



DIGITAL IQ *INDEX*:
Specialty Retail

SCOTT GALLOWAY
NYU Stern

SEPTEMBER 14, 2010





L2 is a think tank for digital innovation.

We bring together thought leaders from industry and academia to help organizations navigate the changing digital landscape.

RESEARCH:

Digital IQ Indices: The definitive benchmark for online competence

EVENTS:

Forums: The largest gatherings of thought leaders and managers in North America (300+ attendees) focused on digital innovation

Clinics: Executive education in a classroom setting (80-150 attendees)

Working Lunches: Members-only lunches led by thought leaders and academics (12-24 attendees)

MBA Mashups: Access to digital marketing talent from top MBA schools

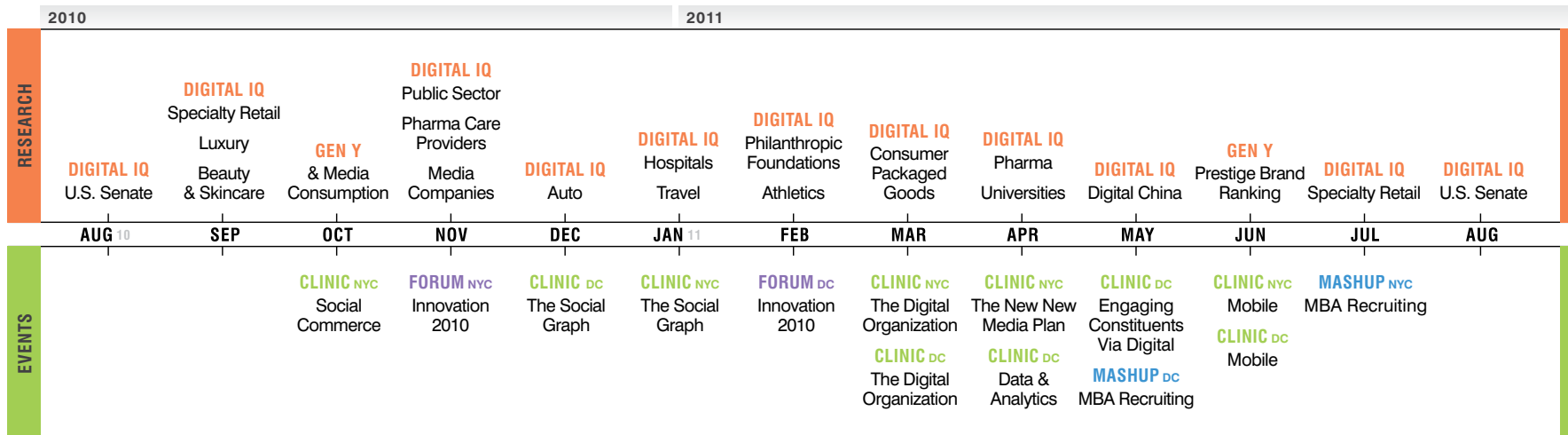
ADVISORY SERVICES:

Digital & Social Media Strategy

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For membership info and inquiries: info@L2ThinkTank.com

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WORKING LUNCHES China Social Shopping iPad Implications Prestige Social Media Case Studies Public Sector Social Media Case Studies

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CLINIC

Social Commerce

Driving & Deriving Revenues Online

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INTRODUCTION

A Recession Is a Terrible Thing to Waste

For retailers, the web provided a modest, but welcome, degree of shelter from the economic storm. In 2009, store sales declined nine percent while e-commerce grew one percent.

Reduced marketing budgets inspired retailers to shift spending from print to more measurable and innovative digital and social media programs. This shift in strategy is beginning to pay dividends and has finally given birth to the online communities and shopping applications initially envisioned with the introduction of the Netscape browser 16 years ago.

However, many retailers are still stuck in a 1.0 world grappling with how to navigate the landscape of user ratings, blogs, social sharing, and geo-local targeting. It is these digital dawdlers that risk feeding the incremental \$8 billion in revenue Amazon is expected to add over the next 12 months.

The New, New Competitors

Many established brands have leveraged their size, heritage, and customer base to build robust online businesses.

Those that have hesitated have found the void rapidly filled by upstarts with no legacy assets to protect. As some traditional retailers stared at their navels, flash sale and group-buying sites emerged to meet the demands of price-conscious consumers. Digitally-native players including Zappos, Amazon, and eBay continue to capture share via their mastery of data and common belief that investment in bricks and mortar is not an efficient use of capital.

1. "Forrester Research Web-Influenced Retail Sales Forecast, 12/09 (US)," *Forrester Research*, February 2010.

2. *Ibid.*

3. "Bleak Friday," *The Economist*, November 2009

Driving and Deriving Revenues Online

Digital innovation is becoming even more important. By 2014 U.S. online retail sales are forecasted to increase to \$250 billion, accounting for eight percent of total retail sales (double e-commerce's current contribution).¹ Furthermore, the web currently influences 46 percent of offline retail purchases, suggesting that driving and deriving revenues online are essential for future growth.² Macy's estimates that every dollar spent on its site results in an additional six dollars spent in the store within 10 days of the online purchase.³

Digital IQ = Growth

Our thesis is that shareholder value is inextricably linked to digital competence. A closer look at public companies in the study reveals a connection between higher annual sales growth and Digital IQ, suggesting the Digital IQ Index® may be a forward-looking indicator of revenue growth. Our aim is to provide a robust tool to diagnose digital strengths and weaknesses and help prestige retail managers identify the best areas to direct incremental investment.

Like the medium we are assessing, our methodology is dynamic, and we hope you will reach out to us with comments that improve our approach, investigation, and findings. You can contact me at scott@stern.nyu.edu.

Sincerely,



SCOTT GALLOWAY

Founder, L2
Clinical Associate Professor of Marketing, NYU Stern



METHODOLOGY

Site - 40%:

Effectiveness of a brand site.

- **Functionality & Content (30%)**
 - Site Technology
 - Site Search & Navigation
 - Product Display & Content
 - E-commerce Checkout & Account Management
 - Customer Service
 - Innovation & Interactivity
- **Brand Translation (10%)**
 - Aesthetics
 - Messaging & Experience

Digital Marketing - 20%:

Marketing efforts and off-site brand presence.

- **Mobile (Compatibility & Applications)**
- **Email Marketing**
- **Web Advertising & Innovation**

Search Engine Optimization - 20%:

Site traffic and visibility of brand on popular search engines.

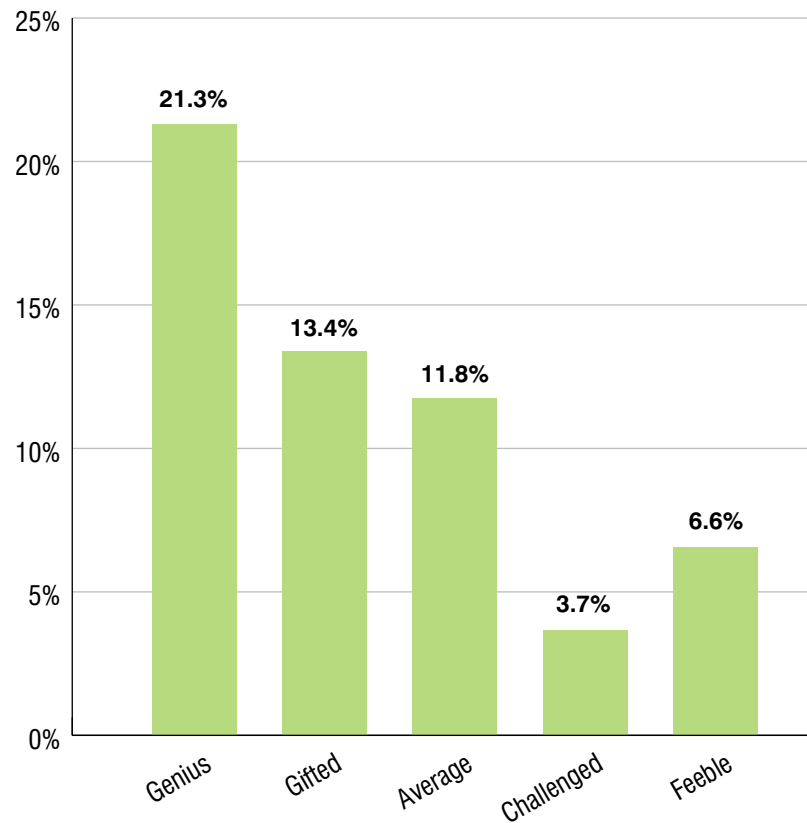
- **Traffic**
- **Organic Search Visibility (SEO)**
- **Site Authority**
- **Paid Search (SEM)**

Social Media - 20%:

Brand presence, following, growth, and programs on popular social media platforms.

- **Facebook**
- **Twitter**
- **YouTube**
- **Blogs & Other User-Generated Content**

REVENUE GROWTH BY DIGITAL IQ CLASS
Year-Over-Year (Q2 2009-Q2 2010)





DIGITAL IQ RANKING



Flash Sales



Department Store



E-tailer



Apparel



Home Furnishings



Beauty & Skincare



Watches & Jewelry



Shoes & Leathergoods

Overall Rank	Retailer	Category	Category Rank	Digital IQ	Class	Comments
1	REI	Apparel	1	150	Genius	Simple, elegant, and inspiring. Online bulletin boards provide content hub for outdoor enthusiasts
2	IKEA	Home Furnishings	1	149	Genius	Build-it-yourself brand has assembled a strong e-commerce site and huge communities all over the web. Facebook picture-tagging campaign was one of the first to unlock the power of 2.0 technology
3	THREADLESS	E-tailer	1	145	Genius	Over one million community members and 1.5 million Twitter followers create, curate, and cultivate business for this T-shirt retailer
4	COACH	Shoes & Leathergoods	1	145	Genius	From playful product videos and geo-local campaigns to blogger-created bags and Twitter following, brand delivers on multiple digital platforms
5	A X ARMANI EXCHANGE	Apparel	2	144	Genius	Brand communicates across multiple digital platforms; site blends brand immersion and shopping
6	SEPHORA	Beauty & Skincare	1	142	Genius	Recent release of mobile commerce site adds to an already robust digital offering
7	URBAN OUTFITTERS	Apparel	3	141	Genius	Hipster outpost stays ahead of the curve through the strongest digital marketing efforts in its category
8	CRATE & BARREL	Home Furnishings	2	138	Gifted	New site features striking product images and curated navigation by event, room, and holiday season
9	POTTERY BARN	Home Furnishings	3	135	Gifted	Suite of tools, tips, and videos provides inspiration online
10	NORDSTROM	Department Store	1	133	Gifted	One of the best email marketers in the business; recent site and mobile launches should boost its Digital IQ
10	VICTORIA'S SECRET	Apparel	4	133	Gifted	15,784,127 YouTube views and counting, and more than 4 million Facebook fans; but, tired site doesn't deliver
12	DIESEL	Apparel	5	131	Gifted	Diesel is anything but stupid when it comes to providing an interactive brand experience on its site, but its less than stellar e-commerce storefront and limited use of email is surprising
12	POLO RALPH LAUREN	Apparel	5	131	Gifted	Strongest multi-platform social media presence of any retailer; Rugby sub-brand is an innovator



DIGITAL IQ RANKING

Overall Rank	Retailer	Category	Category Rank	Digital IQ	Class	Comments
14	MACY'S	Department Store	2	128	Gifted	This SEO powerhouse drives more than 8 million unique visitors to its site, which is unfortunately cluttered and disappointing
15	WILLIAMS-SONOMA	Home Furnishings	4	125	Gifted	Standout product pages feature catalog-quality images, ratings and reviews, and seamless integration of videos
15	BERGDORF GOODMAN	Department Store	3	125	Gifted	5th/58th blog highlights the latest store windows, designer interviews, store events, and styling tips; brand's prolific Twitter handle pumps out more than 35 tweets per day
17	BARNEYS NEW YORK	Department Store	4	122	Gifted	Social media hub "B-Social" is the strongest and most visible 2.0 aggregator in the study
17	BANANA REPUBLIC	Apparel	7	122	Gifted	Highly functional site is lost in the shroud of its less prestigious sister companies; but BR Insiders program delivers on online CRM
17	NET-A-PORTER	E-tailer	2	122	Gifted	Luxury fashion's digital darling scores on style, but loses IQ points due to poor checkout process
20	J.CREW	Apparel	8	119	Gifted	The merchant prince has all but ignored social media
21	SHOPBOP	E-tailer	3	118	Gifted	Site features solid search and navigation and interesting shopping tools, but still struggles to stand out
22	SAKS FIFTH AVENUE	Department Store	5	117	Gifted	Stale site and online style does not live up to brand promise; strong social media provides a lift
23	NEIMAN MARCUS	Department Store	6	116	Gifted	The only department store not tweeting; vow to go mobile by the end of the year should move the needle
24	TIFFANY & CO.	Watches & Jewelry	1	112	Gifted	A rare jewel in an otherwise dismal category; although site lacks some functionality, the digital experience feels like it's wrapped in that little blue box
24	BEBE	Apparel	9	112	Gifted	World Cup campaign was a standout; site experience cleverly tied to current advertising
26	THE BODY SHOP	Beauty & Skincare	2	111	Gifted	Balance of commerce and activism is carried throughout its digital initiatives

**DIGITAL IQ RANKING**

Overall Rank	Retailer	Category	Category Rank	Digital IQ	Class	Comments
27	POTTERY BARN KIDS	Home Furnishings	5	110	Gifted	Follows the Pottery Barn template, providing tips and tools to make your kid's dream room a reality
27	ANTHROPOLOGIE	Apparel	10	110	Gifted	Site solidifies brand as a fashion curatorial voice; sparse design elevates the products, letting them speak for themselves
29	LUSH	Beauty & Skincare	3	107	Average	Standout site features product videos; however, brand fails to push its creative content onto other digital platforms
30	JUICY COUTURE	Apparel	11	106	Average	Fun-to-shop site includes social features such as "Rate My Juicy" and "Create a Look"
31	BLOOMINGDALE'S	Department Store	7	105	Average	Supposed to be "Like No Other Store in the World," but web storefront is run of the mill
32	ANN TAYLOR	Apparel	12	104	Average	Stylish site gives the brand a fresh facelift. Early user of Foursquare promotions to drive store traffic
33	GILT GROUPE	Flash Sale	1	103	Average	Launched iPad app in conjunction with device launch; first Flash Sale site to install a "like" button
33	BLUE NILE	E-tailer	4	103	Average	Strong site, but limited social media presence and digital marketing efforts prevent jeweler from sparkling
35	RUE LA LA	Flash Sale	2	102	Average	A strong mobile presence, but as long as Rue La La continues to follow the category leader, it will never lead
36	PBTEEN	Home Furnishings	6	101	Average	Riding its parent company's coattails; needs to step out and focus social media and digital marketing efforts to reach target teen demographic
37	BATH & BODY WORKS	Beauty & Skincare	4	99	Average	Inactive Twitter account has 1,500 fans
37	BROOKS BROTHERS	Apparel	13	99	Average	Online product customization and Facebook wall sales instill classic brand with innovation
39	YOOX	E-tailer	5	97	Average	Strong blog and social shopping features, but fails to deliver on its claim to provide fashion for the digital age



