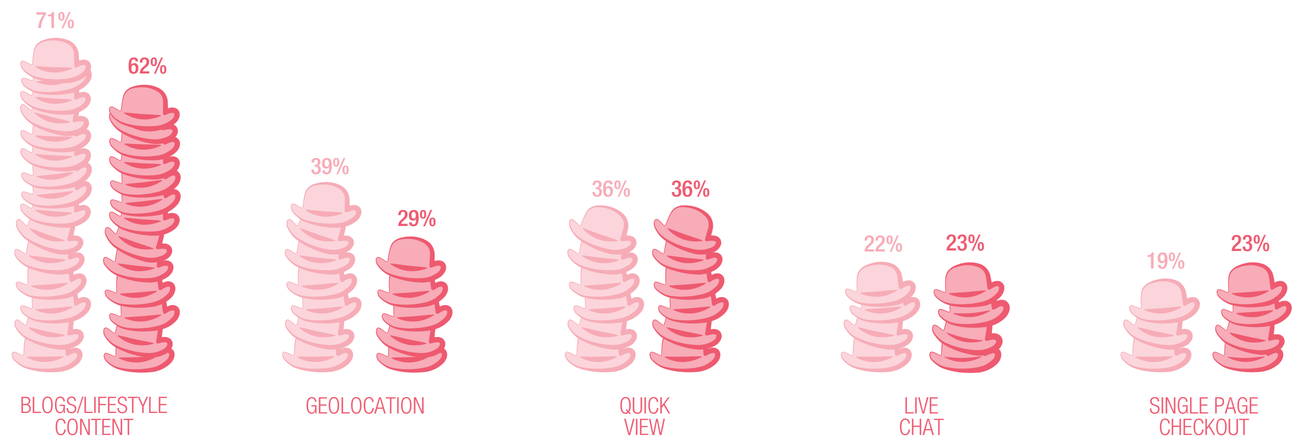
Despite fashion brands becoming more comfortable with the digital landscape and 92 percent of the Index now offering some version of e-commerce, certain site feature adoption has decreased. Index brands with features such as quick view, live chat, and single-page checkout have relatively few updates, showcasing that brands decided these features are not worth the investment. For certain technical features like geolocation, six brands dropped the feature this year, possibly because the technical difficulty of the feature is not worth the investment.

Index brands also appear to be moving away from blogs and editorial content that are independent or siloed from their e-commerce experience. Brands that had some version of a blog/editorial content have decreased from 71 percent to 62 percent. Dolce & Gabbana, Hugo Boss, and Balenciaga are a few of the brands that have shut down their blogs and instead invested in integrating content directly into the shopping experience. Surprisingly, Dolce & Gabbana replaced “Swide,” its innovative online magazine that the brand turned into an e-commerce platform in 2011, with a more traditional e-commerce site, launched in October of 2016.

Fashion 2016: Brand Site Investments Over Time

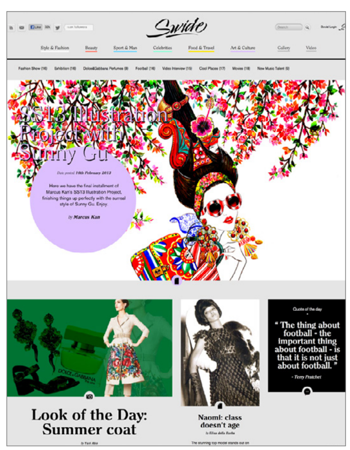
Percentage of Brands with Given Feature

October 2016, n=70 Index Brands Across Both Studies ■ 2015 ■ 2016

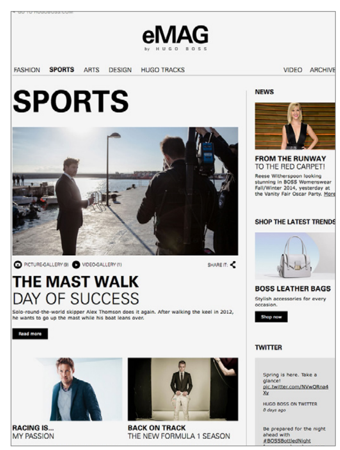


Source: L2, Inc., Digital IQ Index®: Fashion, 2016.

DOLCE & GABBANA



BOSS HUGO BOSS



BALENCIAGA

Many brands have recently shut down their blogs (seen here) in favor of integrating content directly into the main site, including Dolce & Gabbana, Hugo Boss, and Balenciaga.

