EXCERPT from the 2012 **Digital IQ Index®: Beauty**
To access the full report, contact **membership@L2ThinkTank.com**

L2 DIGITAL IQ *INDEX*®: Beauty

October 31, 2012

SCOTT GALLOWAY
NYU Stern

A Burning Platform

The beauty industry is looking to break the suicide pact it made decades ago with traditional media, department stores, and drugstore retail.

Department store sales, historically the backbone of prestige beauty, were down 2.9 percent in the second quarter of 2012.[1] In addition, sales at big box and drugstore retail, the homes of mass, are flat or declining.[2] Brands have two choices: follow traditional retail partners sideways and/or down, or adapt to new realities. E-commerce presents a beacon of opportunity for beauty to reverse its downward trend. Online sales across the broader health and beauty category were up 29 percent year over year in the first quarter,[3] and the competition for direct e-commerce sales is evident across the industry: three quarters of brands now incorporate user reviews, 39 percent support auto-replenish through e-commerce, and 18 percent promote loyalty programs on their sites. Among the 15 brands (primarily mass) whose e-commerce strategy still relies primarily on online retail partners, 27 percent have invested in tighter shopping cart integration over the past year.

Amazonian

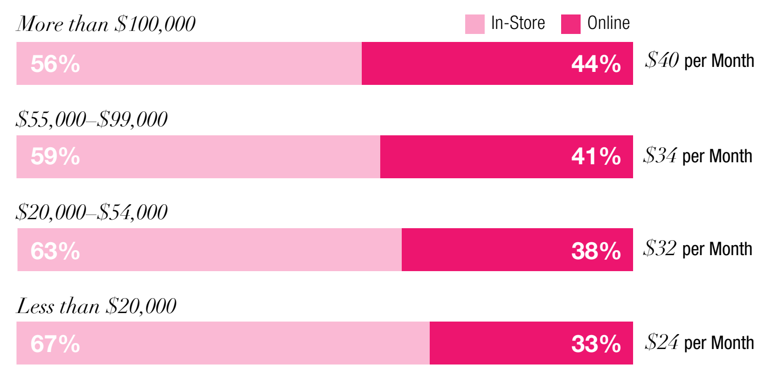
Digital has fomented another shift in power. Nearly half the brands in this year's Index now register Amazon as a top downstream recipient of traffic from their sites, up from 36 percent a year ago. Although only three prestige brands appear to be officially selling on Amazon, the Great White Shark of retail is purchasing against 46 percent of prestige brand terms on Google, suggesting the beauty industry could be its next major feeding ground.

1. U.S. Retail Federation.
2. Yahoo Finance.
3. IBM as cited in press release, May 2, 2012.
4. "Leave Me Alone, I'm Shopping," The Wall Street Journal, June 28, 2012.
5. "Shoppers would rather use smartphones than consult store associates, survey finds," Internet Retailer, Bill Siwicki, December 6, 2010.

The New Influencers

Experiments with in-store technology integration, such as Clinique's,[4] diagnostic app at counter suggest that a beauty shopper is more apt to convert to purchase when interacting with an iPad than a beauty advisor. Seventy-three percent of shoppers prefer to consult smartphones for information than to interact with a sales associate.[5] We may be at a tipping point at which stores begin mimicking the online purchase process, a startling change of direction following twenty years of brands attempting to clone their brick and mortar environment online. Vloggers also continue to gain voice and influence, further eroding the importance of traditional editorial and in-store advice.

Online Shoppers: Beauty Spending by Income Category
Percent of Purchases by Channel
March 2012