DIGITAL IQ RANKING

Overall Rank	Retailer	Category	Category Rank	Digital IQ	Class	Comments
39	WEST ELM	Home Furnishings	7	97	Average	Exclusive "Only for Today, Only for You" sales at checkout score innovation points, but brand fails to keep pace in competitive Home Furnishings category
41	LULULEMON ATHLETICA	Apparel	14	96	Average	Helpful reviews, educational videos, and large Twitter following bolster community online
41	ABERCROMBIE & FITCH	Apparel	14	96	Average	Seems to be relying on good looks, but digital efforts are missing the sexiness that defines the brand
43	BROOKSTONE	Home Furnishings	8	94	Average	Site integrates YouTube videos into product pages; videos link back to product page from YouTube channel
43	CAMPER	Shoes & Leathergoods	2	94	Average	Near the top of the bottom; a beautifully designed site, but no one would know it as it suffers from poor traffic and social buzz
45	ZALES	Watches & Jewelry	2	93	Average	Interactive site elements have small functionality hiccups; brand is nowhere on mobile
46	IDEELI	Flash Sale	3	92	Average	Most social Flash Sale brand leads the category on Twitter, but site loses points for limited functionality
47	7 FOR ALL MANKIND	Apparel	16	91	Average	Average across the board; "Create an Outfit" is brand's only risk online
48	TALBOTS	Apparel	17	89	Challenged	Solid site but moderate presence across all major social media platforms
48	DESIGN WITHIN REACH	Home Furnishings	9	89	Challenged	Lags behind in search and site functionality
50	RESTORATION HARDWARE	Home Furnishings	10	88	Challenged	Brings up the rear in Home Furnishings; attractive site is hampered by limited interface
50	HAUTELOOK	Flash Sale	4	88	Challenged	Only Flash Sale site present on YouTube, Twitter, and Facebook, but limited customer service
52	WHITE HOUSE BLACK MARKET	Apparel	18	83	Challenged	New Wedding Boutique is a step in the right direction, but generic site largely trails apparel elite
53	COLE HAAN	Shoes & Leathergoods	3	82	Challenged	Brand appears to have learned little from parent Nike; social media audience is small and content is sterile



DIGITAL IQ RANKING

Overall Rank	Retailer	Category	Category Rank	Digital IQ	Class	Comments
53	CHICO'S	Apparel	19	82	Challenged	Culture calendar on Facebook wishes fans happy birthday; limited SEO damages IQ
53	LORD & TAYLOR	Department Store	8	82	Challenged	Poor site aesthetics and uninspired social media disappoint
56	SWAROVSKI	Watches & Jewelry	3	80	Challenged	Swarovski TV is poorly integrated on site; resonates better on Facebook
56	L'OCCITANE	Beauty & Skincare	5	80	Challenged	Brand is attempting to build audience online through Natural Beauty Blog and Facebook product giveaways
56	FRENCH CONNECTION	Apparel	20	80	Challenged	Cheeky voice resonates on social media; received a lot of buzz for its Chatroulette contest
59	LUCKY BRAND	Apparel	21	79	Challenged	Nowhere with social media; Facebook presence is limited to sporadic posts and customer service responses
60	CARTIER	Watches & Jewelry	4	75	Challenged	Painfully slow site; difficulty to determine which products can be purchased online
61	GYMBOREE	Apparel	22	74	Challenged	Facebook following suggests the power of moms online, but digital marketing fails to deliver
62	ONE KINGS LANE	Flash Sale	5	71	Challenged	The last in its category: the result of next to no social media traction
63	INTERMIX	Department Store	9	68	Feeble	Slow site with bare-bones functionality is a huge missed opportunity
63	JOS. A. BANK	Apparel	23	68	Feeble	Online presence is little more than a clearance catalog
65	CRABTREE & EVELYN	Beauty & Skincare	6	64	Feeble	Poor sorting and filtering on site; brand limits Facebook posts to one per month
66	JOHNSTON & MURPHY	Apparel	24	61	Feeble	Weak social media presence; newly revamped site to include features such as user reviews
67	FRESH	Beauty & Skincare	7	57	Feeble	Fails to incorporate basic functionality such as cross sell, product reviews, and social sharing, leaving it last in Beauty



DIGITAL IQ RANKING

Overall Rank	Retailer	Category	Category Rank	Digital IQ	Class	Comments
68	TUMI	Shoes & Leathergoods	4	56	Feeble	Site lacks branding and functionality; has failed to tap into travel evangelists on social media
68	TOMMY BAHAMA	Apparel	25	56	Feeble	Strong check-out interface allows customers to preview all the steps necessary to complete transaction
70	HENRI BENDEL	Department Store	10	54	Feeble	Ranks the lowest in its category; the site lacks both strong branding and functionality, which fails to replicate the true Bendel experience
71	CACHÉ	Apparel	26	53	Feeble	Reflects cataloguer's mindset and fails to leverage 2.0 tools
72	MONTBLANC	Watches & Jewelry	5	52	Feeble	Site is slow to load and impossible to navigate
73	STUART WEITZMAN	Shoes & Leathergoods	5	49	Feeble	Zappos is zapping all of this brand's online magic
74	THOMAS PINK	Apparel	27	43	Feeble	Poor digital experience compromises brand promise; site is in English, but English luxury doesn't translate
75	WEMPE	Watches & Jewelry	6	38	Feeble	Poor e-commerce implementation; social media is not on Wempe's radar
76	CLUB MONACO	Apparel	28	37	Feeble	Site is brochure-ware; no e-commerce is missed opportunity
77	TOUS	Watches & Jewelry	7	31	Feeble	Taking chances, but site and iPhone app fail to deliver
77	BALLY	Shoes & Leathergoods	6	31	Feeble	Limited navigation, a poor checkout process, and inconsistent experience plague an otherwise good-looking site
79	TOD'S	Shoes & Leathergoods	7	27	Feeble	High-quality videos tell a compelling brand story, but site leaves online visitors with nowhere else to go
80	TOURNEAU	Watches & Jewelry	8	21	Feeble	Poor e-commerce implementation leaves a site not worthy of the high-end timepieces it carries
81	TOURBILLON	Watches & Jewelry	9	0	Feeble	No sales, no social media, no email marketing; Google search sends users to Wikipedia over brand site

KEY FINDINGS

The Social Are Smarter

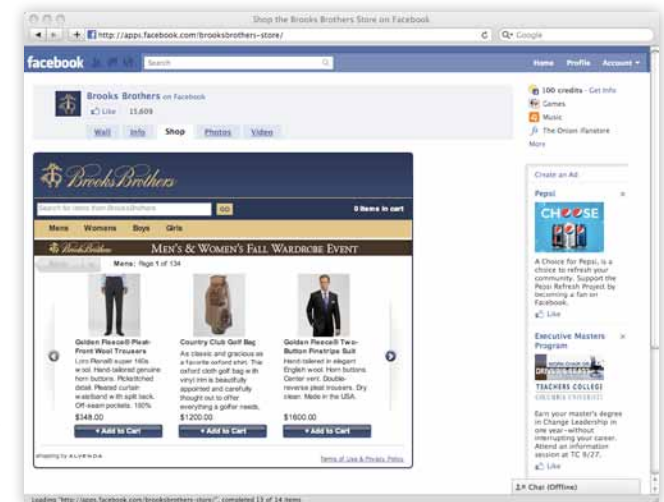
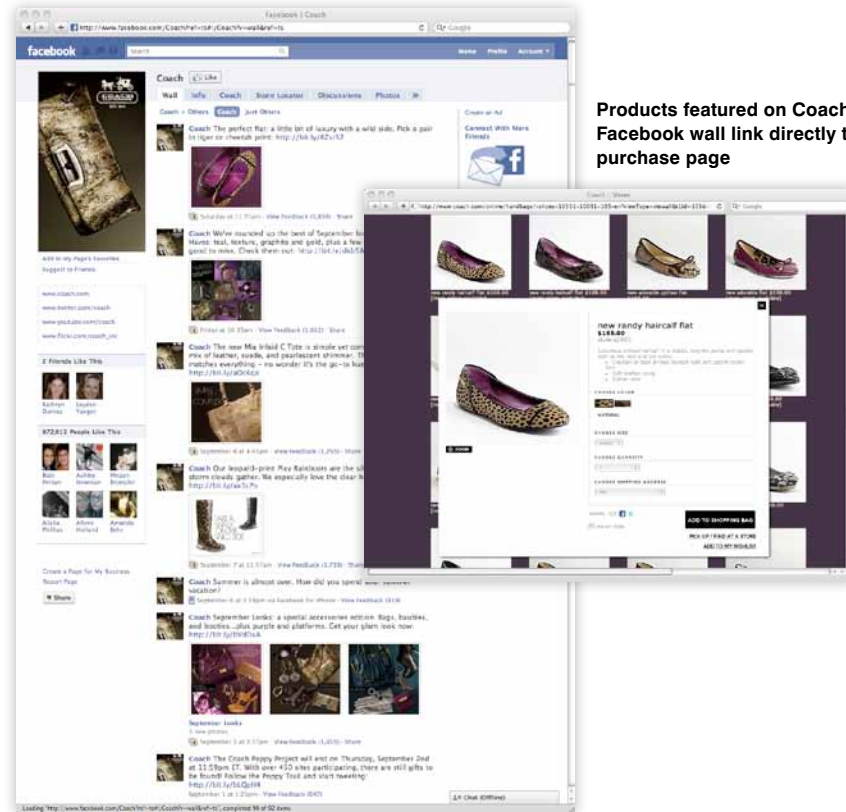
Although social media accounts for only 20 percent of a brand's Digital IQ, social media acumen was the prevalent factor among brands in the Genius and Gifted ranks. There is a correlation of 0.66 between overall Digital IQ and a brand's social media score.

The social media bar has risen significantly, and most brands now maintain a presence on each of the major platforms: Facebook, Twitter, and YouTube. Features such as custom pages, Facebook applications, and Facebook-specific promotions are common.

Retailers including Brooks Brothers, Victoria's Secret, and Coach have moved beyond marketing and are experimenting with selling merchandise directly off their Facebook walls. Twitter is being used for a variety of functions, from sales promotions and public relations to CRM. The Watches & Jewelry and Shoes & Leathergoods categories have been the slowest to adopt social media, while E-tailers and Department Stores have been the most aggressive.

SOCIAL MEDIA QUICK STATS

- **18%** of brands have a Facebook application
- **4%** are selling from their Facebook wall
- **14%** use an individual to tweet on behalf of the brand
- **18%** maintain a blog

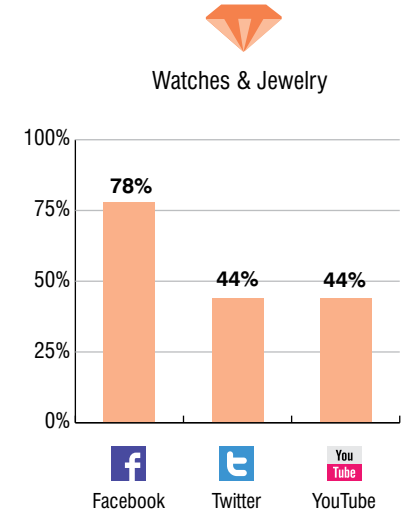
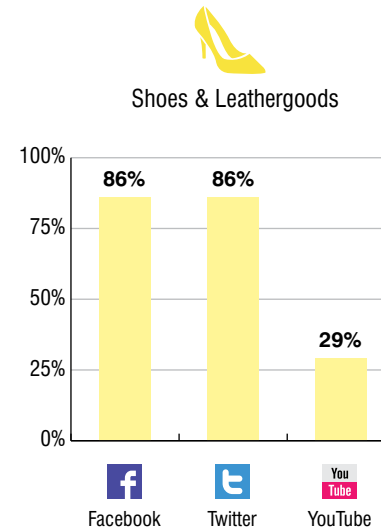
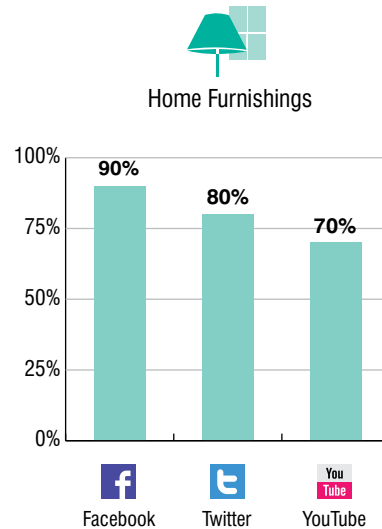
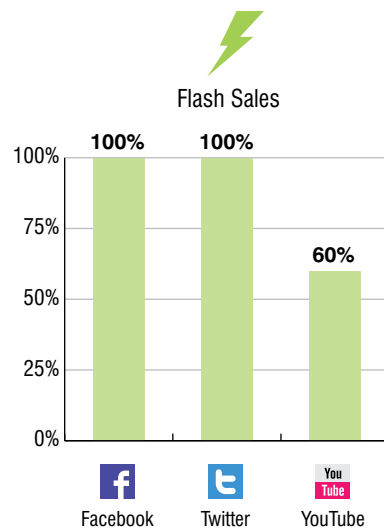
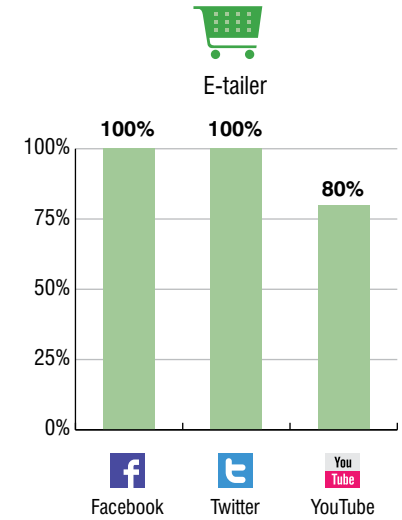
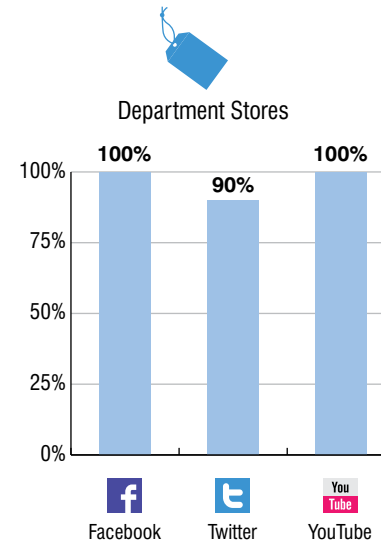
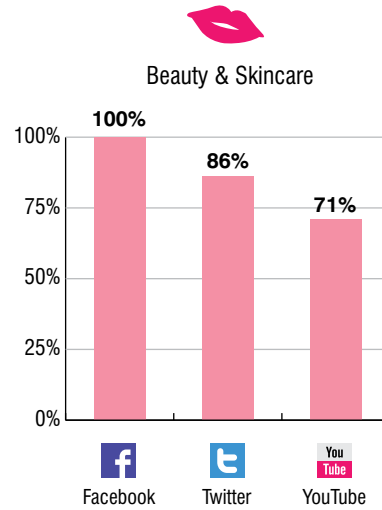
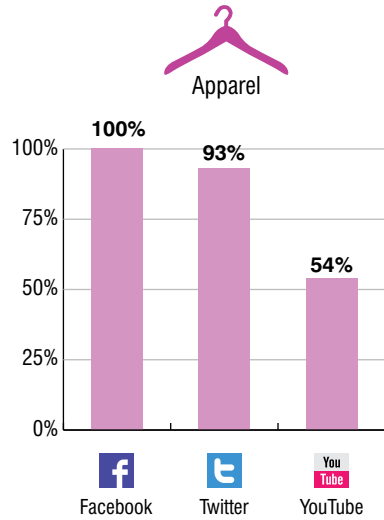