Category Visibility Lacking

When it comes to first-page visibility on category keywords (e.g. “Leather Jacket”), a majority of luxury brands lack organic and paid visibility. Only 76 percent of brands generated any organic visibility on category terms, while just 13 percent of Index brands purchased AdWords, which is much less than the 82 percent that did so for brand-modified keywords (e.g. “Gucci Handbag”).

Just 10 Index brands control three quarters of all the organic visibility recieved by the Index on category keyword searches. Masstige and large luxury brands that specialize in accessories and leather goods are the most dominant. But retailers still outperform them, as Nordstrom, Amazon, and Macy’s all individually generate more visibility on luxury oriented category terms than the entire Index combined (Nordstrom produces twice as much).

Index brands struggle for visibility particularly in the very competitive apparel categories with Ralph Lauren being the slight exception. Masstige brands (e.g. Michael Kors, Tory Burch) are able to garner visibility in women’s handbags, accessories and shoes, while more traditional higher-priced luxury brands (e.g. Louis Vuitton, Gucci) are able to do better on male-oriented accessory categories. For smaller brands, the only hope is to focus on very specific nuanced and namesake terms. Canada Goose is able to garner visibility through “parka” keywords, and Diane von Furstenberg is visible on searches of “wrap dresses.”

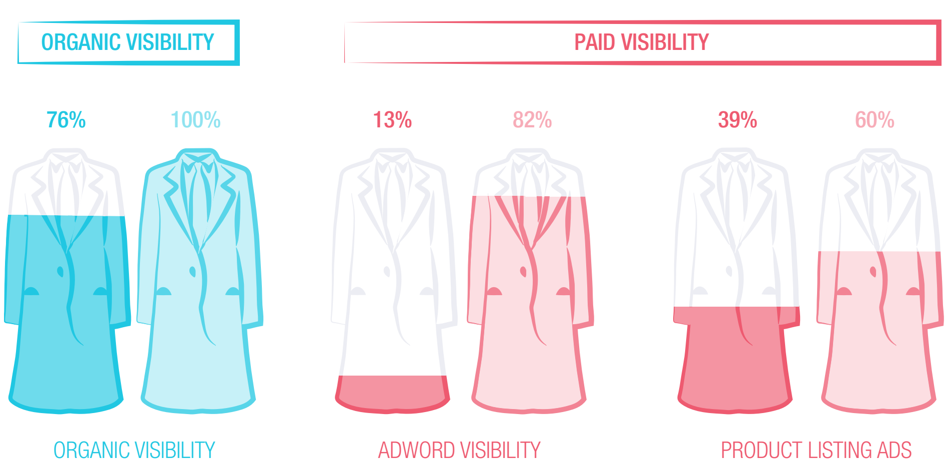
Fashion 2016: Share of Brands with First-Page Visibility by Link Type

Category vs. Brand and Brand-Modified Keywords

September 2016, n=85 Index Brands

■ n=2,080 Category Keywords (e.g. "Leather Jacket")

■ n=2,885 Brand & Brand-Modified (e.g. "Gucci Handbag")

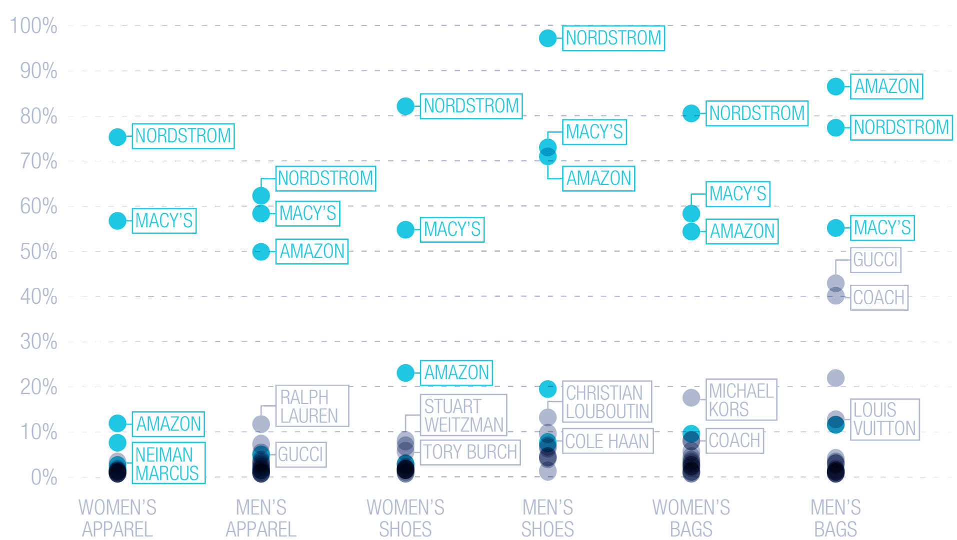


Source: L2, Inc., Digital IQ Index®: Fashion, 2016.