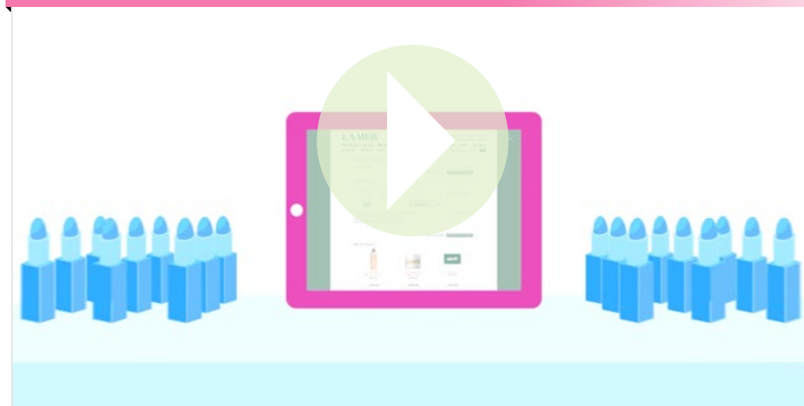


Source: A.T. Kearney survey of online shoppers, March 2012

Clash of the Titans

Boasting four companies within the top 10 and an average Digital IQ of 125 across its portfolio, Estée Lauder Companies remains a force online. Two of the smaller brands in its portfolio, Origins and La Mer, registered the greatest IQ improvements within the Index, highlighting Estée Lauder's enterprise value: providing technology and expertise otherwise unavailable to small, independent brands. The prestige behemoth demonstrates that digital investment can be the tide that lifts all boats. Equally impressive, L'Oréal registered the largest IQ jump (nine percentile rank places) of any conglomerate, matching Estée Lauder with four brands in the top 10. Bleeding-edge innovation including Lancôme's Michelle Phan partnership (still going strong after more than two years) and Xbox app experimentation for multiple L'Oréal brands, combined with strong e-commerce fundamentals, have brought the French titan toe to toe with its American rival. L'Oréal's gains are particularly impressive given that the portfolio entertains a more complex channel mix.

Beauty Video *Click to Play*



Digital IQ = Shareholder Value

Our thesis is that digital competence is linked to shareholder value. This study attempts to quantify the digital competence of 56 beauty and skincare brands. Our aim is to provide a tool for identifying areas of strength and weakness, helping brands achieve greater return on digital investments. Like the medium we are assessing, our approach is dynamic. Please reach out with comments that improve our methodology and findings. You can contact me at scott@stern.nyu.edu.

SCOTT GALLOWAY
Clinical Professor of Marketing, NYU Stern
Founder, L2

ABOUT THE RANKING

The Methodology

15% *Mobile*

Compatibility, optimization, and marketing on smartphones, tablets, and other mobile devices in the U.S. and the EU5

Mobile Site
- Compatibility
- Functionality
- Transaction Capability

iOS Applications (iPhone & iPad)
- Availability
- Popularity
- Functionality

Innovation
- Geolocal
- Recent Brand Initiatives

40% *Site*

Effectiveness of brand site

Functionality & Content *88%*
- Technology
- Navigation & Product / Site Search
- Customer Service & Store Locator
- Product Page
- E-Commerce & Transaction Orientation
- Account & Personalization
- EU5 E-Commerce Footprint

Brand Translation *12%*
- Aesthetics
- Messaging & Visuals

15% *Social Media*

Brand presence, community size, content, and engagement across the social universe

Facebook
- Likes
- Growth
- Tabs & Applications
- Responsiveness
- Interaction Rate

Twitter
- Followers
- Growth
- Frequency
- Online Voice

YouTube
- Search Visibility
- Views
- Number of Uploads
- Subscriber Growth
- Viral Videos

Emerging Social Media
- Instagram
- Google+
- Pinterest
- Tumblr

30% *Digital Marketing*

Search, display, and email marketing efforts

Search
- Traffic
- SEM
- SEO
- Web Authority

Advertising & Innovation
- Display
- Retargeting
- Cross Platform Initiatives

Blogs & Other User-Generated Content
- Mentions
- Sentiment

Email
- Frequency
- Content
- EU5 Sign-Up
- Innovation

Digital IQ Classes

Genius 140+
Digital competence is a point of competitive differentiation for these brands. Site experience is shoppable, searchable, shareable, and mobile-optimized.

Gifted 110–139
Brands are experimenting and innovating across site, mobile, and emerging social media platforms. Digital presence is strong, complementing brand image and larger marketing efforts.

Average 90–109
Digital presence is functional yet predictable.

Challenged 70–89
Efforts are inconsistent and siloed across platforms. Site lacks inspiration and utility.

Feeble <70
Investment does not match opportunity.

Inquire about your brand's ranking. Contact us.

DIGITAL IQ RANKING

RANK	BRAND	PARENT	DIGITAL IQ	CLASS
1	ESTĒE LAUDER	The Estée Lauder Companies	141	GENIUS
1	LANCÔME PARIS	L'Oréal	141	GENIUS
3	CLINIQUE	The Estée Lauder Companies	139	GIFTED
3	L'ORÉAL PARIS	L'Oréal	139	GIFTED
5	MAC	The Estée Lauder Companies	136	GIFTED
6	AVEDA	The Estée Lauder Companies	134	GIFTED
6	MAYBELLINE NEW YORK	L'Oréal	134	GIFTED
8	SINCE Kiehl's 1851	L'Oréal	132	GIFTED
8	L'OCCITANE EN PROVENCE	L'OCCITANE en Provence	132	GIFTED
10	BARE ESCENTUALS	Shiseido Co.	130	GIFTED
10	benefit SAN FRANCISCO	LVMH	130	GIFTED
10	CLARINS	Clarins	130	GIFTED
13	MARY KAY	Mary Kay	129	GIFTED
13	URBAN DECAY beauty with an edge	Urban Decay Cosmetics	129	GIFTED
15	BOBBI BROWN	The Estée Lauder Companies	127	GIFTED
16	COVERGIRL	Procter & Gamble	123	GIFTED