Brooks Brothers sells products directly from its Facebook page via a "Shop" tab

KEY FINDINGS

SOCIAL MEDIA ADOPTION BY CATEGORY:

Percent of Brands Using Facebook, Twitter, and YouTube (as of July 2010)

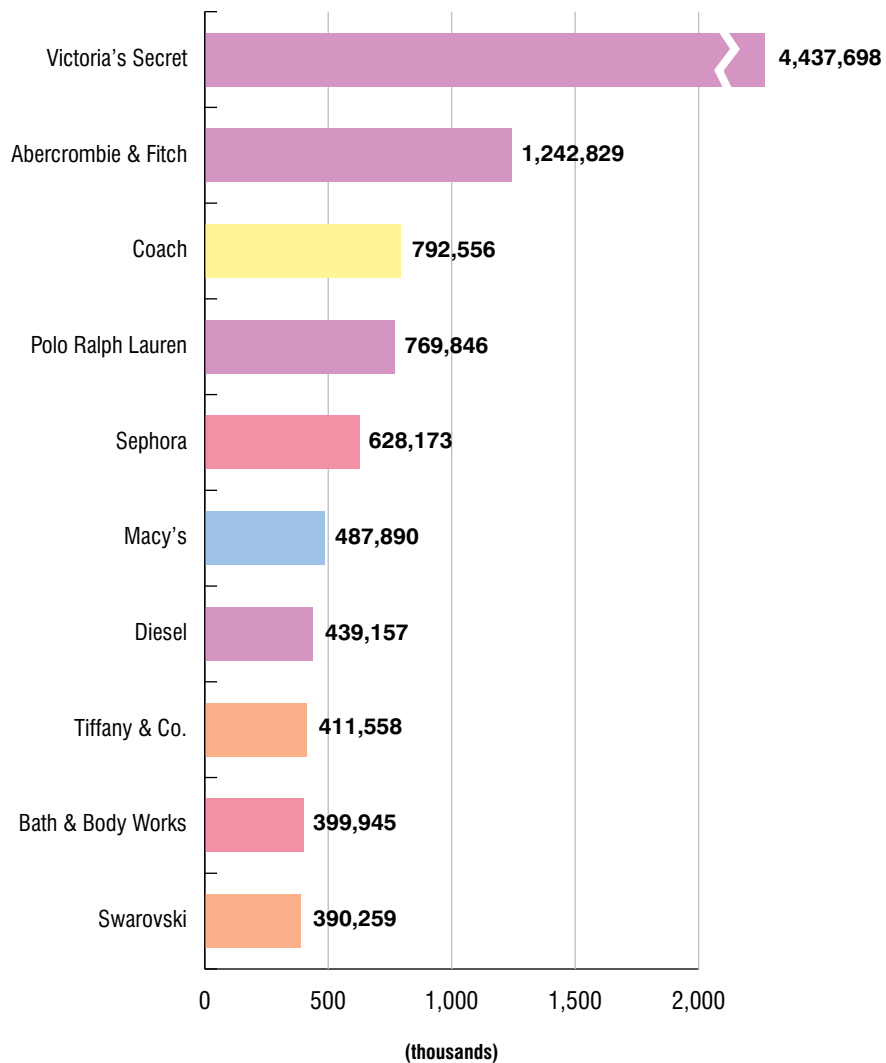


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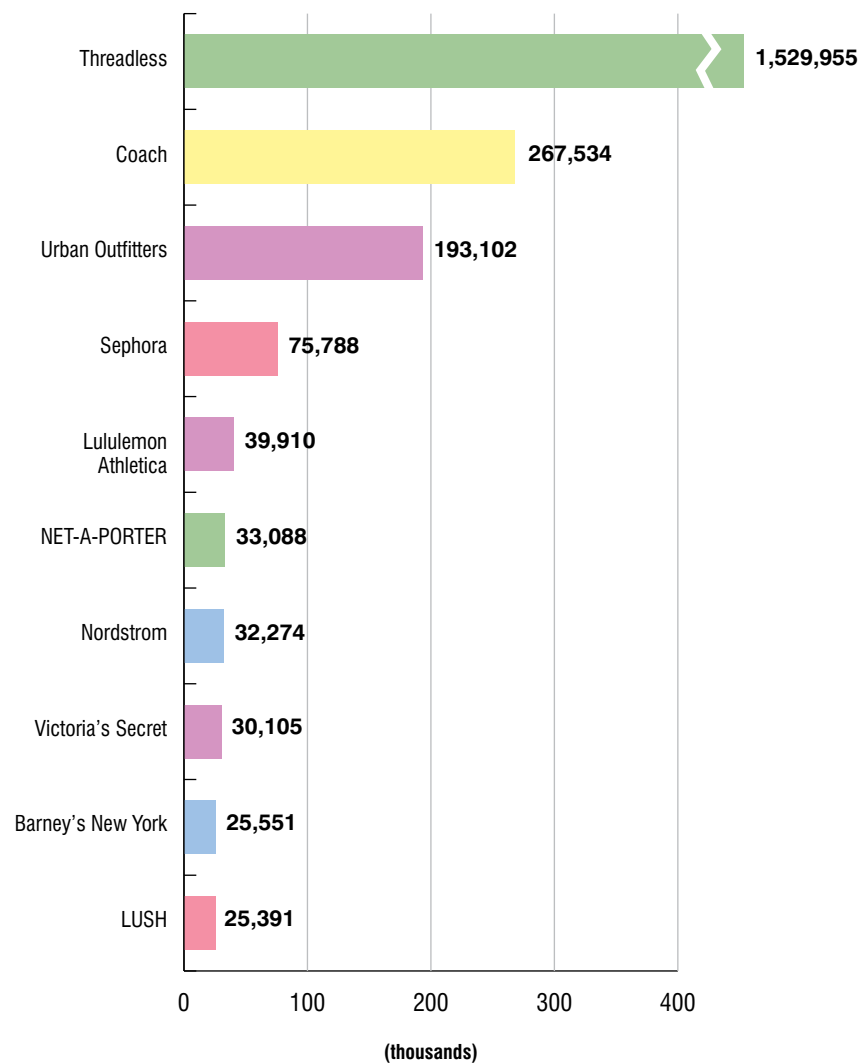
TOP 10 BRANDS: FACEBOOK LIKES

(as of July 2010)



TOP 10 BRANDS: TWITTER FOLLOWERS

(as of July 2010)



KEY FINDINGS

Social Media Is Maturing

It is increasingly difficult for brands to sustain high growth rates in social media as the law of large numbers takes effect. Facebook "likes" grew an average 12.2 percent from June to July for retailers versus the 71 percent monthly "likes" growth registered nine months earlier by auto brands in the January 2010 L2 Digital IQ Index®: Auto. Most brands with double-digit growth are adding to small bases—fewer than 50,000 fans. Only social phenomenon Victoria's Secret, which boasts more than four million likes, enjoys month-on-month double-digit growth.

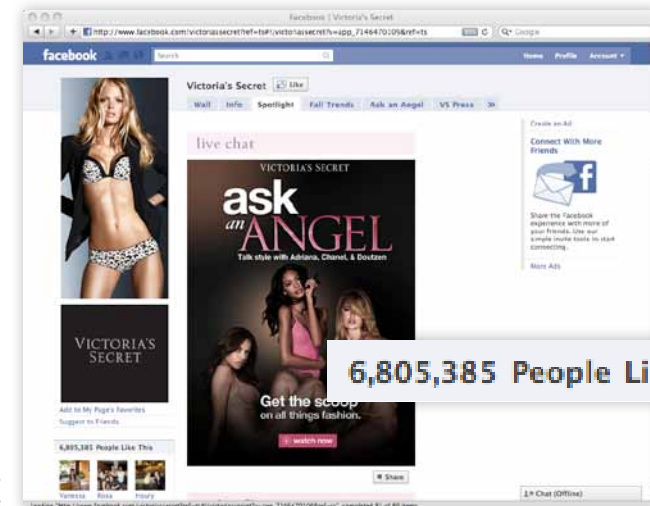
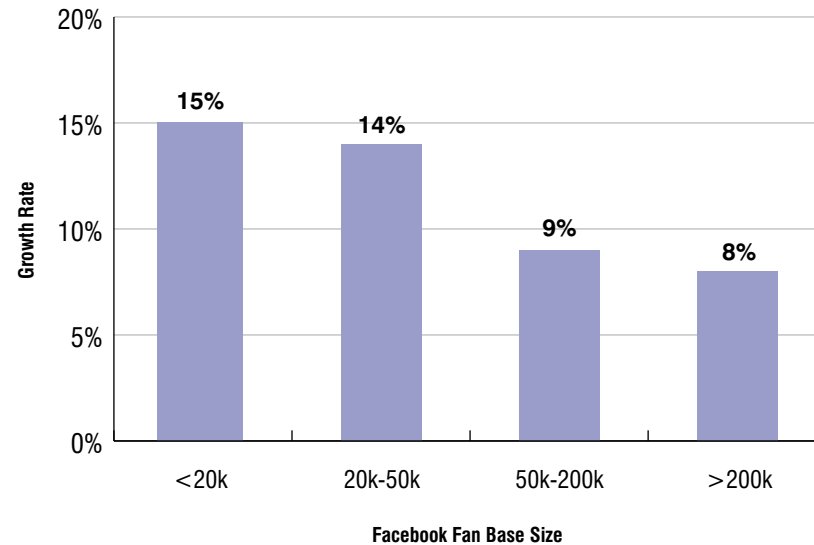
The same is true with Twitter. Retailers on average registered a six percent Twitter follower growth rate. Bergdorf Goodman, Tiffany, and Saks Fifth Avenue are the only long-established retailers with more than 3,000 Twitter followers that continue to see greater than 20 percent month-on-month growth.



Saks Fifth Avenue's Twitter page



FACEBOOK FAN GROWTH RATE
Month-on-Month Growth by Fan Base Size (June-July 2010)



Victoria's Secret's Facebook page

KEY FINDINGS

Can You Hear Me Now?

Only 25 percent of retailers have mobile compatible sites and 28 percent have an iPhone app. Although 90 percent of mobile sites are commerce-enabled, only 35 percent of iPhone applications allow users to buy. Mobile shoppers currently generate less than three percent of overall site traffic and only two percent of e-commerce revenue for retailers, but they represent significant incremental opportunity and are expected to account for 8.5 percent of online revenues by 2015.⁴ Furthermore, 81 percent of smartphone users browse their mobile device while shopping, providing retailers with an opportunity to improve the shopping experience through location-based offers, mobile couponing, push notifications, and applications.⁵

iPad/iWait

Within 28 days of launch, Apple sold one million iPads.⁶ Despite its success, most retailers have taken a wait-and-see attitude with the device. Currently, six of the 81 brands have iPad applications: NET-A-PORTER, Gilt Groupe, Pottery Barn, IKEA, Rue La La, and Yoox. Four of the six apps are e-commerce enabled.

Gilt launched its app in conjunction with the iPad debut and reports 25 percent more revenue per customer from those shopping on the iPad.⁷ Flash Sale competitor Rue La La reports that 10 percent of its sales are from customers using their iPad app.⁸

4. "The State of Retailing Online 2010: Marketing, Social Commerce, and Mobile," Forrester Research, July 2010.

5. "Smartphone, Smart Marketing," AOL Advertising/Universal McCann, July 2009.

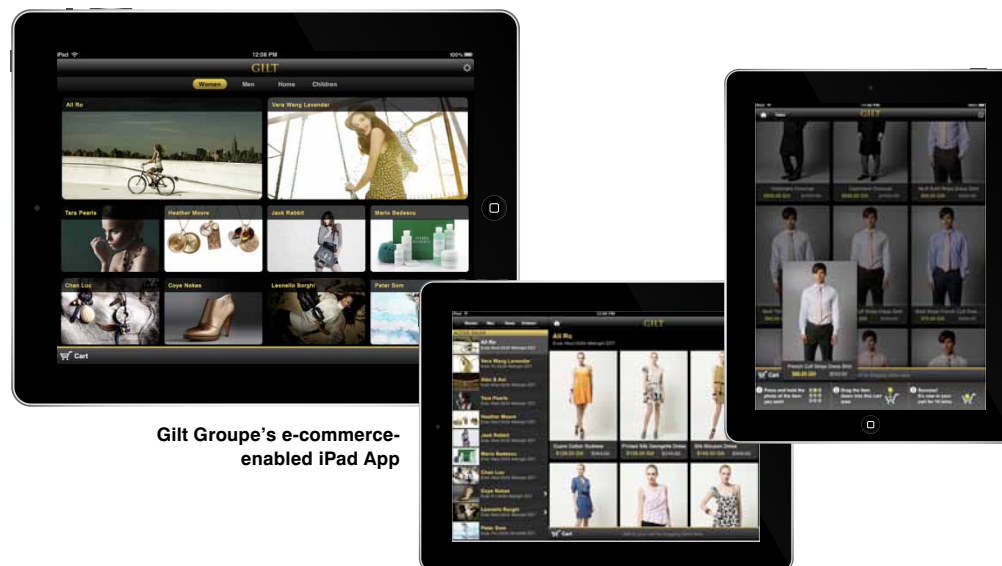
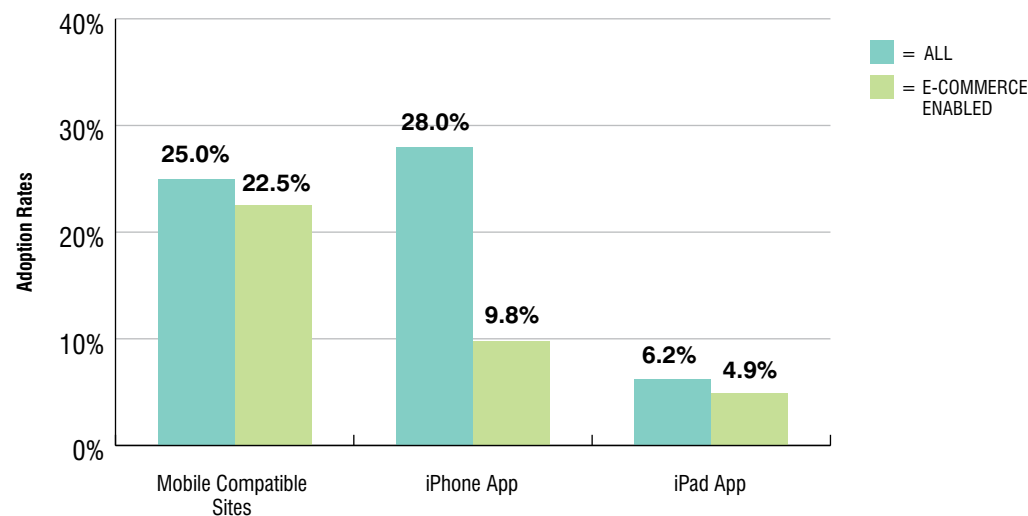
6. "Apple Sells One Million iPads," Apple Web. May 3, 2010, www.apple.com.