Fashion 2016: First-Page Organic Visibility on Category Keywords

September 2016, n=2,080 Category Keywords (e.g. “Leather Jacket”) Scaled by Search Volume

■ Index Brands ■ Retailers



Source: L2, Inc., Digital IQ Index®: Fashion, 2016.

Instagram

Similar to Facebook, Instagram is seeing higher post frequency failing to equate to high interaction rates. Analysis shows that total interactions are less correlated with post frequency while they are more driven by community size. In fact, average interactions among Index brands grew by 76 percent, which is linked more to an 85 percent average increase in community size than to a 53 percent average post frequency increase.

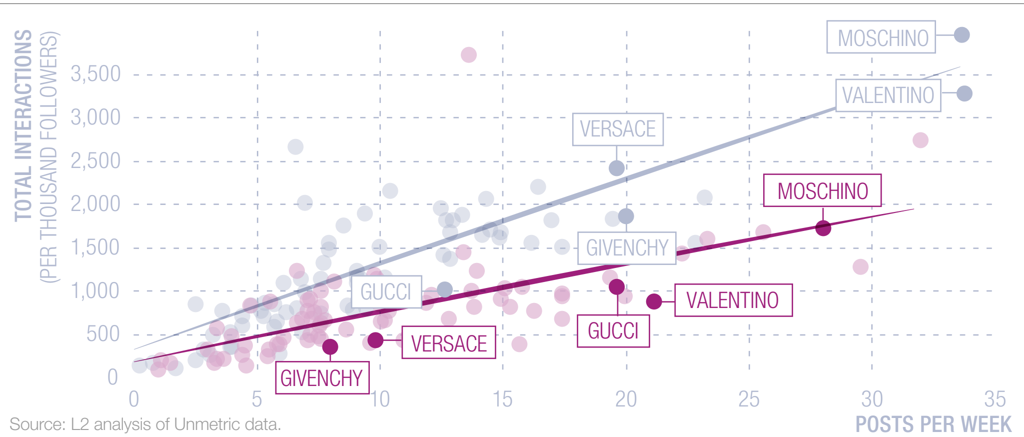
Brands are still able to boost total interactions by posting more often, but the benefits are dwindling. Gucci, which posted 1.4x more often in 2016 than 2015, received the largest increase in total interactions, rising from three percent to six percent. However, the primary catalyst appears to be a 92 percent increase in community size. On the other hand, Valentino's share of interactions plummeted from 10 percent to five percent year-over-year, which is easily attributed to both posting 24 percent less in 2016 and a dip in community size growth that is 40 percent less than the Index average.

This new reality may in part be due to Instagram's recent implementation of an algorithm that shows more relevant posts to users instead of its previous chronological timeline, but it's not the only instigator.[13] Instagram might be reaching terminal saturation, when individual followers already receive more posts than they can view and interact with, so interaction growth is more likely to come from new followers.

13. "Capitalizing On Instagram's New Algorithm," Phil Laboon, Forbes, September 6, 2016.