GENIUS
Estée Lauder
Lancôme

GIFTED
Clinique
L'Oréal Paris
M.A.C Cosmetics
Aveda
Maybelline New York
Kiehl's
L'OCCITANE en Provence
Bare Escentuals
Benefit Cosmetics
Clarins
Mary Kay
Urban Decay
Bobbi Brown
CoverGirl
Avon
Smashbox Cosmetics
Olay
Burt's Bees
Origins
Proactiv
Chanel
Garnier
NARS
Elizabeth Arden
Vichy

AVERAGE
Philosophy
Perricone MD
Christian Dior
Neutrogena
Revlon
Yves Saint Laurent Beauty
Dove
Giorgio Armani Beauty
Carol's Daughter
Shiseido
Laura Mercier

CHALLENGED
La Roche-Posay
Essie
Skinceuticals
Sally Hansen
La Mer
La Prairie
Nivea
OPI
Make Up For Ever
SK-II
Rimmel London
Trish McEvoy
Almay
Fresh
Iman Cosmetics
Aveeno

FEEBLE
Cetaphil
Dolce & Gabbana

DIGITAL IQ RANKING

RANK	BRAND		DIGITAL IQ
17	AVON	Avon Products	122
17	smashbox cosmetics	The Estée Lauder Companies	122
19	OLAY	Procter & Gamble	119
20	BURT'S BEES	The Clorox Company	118
21	ORIGINS	The Estée Lauder Companies	115
22	proactiv	Guthy-Renker	114
23	CHANEL	Chanel	113
24	GARNIER	L'Oréal	112
25	NARS	Shiseido Co.	111
26	Elizabeth Arden	Elizabeth Arden	110
26	VICHY LABORATOIRES	L'Oréal	110
28	philosophy	Coty	109
29	Perricone MD	TSG Consumer Partners	107
30	Dior	LVMH	105
31	Neutrogena	Johnson & Johnson	103
32	REVLON	Revlon	101
32	YVES SAINT LAURENT	L'Oréal	101
34	Dove	Unilever	98
34	GIORGIO ARMANI	L'Oréal	98
36	Carol's Daughter	Carol's Daughter	95
37	SHISEIDO	Shiseido Co.	94

GENIUS
Estée Lauder
Lancôme
GIFTED
Clinique
L'Oréal Paris
M.A.C Cosmetics
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Kiehl's
L'OCCITANE en Provence
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Iman Cosmetics
Aveeno
FEEBLE
Cetaphil
Dolce & Gabbana

DIGITAL IQ RANKING

CLASS	RANK	BRAND	PARENT	DIGITAL IQ
AVERAGE	38	laura mercier	Gurwitch Products	92
CHALLENGED	39	LA ROCHE-POSAY LABORATOIRE DERMATOLOGIQUE	L'Oréal	88
CHALLENGED	40	essie	L'Oréal	86
CHALLENGED	40	SKINCEUTICALS	L'Oréal	86
CHALLENGED	42	Sally Hansen	Coty	85
CHALLENGED	43	LA MER	The Estée Lauder Companies	83
CHALLENGED	44	la prairie SWITZERLAND	Beiersdorf	80
CHALLENGED	44	NIVEA	Beiersdorf	80
CHALLENGED	44	O·P·I	Coty	80
CHALLENGED	47	MAKE UP FOR EVER PROFESSIONAL PARIS	LVMH	79
CHALLENGED	47	SK-II	Procter & Gamble	79
CHALLENGED	49	RIMMEL	Coty	77
CHALLENGED	50	Trish McEvoy	Trish McEvoy	76
CHALLENGED	51	ALMAY	Revlon	72
CHALLENGED	51	fresh	LVMH	72
CHALLENGED	53	IMAN	Impala Inc.	71
CHALLENGED	54	Aveeno ACTIVE NATURALS	Johnson & Johnson	70
FEEBLE	55	Cetaphil	Galderma	62
FEEBLE	56	DOLCE & GABBANA	Procter & Gamble	60

GENIUS
Estée Lauder
Lancôme

GIFTED
Clinique
L'Oréal Paris
M.A.C Cosmetics
Aveda
Maybelline New York
Kiehl's
L'OCCITANE en Provence
Bare Escentuals
Benefit Cosmetics
Clarins
Mary Kay
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CoverGirl
Avon
Smashbox Cosmetics
Olay
Burt's Bees
Origins
Proactiv
Chanel
Garnier
NARS
Elizabeth Arden
Vichy