7. "Bulik, Beth, "Brands bet on iPad catalogs to expand e-commerce reach," Advertising Age, July 12, 2010.

8. Lynch, Matthew, "Rue La La Goes Mobile," WWD, June 30, 2010.

MOBILE ADOPTION RATES ACROSS PLATFORMS

(as of July 2010)



Gilt Groupe's e-commerce-enabled iPad App

KEY FINDINGS

However, all is not rosy for iPad early adopters; Pottery Barn's iPad catalog app, launched in June, was universally panned by critics and customers. The app failed to exploit the interactive features of the device, didn't offer purchase capability, and was plagued by technical glitches.

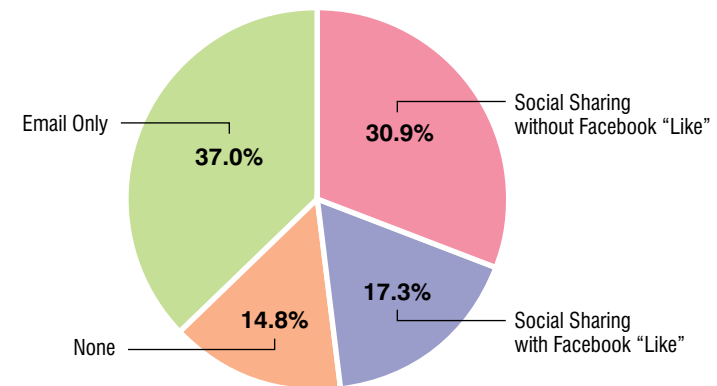
Facebook Sharing: Lots to "Like"

An estimated 350,000 sites have embedded a Facebook "like" button. Seventeen percent of the prestige retailers have implemented the button on their site (most commonly on product pages), representing a 75 percent increase over the previous month. Retailers who currently host the "like" button on their site demonstrated 80 percent higher average three-month traffic growth. Within the first week of Gilt introducing "like" onto its "flash sales" pages, the site saw a 50 percent increase in sales coming from traffic referred from Facebook.

Although "like" button adoption has been slow, 85 percent of retailers allow some form of social sharing, either through email or social media on their sites. Retailers offering social sharing have 89 percent higher average three-month traffic growth, and the average time visitors spend on their site is 11 percent higher. Some retailers are experimenting with more innovative social shopping functionality. Urban Outfitters and Lucky Brand Jeans have tested less than perfected co-shopping tools and Diesel and Yoox offer profiles, following, and favoriting.

ONLINE PRODUCT SHARING METHODS
ADOPTED BY RETAILERS

(as of July 2010)

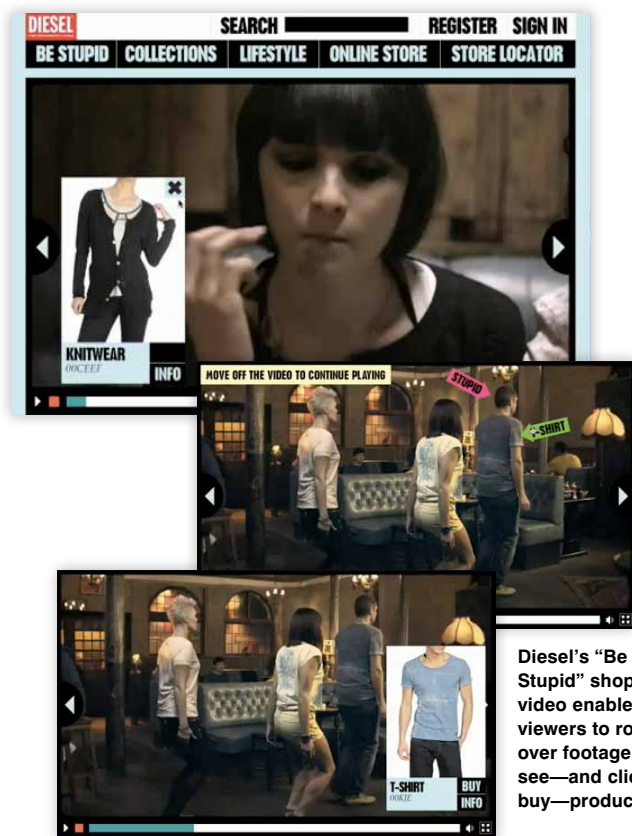


Urban Outfitters' site enables visitors to "like" and share products on Facebook

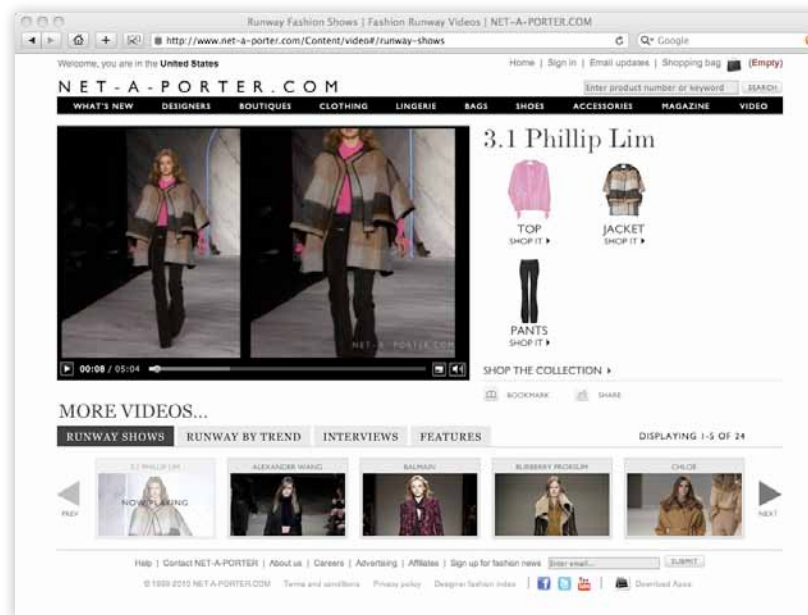
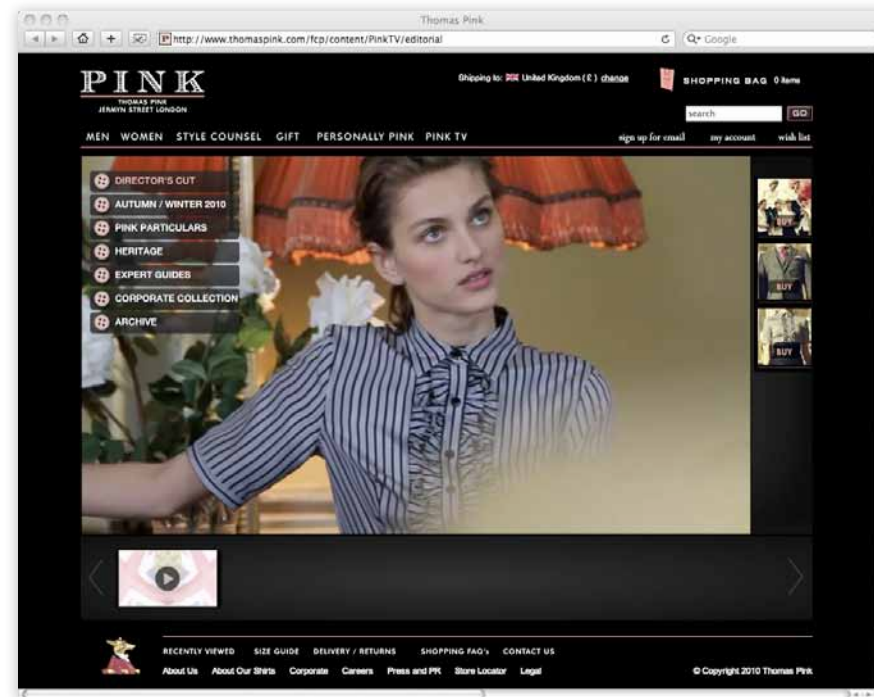
KEY FINDINGS

The Onset of V-Commerce

Online video viewers have been shown to spend 13 percent more when compared to all Internet users. However, only half of retailers use video content to engage customers on their sites. Shoppable videos present an even greater opportunity with an average conversion rate of nearly 30 percent. Seven brands feature videos on their product pages, and Diesel, Thomas Pink, and NET-A-PORTER have shoppable videos.



Diesel's "Be Stupid" shoppable video enables viewers to roll over footage to see—and click to buy—products



The Thomas Pink and Net-a-Porter.com sites feature shoppable products as they appear in video footage



KEY FINDINGS

Not So Chatty

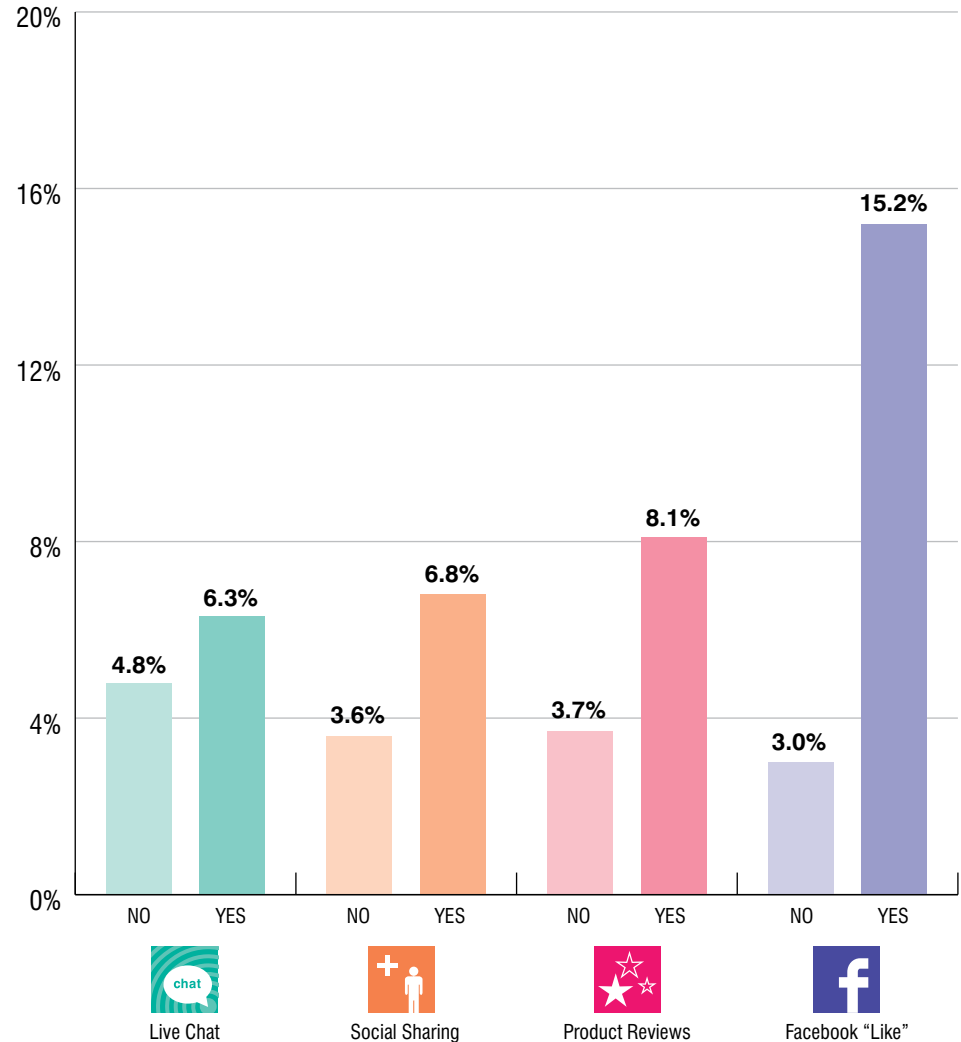
Despite extensive research indicating chat capabilities boost online conversion, only 23 percent of retailers have live chat on their sites. Functionality ranges from instant messaging interfaces to direct engagement via click to call. Retailers with live chat functionality boast 87 percent more unique visitors. The high-ticket value Home Furnishings category shows the largest adoption of any category, with 70 percent providing live chat.

How Do You Rate?

Although 71 percent of consumers indicate customer reviews have a strong influence on their purchase decisions online, only 32 percent of prestige retailers offer ratings and reviews on their sites. Sites with such features show 118 percent higher traffic growth, 159 percent more unique visitors, and 400 percent more in online sales. Beauty & Skincare (57 percent adoption) and Home Furnishings (70 percent adoption) were the most likely to implement ratings and reviews.

IMPACT OF SITE FEATURES ON TRAFFIC GROWTH

Three-Month Traffic Growth (May-July 2010)



KEY FINDINGS

Using What They Know

E-tailers boast the highest Digital IQ of all categories, averaging 117 across the five brands included in the study. Their stellar IQs are largely a function of high Site and Digital Marketing scores. Forced to become “smart” online by the explosion of the registry business, the Home Furnishings category occupies second place.