Fashion 2016: Post Frequency vs. Total Interactions on Instagram

Q3 2015–Q3 2016, n=79 Index Brands ■ July–September 2015 ■ July–September 2016

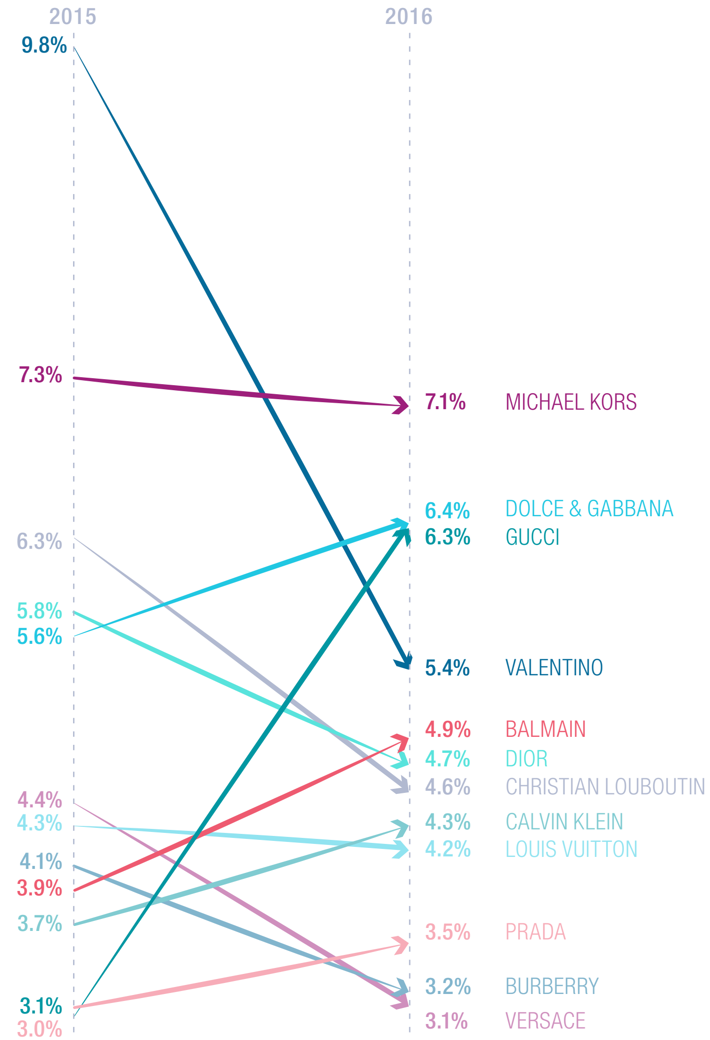


Source: L2 analysis of Unmetric data.

Fashion 2016: Top Brands by Share-of-Voice on Instagram

2015 vs. 2016

n=66 Brands, n=591M Interactions (2015) & 736M Interactions (2016)



Source: L2 analysis of Unmetric data & L2, Inc., Digital IQ Index®: Fashion, 2015.

Apps Wilting Away

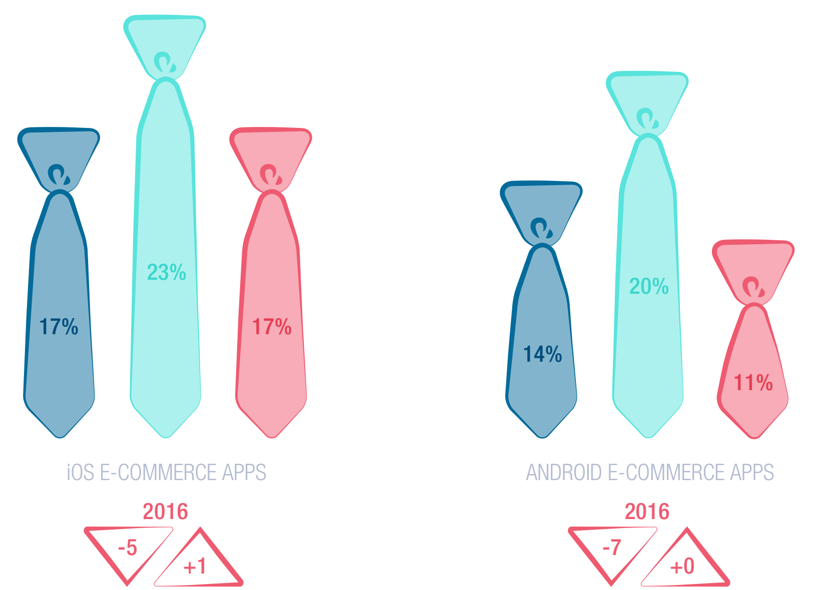
Although digital media consumption time continues to increase on mobile apps (up 11 percent year-over-year), apps as a category have started to lose their luster.[14] Brands are increasingly realizing the significance of the mobile web, especially as mobile web audiences are 3x the size and are growing 2x as fast as that of app audiences.[15] Fashion brands in particular have started to spot this trend, as the prevalence of Fashion iOS e-commerce apps dipped from 23 percent to 17 percent since 2015. Only one Index brand (Calvin Klein) added an e-commerce app to its portfolio, down from four that were created in the prior year.

The growth of complex digital features on mobile sites is also reducing the capability gap that once existed between mobile apps and sites. With Apple's integration of Apple Pay on its iOS 10 Safari mobile browser, brands such as Burberry are able to provide simpler checkout systems to streamline the payment process, previously only possible via a mobile app. Neiman Marcus has similarly implemented a camera tool that allows users to visually search products across their inventory.

14. "The 2016 US Mobile App Report," comScore, September 13, 2016.
15. Ibid.

Fashion 2016: E-Commerce App Adoption & Deletion

2014–2016, n=64 Brands Present Across All Studies ■ 2014 ■ 2015 ■ 2016



Source: L2, Inc., Digital IQ Index®: Fashion, 2016.