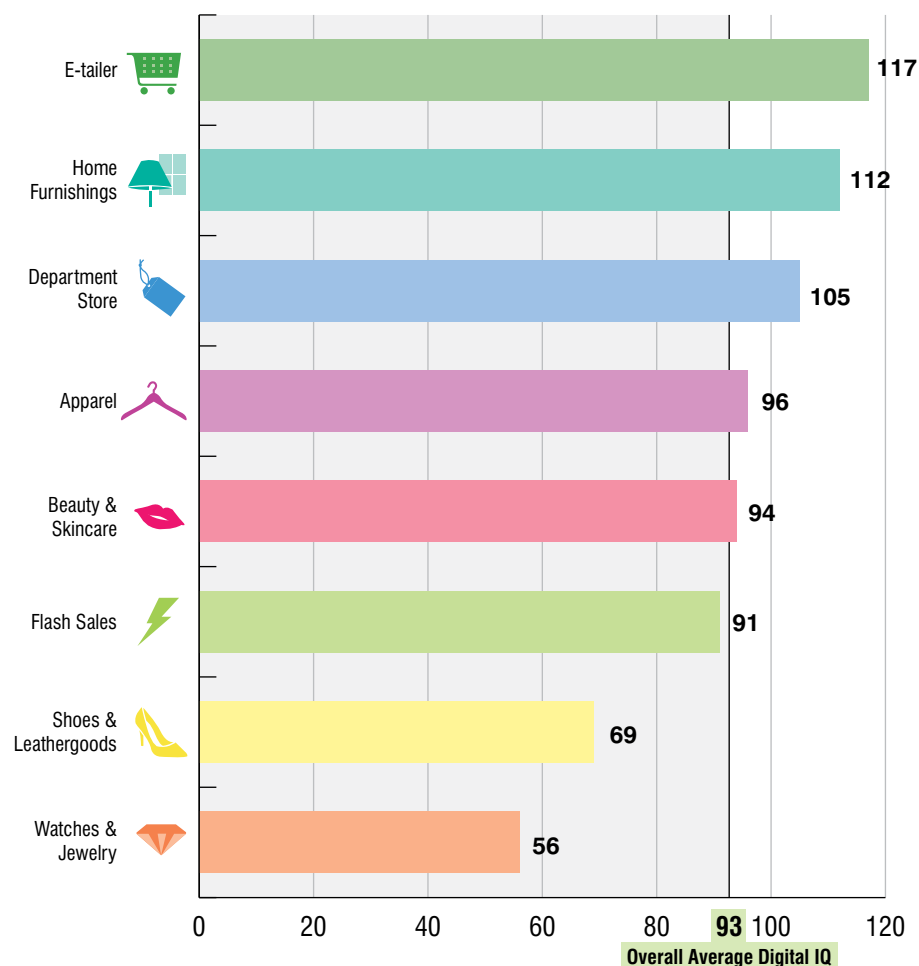
Department Stores dominate the social media ranks, posting the highest Social scores of any category. However, their sites disappoint and take hits for poor brand translation. Despite registering robust traffic growth that outpaces all other categories, Flash Sales retailers scored surprisingly low, with a below-average category IQ of 91. These e-commerce newcomers face search engine visibility challenges due to password-protected sites and have limited social media efforts.

Geo Dis-location

Tech's new kids on the block, Foursquare and Gowalla, have received a great deal of buzz from consumers and press. These platforms offer customers discounts, promotions, or loyalty points for “checking in.” Geo-location is in its infancy, and only seven percent of the prestige retailers have experimented with a geo-local platform. Response to geo-local initiatives has been lukewarm. Coach reported that 10 percent of opening weekend traffic checked in on Foursquare at its Men's Store in Manhattan.⁹ However, Ann Taylor, which offered 25 percent off to Foursquare mayors at its Manhattan locations in July, experienced only single digit check-ins at many locations.

9. David Duplantis, SVP, Global Web and Digital Media, Coach Inc., at WWD Social Media Mandate Forum, May 20, 2010.

AVERAGE DIGITAL IQ BY CATEGORY



KEY FINDINGS

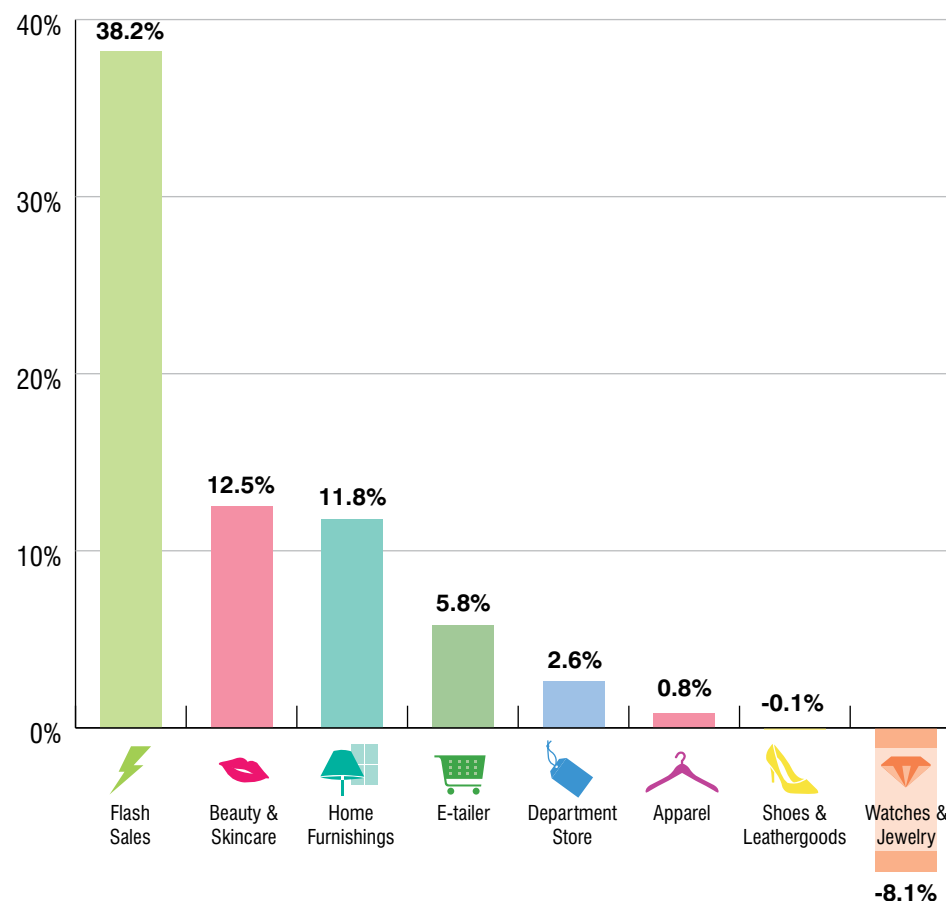
Flash Sales Sites: A Flash in the Pan?

Flash Sales sites are experiencing month-on-month traffic growth of 38 percent, more than three times that of the next closest category. However, as traditional retailers begin experimenting with variations of these sales themselves, reducing the need for third-party inventory management, the future of Flash sites remains to be seen.

There is little differentiation among the Flash Sales sites in terms of traffic and functionality, suggesting they are competing for the same audience. The category largely relies on email marketing and has failed to garner huge social media audiences. Gilt Groupe and Rue La La are the only brands attempting to erect a digital moat around their businesses by offering sales on multiple platforms such as the iPad and Android.

SITE TRAFFIC GROWTH BY CATEGORY:

Three-Month Average (May-July 2010)



KEY FINDINGS

You've Got Mail

Despite the buzz around social media, email remains the dominant means of connecting with customers. Ninety-six percent of retailers in the study maintain an email-marketing program.

Wempe, Tourneau and Tourbillon—all from the Watches & Jewelry category—are the only retailers not to offer email opt-in. On average, retailers sent three emails per week June through July 2010. Neiman Marcus led in email volume, averaging 11 emails a week. Not surprisingly, the Flash Sales category is the most frequent emailer, averaging almost eight per week.

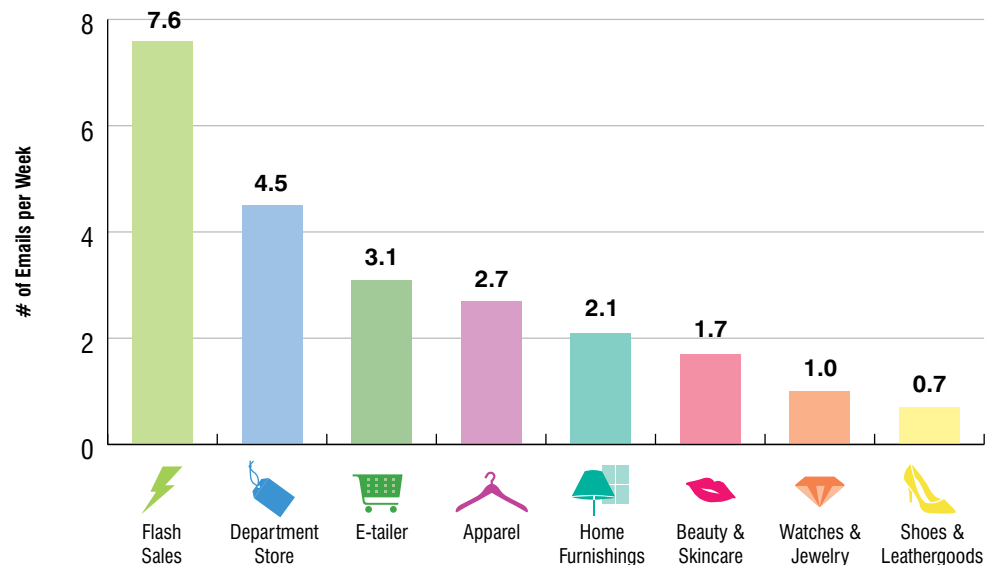
Retailers with higher emailing frequency have higher traffic growth. Brands that email five or more times per week witnessed traffic growth more than twice as high as those that emailed less frequently.

Email Joins the Social Circle

Email is an effective tool for promoting a social media presence and cultivating "likes" and followers. Eighty percent of retailers link to at least one of their social media properties (Facebook being the most common) from email. In addition, 21 percent of retailers provide social-sharing functionality for email content. Email is underutilized as a platform for promoting mobile properties: only seven percent of retailers provide links to or highlight a mobile app in their emails.

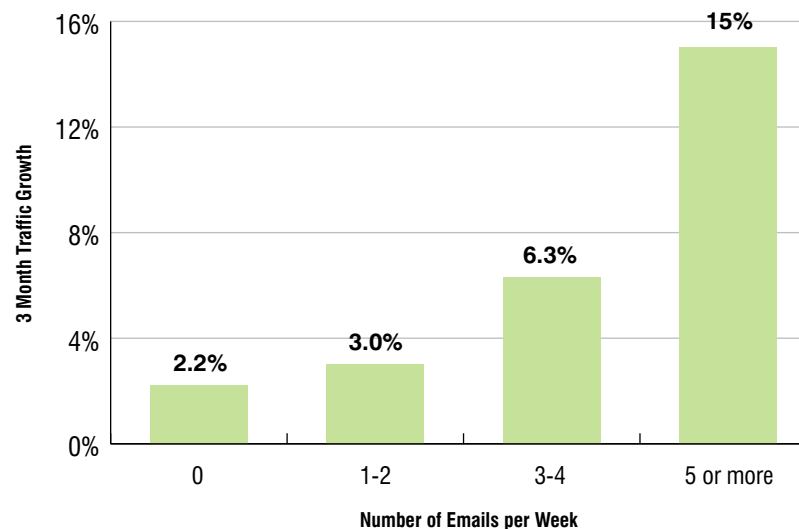
EMAIL FREQUENCY BY CATEGORY:

Three-Month Average (May-July 2010)



IMPACT OF EMAIL FREQUENCY ON SITE TRAFFIC:

Three-Month Average (May-July 2010)



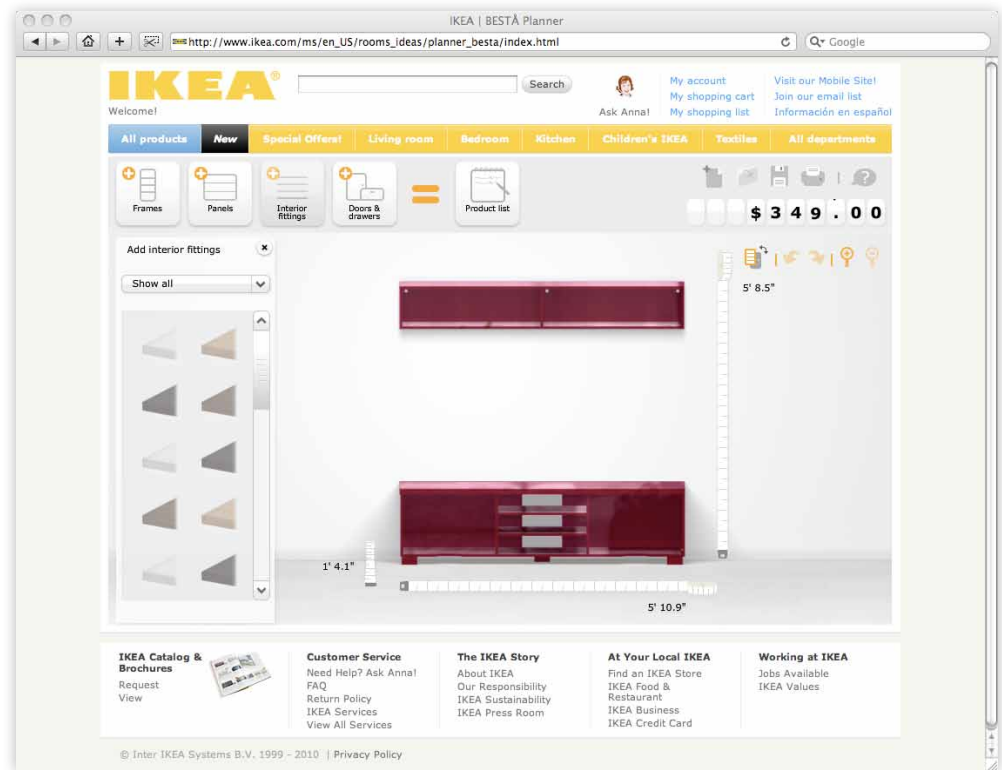
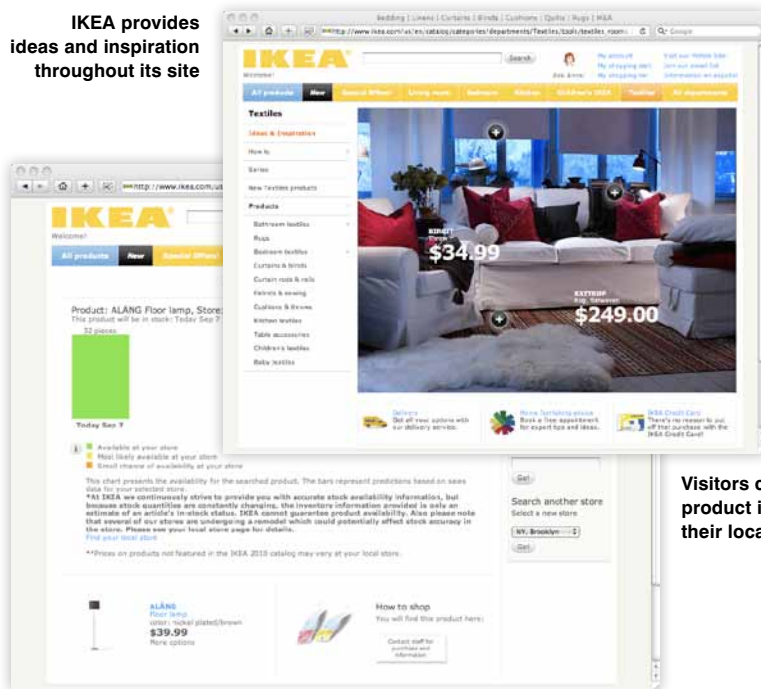
FLASH OF GENIUS

IKEA

True to its brand, IKEA.com is practical, well engineered, and maintains a do-it-yourself orientation. The site provides a wealth of online tools and product information to assist customers with their purchases. Users can design their own wall units—rendered in 3D—and check local IKEA store inventory.

To leverage its large Facebook fan base, IKEA challenged fans to be the first to tag uploaded product photos in exchange for giveaways. Thousands of people spread the campaign via Facebook friends and newsfeeds. IKEA has entered the mobile arena with a digital catalog available for the iPhone and iPad and an augmented reality mobile application for new product lines.

IKEA provides ideas and inspiration throughout its site



IKEA's BESTÅ Planner allows users to design their own wall units

IKEA's iPhone app features new products and design ideas on-the-go



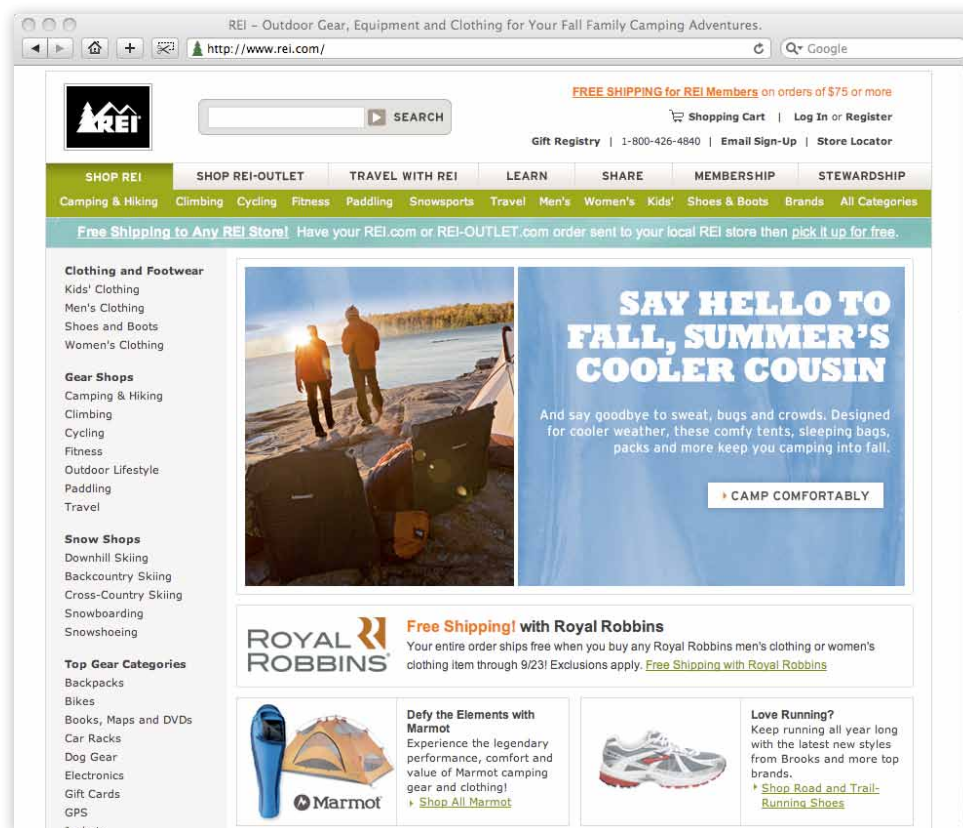
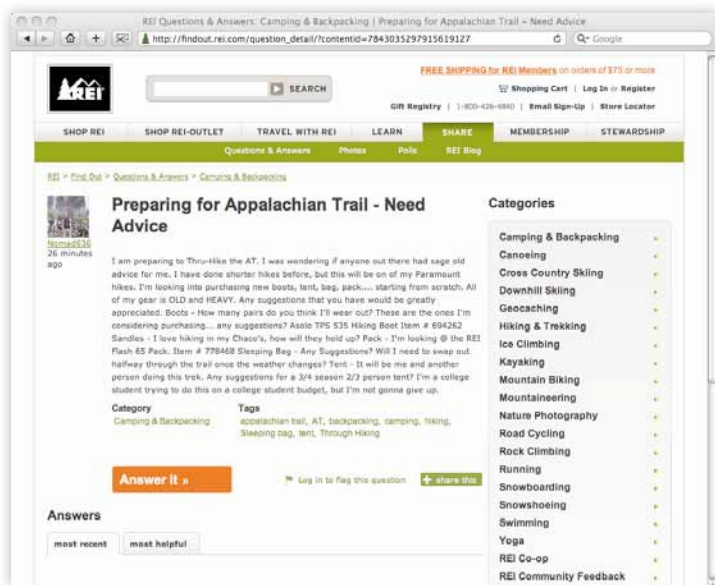
Visitors can check product inventory at their local IKEA store

FLASH OF GENIUS

REI

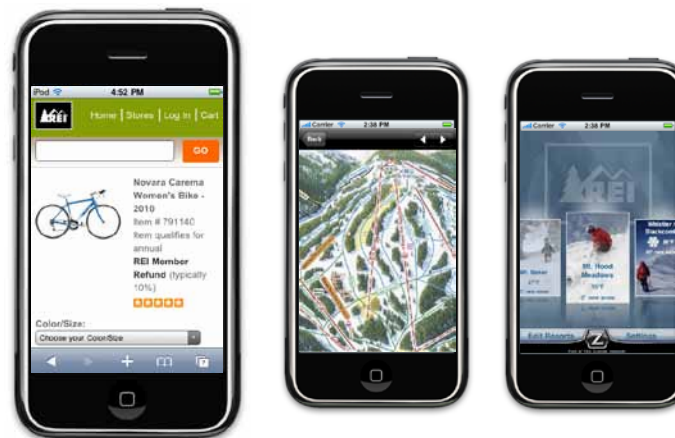
REI is the perfect online guide for navigating the wilderness of outdoor accessories. The site is functional and easy to use. Through its online bulletin boards, the brand has created a hub for outdoor enthusiasts to exchange information and encourage its fans to share photos on Flickr. In addition to offering an e-commerce-enabled mobile site and an iPhone app, the retailer is experimenting with a geo-local SMS service that alerts mobile users in the vicinity of its stores of promotions.

The site's sharing section enables visitors to interact with other outdoor enthusiasts



REI home page

REI's e-commerce enabled mobile site

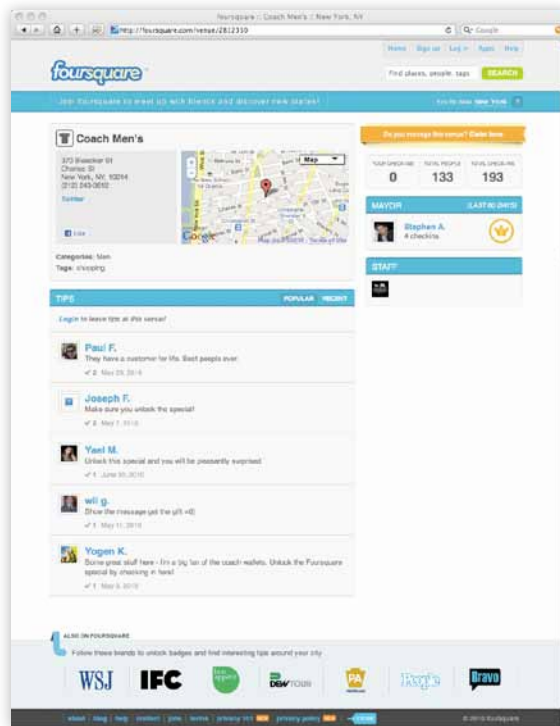


REI's Snow Report app keeps users informed of current weather and ski conditions

FLASH OF GENIUS

Coach

Coach's site makes it fun to shop. Surprises such as gift finders and downloadable content are sprinkled throughout the site and videos are playfully integrated. The brand also recently engaged fashion bloggers to design-limited edition handbags, which were featured on the site. Nowhere is Coach's accessible positioning more evident than on social media. It has attracted almost 268,000 followers on Twitter (second overall) and nearly 793,000 "likes" on Facebook (third overall). A recent Foursquare promotion, featuring the opening of the first Coach Men's Store, and the Coach Poppy Project blogger initiative highlight the brand's willingness to take risks.



Coach used Foursquare to promote the launch of its new Men's Store

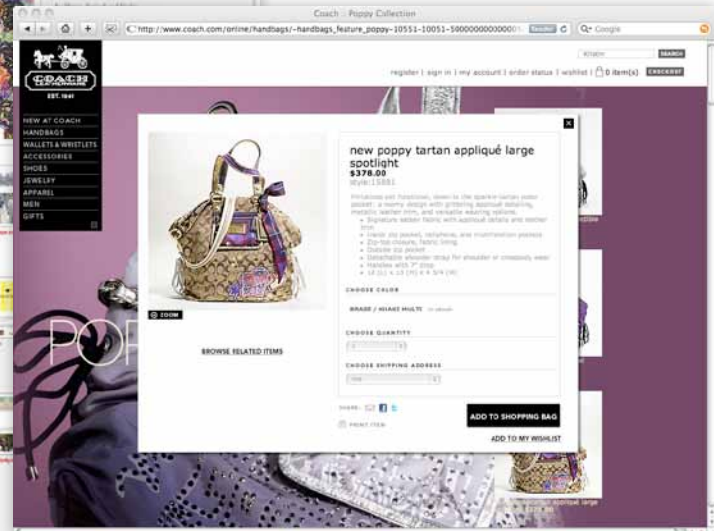


Want to know more about your brand's ranking?
[CONTACT US](#)



Coach's well-designed gift finder app

Coach's Poppy Project, featuring a trail of favorite fashion blogs, giveaways, and inspiration for Coach's Poppy collection



FLASH OF GENIUS

Threadless

Customers are both designers and marketers for next-generation T-shirt retailer Threadless. Users can submit T-shirt ideas to the brand's community of more than 700,000 members. Ideas that receive the most votes are placed for sale on the site. Sophisticated social media tools allow people to share their designs through their personal social media platforms. The social nature of its marketing ensures that its message spreads virally and with authenticity.

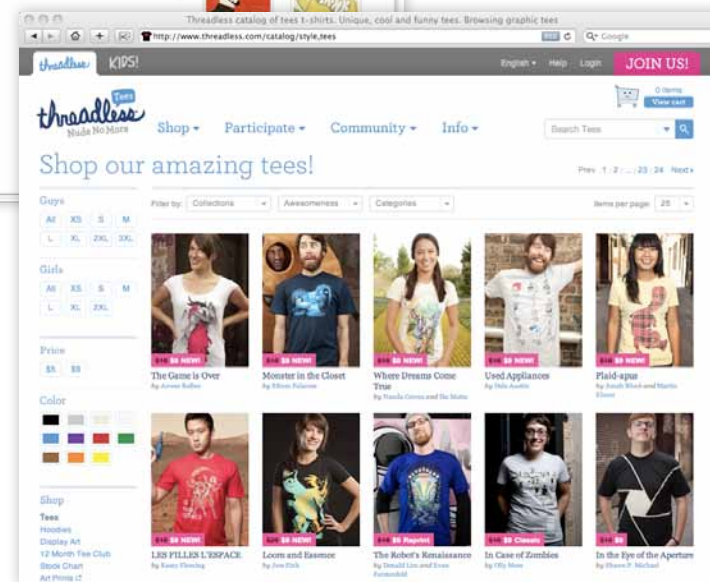
Threadless' customer service is entirely online, mostly via Twitter (more than 1.5 million followers). The upstart has recently expanded the concept to additional product lines and has opened two retail locations in Chicago. Threadless T-shirts are now carried in select Nordstrom stores.



Threadless calls on users to submit T-shirt designs; designs with the most votes are fabricated and sold on the site



Incorporating witty tweets from its staff, Threadless uses Twitter for customer support and sales marketing

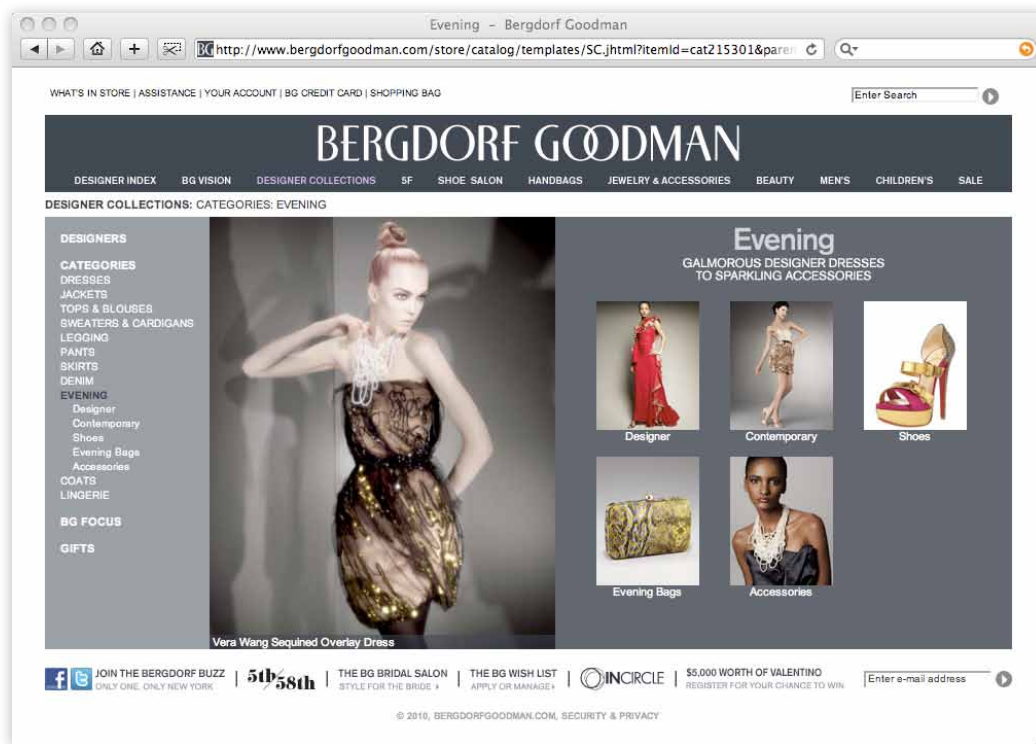


FLASH OF GENIUS

Bergdorf Goodman

Bergdorf Goodman, the department store of the future, is proving that clicks, rather than bricks, drive growth. With a single store on New York's Fifth Avenue, Bergdorf Goodman looks to expand digitally. The brand's digital and social media efforts—including a glamorous shoe mobile app and a Facebook presence seven times its closest competitor—enable it to punch above its weight class.