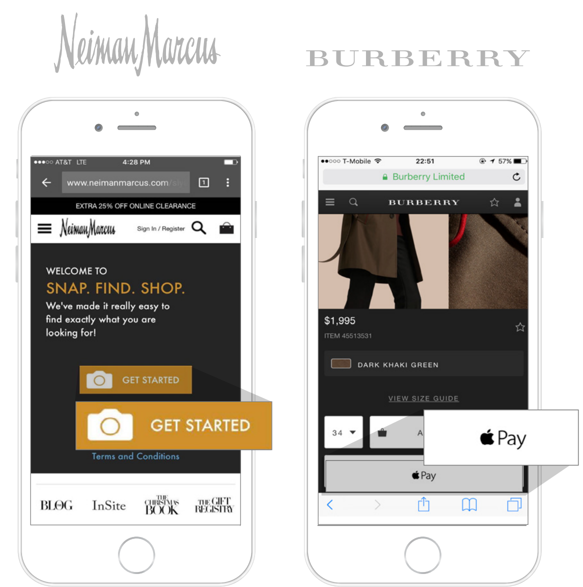
CREATED iOS E-COMMERCE APPS

Calvin Klein

DELETED iOS E-COMMERCE APPS

COACH
DOLCE & GABBANA
BALLY
HUGO BOSS
REBECCA MINKOFF

Only one Index brand created a mobile e-commerce app from 2015-2016, while five brands deleted their e-commerce apps, depending solely on their mobile sites for online sales.



Mobile sites are becoming more powerful, as exemplified by Burberry and Neiman Marcus. Burberry's implementation of Apple Pay helps streamline the payment process, while Neiman Marcus's use of the smartphone camera to visually search product inventory brings complex features to the mobile site platform.

L2 DIGITAL IQ INDEX

L2 BENCHMARKS DIGITAL PERFORMANCE

Our members receive full access to our Research and tickets to our Executive Education Events.

100 REPORTS PUBLISHED ANNUALLY

60 EVENTS GLOBALLY IN 2015

PRODUCTS

Digital IQ Index®

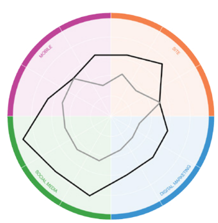
For brands looking to benchmark their digital strengths and weaknesses relative to sector peers.

Brand benchmarking against a competitive set, quarterly performance reviews that track progress against key Digital IQ Index® metrics and in-depth analysis of performance with actionable insights that map to a brand's strategic objectives and shape capital allocation decisions.

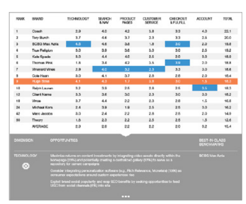
PERFORMANCE ANALYSIS

- SITE & E-COMMERCE
- DIGITAL MARKETING
- SOCIAL MEDIA
- MOBILE

COMPETITIVE BENCHMARKING



SCORE CARD & RECOMMENDATIONS



Amazon IQ

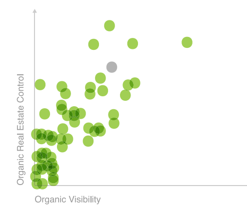
For brands whose bottom line is impacted by their performance on Amazon.

Longitudinal, data-driven analysis of a brand's performance coupled with tactical recommendations to improve ROI. Actionable insights help: boost product discoverability, benchmark the performance of priority ASINs, evaluate branded content, and calculate the impact of media and promotional levers on sales.

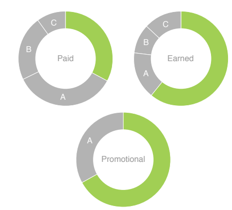
UNDERSTAND OPPORTUNITIES

- PRICING & ASSORTMENT
- MEDIA
- LISTING CONTENT

TRACK & BENCHMARK



OPTIMIZE RESULTS



Category IQ®

For brands with a wide product assortment looking to understand category performance benchmarks.

An in-depth look at Search Rank & Visibility, Pricing & Discounting and Content & Merchandising in a specific category of product across brand and retailer sites.

- SEARCH VISIBILITY
- ON-SITE VISIBILITY
- SEARCH RANK
- CATEGORY MERCHANDISING
- PRICING & ASSORTMENT
- PRODUCT MERCHANDISING

Intelligence Modules

For brands looking to develop the digital competence of their leadership.

Modules blend sector insight, performance benchmarks, and identification of brand-specific opportunities on topics including: Omnichannel Retail, Social & Content Strategy, Localization, The Digital Organization, Video and Data & Targeting.

- OMNICHANNEL RETAIL
- SOCIAL CONTENT & STRATEGY
- LOCALIZATION
- THE DIGITAL ORGANIZATION
- VIDEO
- DATA & TARGETING

L2 DIGITAL IQ INDEX

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