The social media superstar engages consumers with its own distinct voice across email and its Twitter platform, which boasts twice the number of Twitter followers as its next closest Department Store rival. While retailers averaged three tweets per day and other department stores seven tweets per day, Bergdorf's sent a prolific 36 tweets per day from its single Twitter account in the month of July.

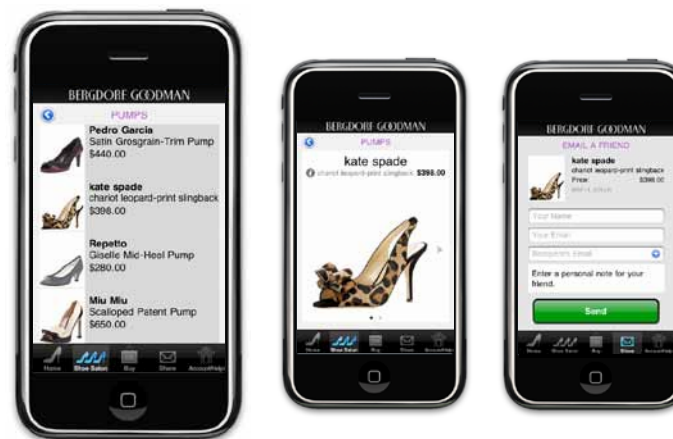


Bergdorf Goodman home page



Bergdorf Goodman maintains a strong Facebook presence and a very active Twitter page

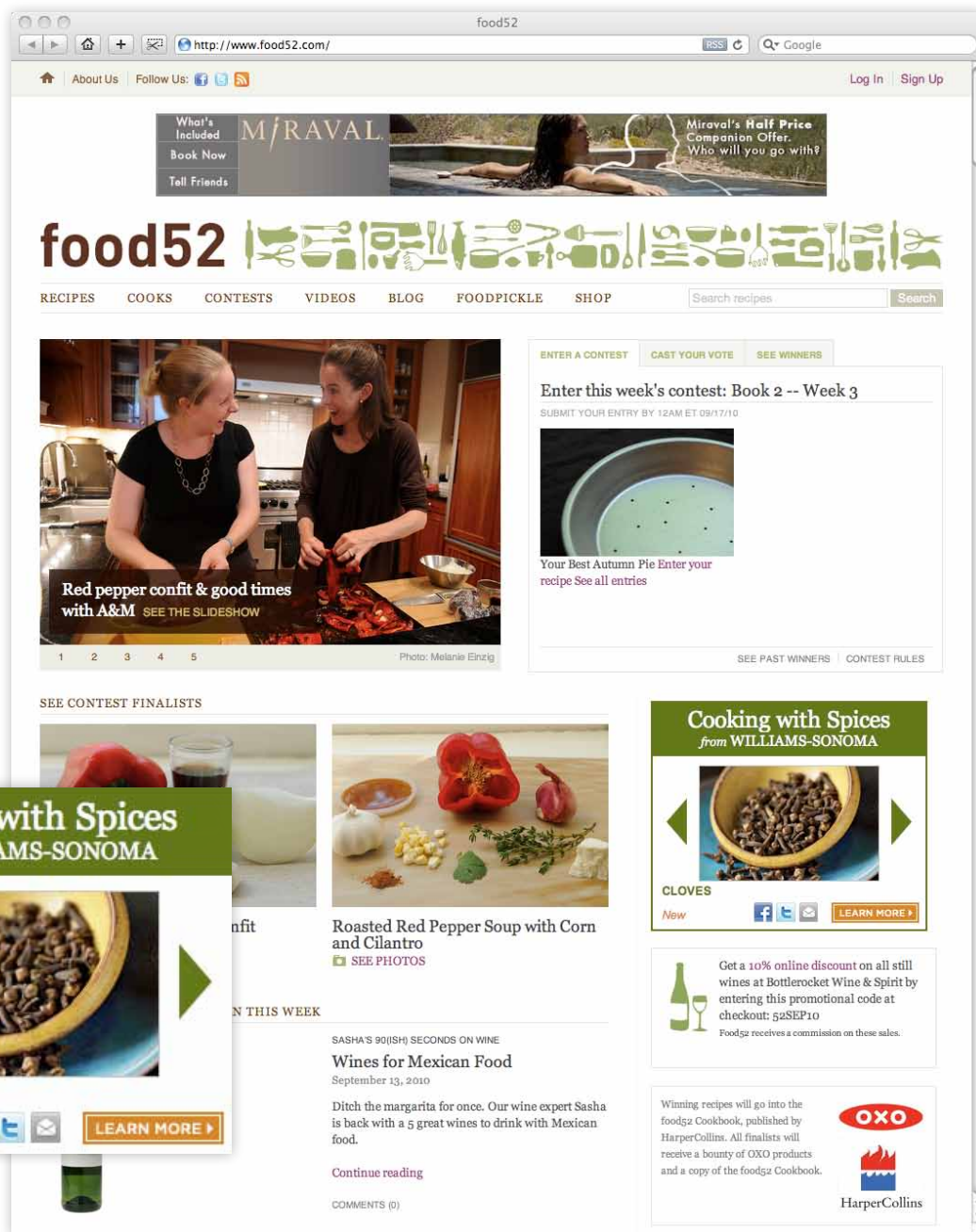
Bergdorf's Shoe Salon app is well organized and easy to use



FLASH OF GENIUS

**Williams-Sonoma
COOKS' NETWORK**

The line between brand and media are blurring. Williams-Sonoma has moved beyond banner ads with the recent launch of the Cooks' Network. The culinary giant has provided media-rich content including video and recipes to over 60 food bloggers. Editorial is repurposed on the brand site to enhance product display and information. The home retailer registered some of the highest scores for blog mentions and user-generated content of any brand in the Index.



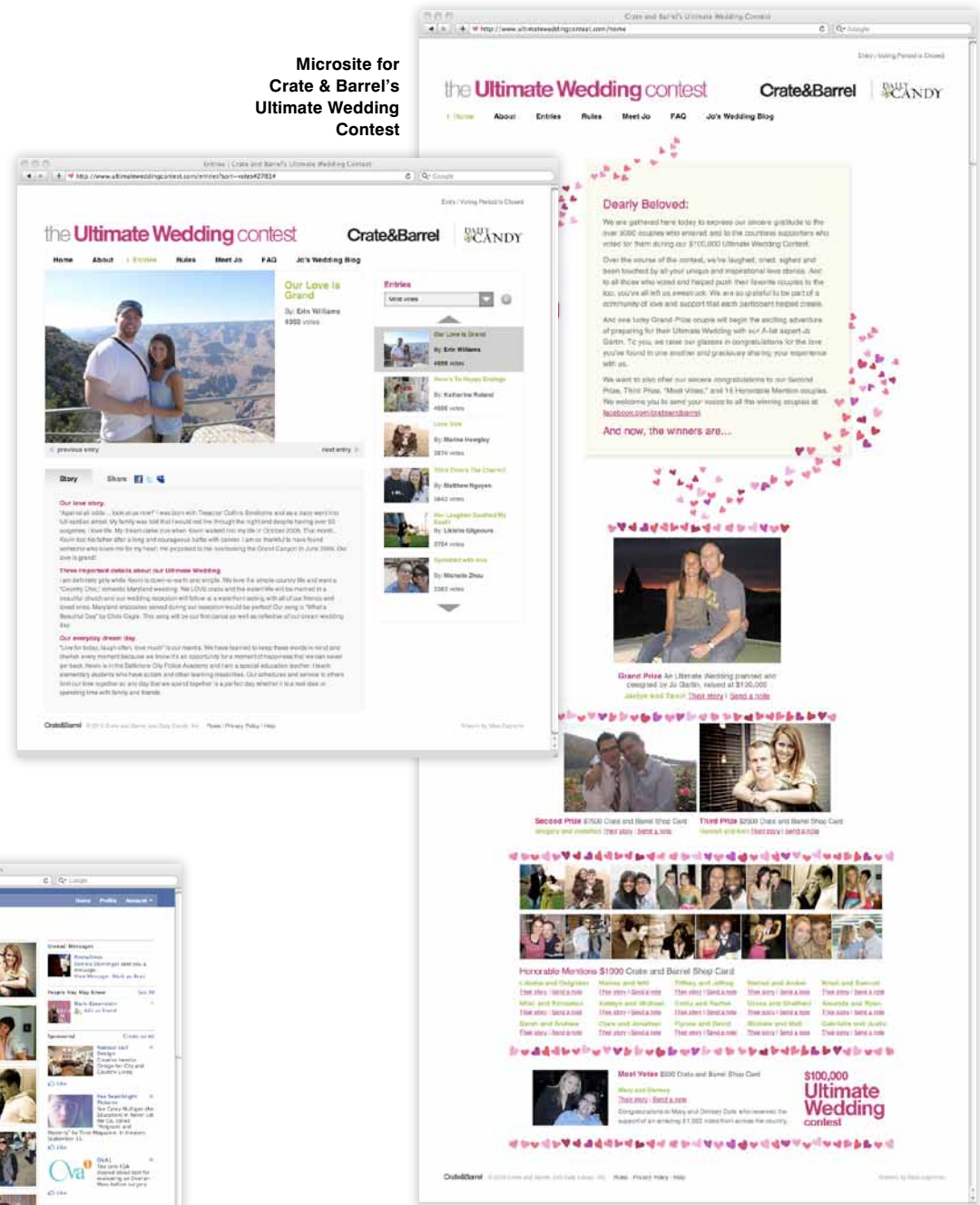
Williams-Sonoma's Cooks' Network widget

SOCIAL MEDIA STANDOUTS

**Crate & Barrel
ULTIMATE WEDDING CONTEST**

In February 2010, Crate & Barrel partnered with DailyCandy, a popular lifestyle email newsletter, to ask couples to tell their "story" in exchange for a chance to win a \$100,000 "Ultimate Wedding." Site visitors selected the finalists, and judges determined which couple received the grand prize. More than 9,000 couples entered the contest, each on average maintaining a \$2,000 Crate & Barrel wedding registry with 50 products. The contest microsite generated six million views. Contestants took to social media, creating Facebook fan pages, tweeting, posting YouTube videos, and commenting on blogs in an attempt to boost their vote totals.

Microsite for **Crate & Barrel's Ultimate Wedding Contest**



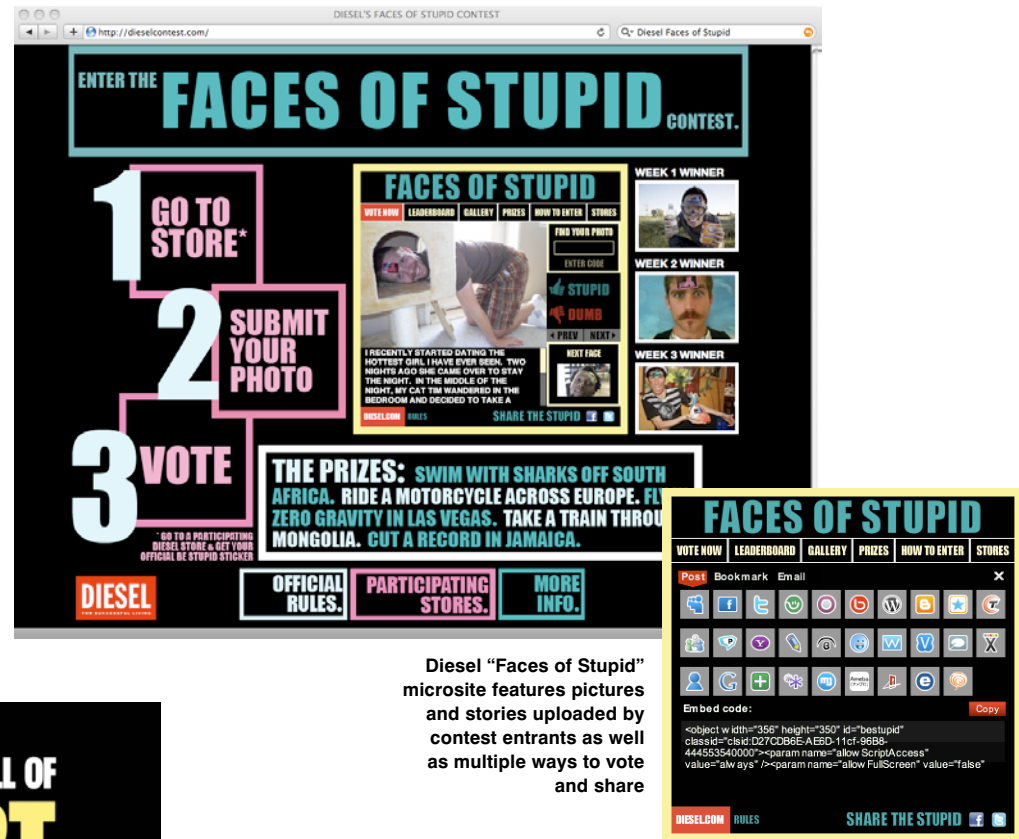
Facebook integration for **The Ultimate Wedding Contest**

SOCIAL MEDIA STANDOUTS

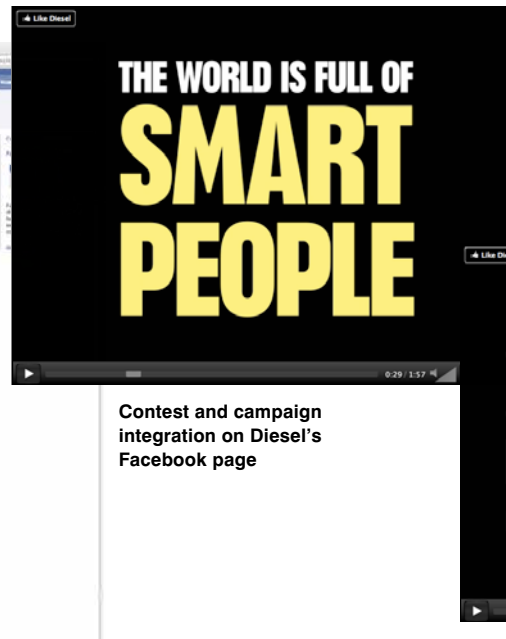
Diesel
THE GENIUS OF BEING "STUPID"

As part of its irreverent "Be Stupid" campaign, Diesel launched a "Faces of Stupid" contest designed to drive traffic to both its site and its stores. Participants were required to pick up a "Be Stupid" sticker at a participating store, take a picture of themselves with the sticker on their forehead, and upload the photo to diesel.com along with their most inspiring "stupid" story.

Site visitors voted on a weekly winner who won an electronic prize package that included an iPad. From these weekly winners, a grand prize winner was selected, who won the once-in-a-lifetime adventure prize of his or her choice. Links to the contest page were sharable via Facebook and Twitter.



Diesel "Faces of Stupid" microsite features pictures and stories uploaded by contest entrants as well as multiple ways to vote and share

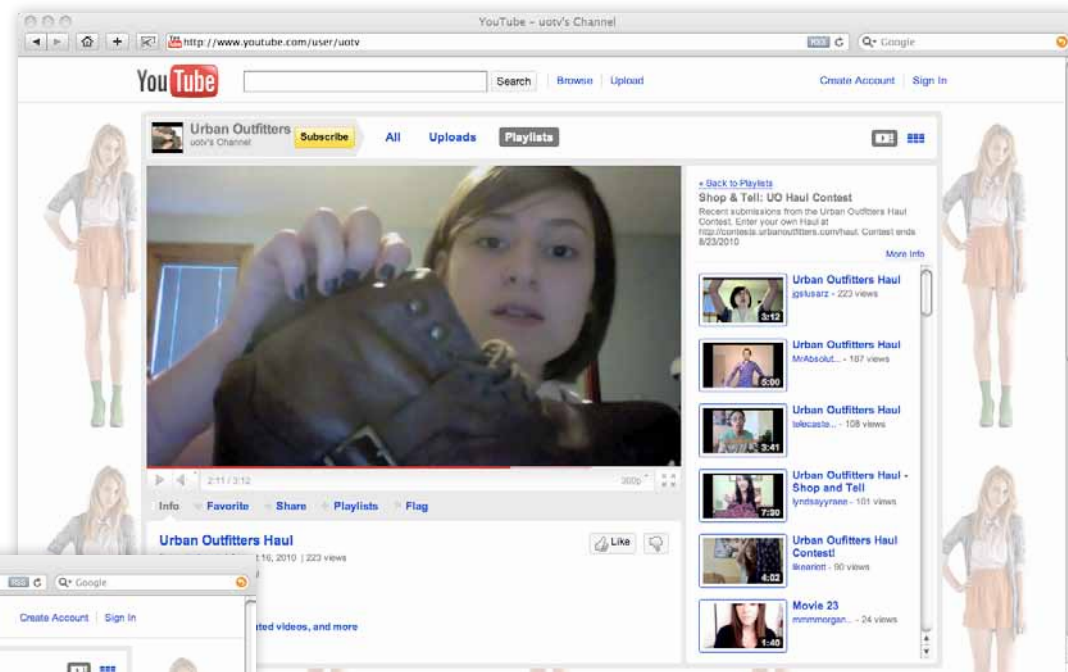
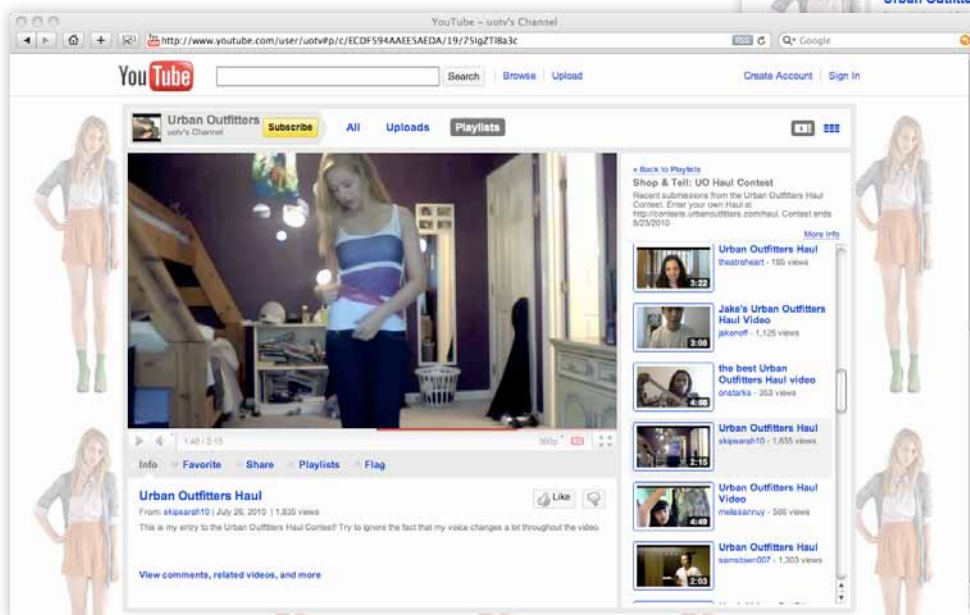


SOCIAL MEDIA STANDOUTS

Urban Outfitters

THE HAUL VIDEO

Trading on the success of the haul video phenomenon, Urban Outfitters encourages its customers to post their latest shopping sprees on YouTube for the chance to win a \$500 gift card. Almost 60 haul videos were uploaded as of the end of August.

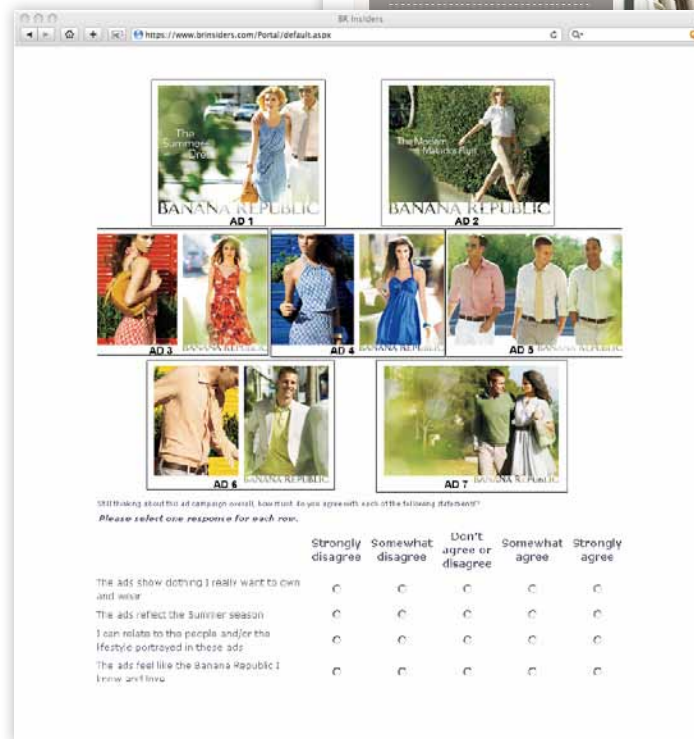
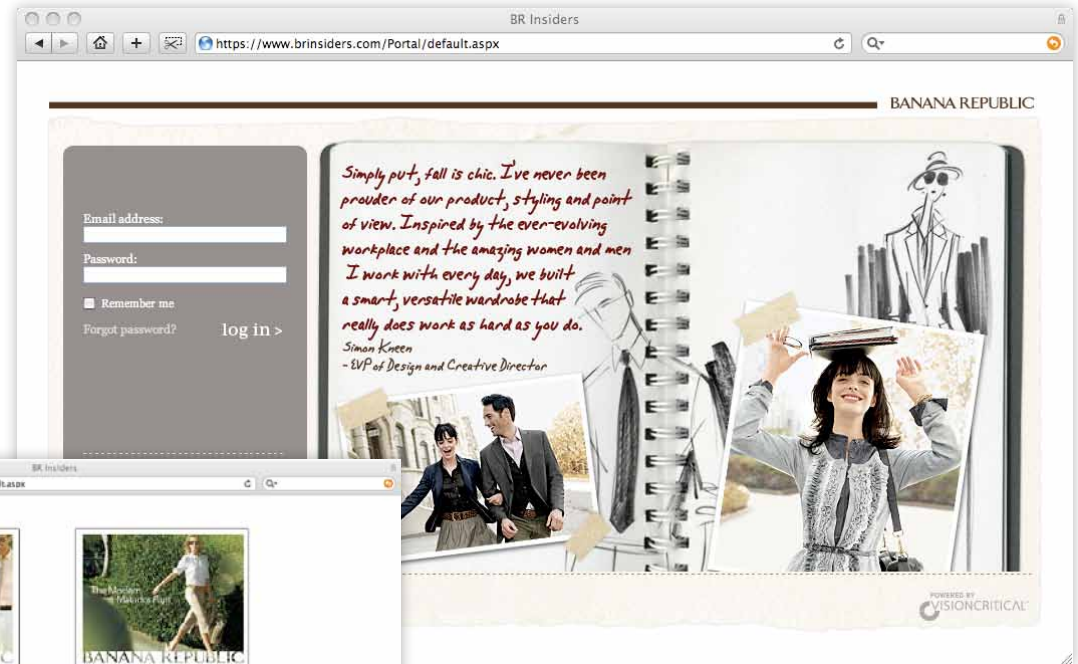


Shoppers show off their purchases from Urban Outfitters on YouTube

SOCIAL MEDIA STANDOUTS

Banana Republic
SOCIAL MEDIA CRM

Rather than relying solely on anonymous IP addresses to make inferences, Banana Republic opts to go directly to its sources, asking a select group of consumers to participate in its BR Insiders online panel. Through this portal, customers provide feedback on advertising, products, and site functionality in exchange for discounts and merchandise. With more than 50,000 members, the program has built a loyal community of Banana Republic evangelists.



Banana Republic's BR Insiders (by invitation only) give feedback on ad campaigns and recent purchases, providing consumer insight for the brand

SOCIAL MEDIA STANDOUTS

French Connection CHATROULETTE

French Connection gained online and mainstream press buzz by becoming the first brand to harness the hype of Chatroulette. Using the tagline, "Going where no manly man has gone before," French Connection challenged its British fans to put their cyber charm on display. Potential Romeos were asked to prove themselves "by venturing into the most terrifying terrain on the internet to seduce a woman." Contestants were required to submit a copy of their conversations for a chance to win a £250 gift card.

After an uproar from the French Connection community, the contest was expanded to females as well. A risk that few brands would have been willing to take, wading into Chatroulette's unpredictably murky waters was a natural fit for the cheeky, irreverent brand also known as FCUK.



French Connection's Chatroulette challenge



TEAM

SCOTT GALLOWAY

*Professor of Marketing, NYU Stern
Founder, L2*

Scott is a Clinical Associate Professor at the NYU Stern School of Business where he teaches brand strategy and luxury marketing and is the founder of L2, a think tank for digital innovation. Scott is also the founder of Firebrand Partners, an operational activist firm that has invested more than \$1 billion in U.S. consumer and media companies. In 1997, he founded Red Envelope, an Internet-based branded consumer gift retailer (2007 revenues: \$100 million). In 1992, Scott started Prophet, a brand strategy consultancy that employs more than 120 professionals in the United States, Europe, and Asia. Scott was elected to the World Economic Forum's "Global Leaders of Tomorrow," which recognizes 100 individuals under the age of 40 "whose accomplishments have had impact on a global level."

Scott has served on the boards of directors of Eddie Bauer (Nasdaq: EBHI), The New York Times Company (NYSE: NYT), Gateway Computer, eco-America, and UC Berkeley's Haas School of Business. He received a B.A. from UCLA and an M.B.A. from UC Berkeley.

MAUREEN MULLEN

L2

Maureen leads L2's research and advisory group and has benchmarked and/or developed digital and social media initiatives for more than 300 prestige brands. She began her career at Triage Consulting Group in San Francisco. At Triage, she led several managed care payment review and payment benchmarking projects for hospitals, including UCLA Medical Center, UCSF, and HCA. She has gone on to lead research

and consulting efforts focused on digital media, private banking, M&A, insurance industry risk management, and renewable energy economics for professional firms and academics. Maureen has a B.A. in Human Biology from Stanford University and an M.B.A. from NYU Stern.

R. DANIELLE BAILEY

L2

Danielle began her career at The Home Depot, Inc. where she led a variety of internal consulting engagements focused on supply chain, merchandising, and in-store process improvement. She went on to manage the implementation of award-winning mobile initiatives for several large media clients including The New York Times Co., NBC Universal, Disney/ABC, Maxim magazine, and Zagat. Danielle has a B.S. in Systems Engineering from The University of Virginia and an M.B.A. from NYU Stern.

YVETTE SHEN

L2

Yvette has been actively involved in strategy consulting projects and benchmarking exercises for the financial and retail industries. She has worked on social media program strategies and site re-platforming initiatives for top retailers in the U.S. Yvette started her career at Oliver Wyman Financial Services consulting firm in New York City. She has a B.A. in economics from Yale.

TIMOTHY BRUNS

Brand Translation Expert

Tim is formerly the Executive Director of Creative at Cheil North America. He began his career at Campbell Mithun Esty and then went to Lot21 (currently Carat)

overseeing digital accounts, including eBay, Intraware, Seagate, Adobe, Pets.com, Palm, Unicast, and Hotwire.com. Since then he has led the creative work at Atmosphere BBDO, TBWA\Chiat\Day, Avenue A/Razorfish, and, most recently, Drafftcb. His work spans a diverse array of clients, including Hampton Inn, Hewlett-Packard, Motorola, MetLife, Jamaica Tourism, Sprint/Nextel, Absolut, Nivea, AOL for Broadband, Citibank, MSN, and numerous pharmaceutical brands. Timothy has produced award-winning campaigns in television, print, and online, in both B2C and B2B marketing.

CHRISTINE PATTON

*Brand Translation Expert
Creative Director, L2*

Christine is a brand and marketing consultant with more than 15 years of experience creating brand identities and marketing communications for aspirational and luxury brands. She began her career at Cosí, where she developed the brand and oversaw its evolution from concept through growth to 100 restaurants. Since then she has provided creative direction for a wide array of clients, including the launch of Kidville and CosmoGIRL! magazine. Most recently, she led creative services at ELLE during the most successful years of the magazine's history, developing innovative integrated marketing programs for advertisers. Christine received a B.A. in Economics and Journalism from the University of Connecticut and an M.B.A from NYU Stern.



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