AVERAGE
Philosophy
Perricone MD
Christian Dior
Neutrogena
Revlon
Yves Saint Laurent Beauty
Dove
Giorgio Armani Beauty
Carol's Daughter
Shiseido
Laura Mercier

CHALLENGED
La Roche-Posay
Essie
Skinceuticals
Sally Hansen
La Mer
La Prairie
Nivea
OPI
Make Up For Ever
SK-II
Rimmel London
Trish McEvoy
Almay
Fresh
Iman Cosmetics
Aveeno

FEEBLE
Cetaphil
Dolce & Gabbana

KEY FINDINGS

Shoppable Sites

Thirty-eight of the 56 brands in the Index are e-commerce enabled.

Twenty-one percent of e-commerce sites do not allow shoppers to change quantity in cart, and enabling color and size modifications for products in the cart remains a point of differentiation for just ten brands in the Index. Loyalty programs are more limited, offered by just one in five e-commerce enabled brands.

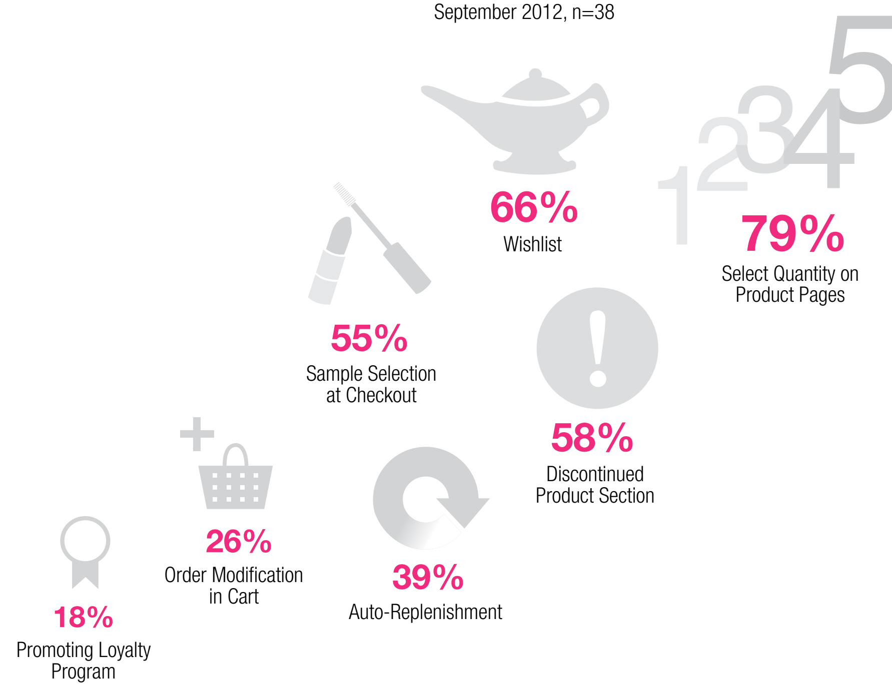
Auto-replenishment programs are up 21 percent from last year. Smashbox is the first color-only brand in the Index to test replenishment, traditionally the domain of skincare.

Addressing the challenges posed by Amazon Prime and other large online retailers, roughly a third of e-commerce brands offer free shipping at any time. Half have a free-shipping price threshold, and forty-seven percent of these indicate the amount remaining to reach the minimum.

E-Commerce Features

Percent of E-Commerce Sites with the Following:

September 2012, n=38



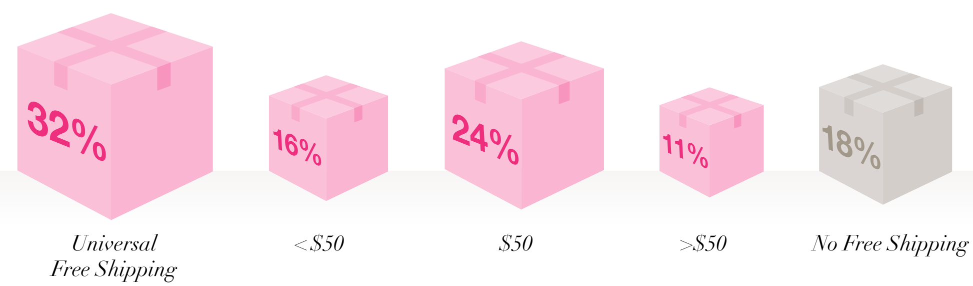
47%

of sites with free shipping thresholds indicate the amount remaining to reach the free shipping minimum.

Free Shipping Thresholds

Percent of E-Commerce Brands with the Following Shipping Terms

September 2012, n=38



KEY FINDINGS

User Reviews

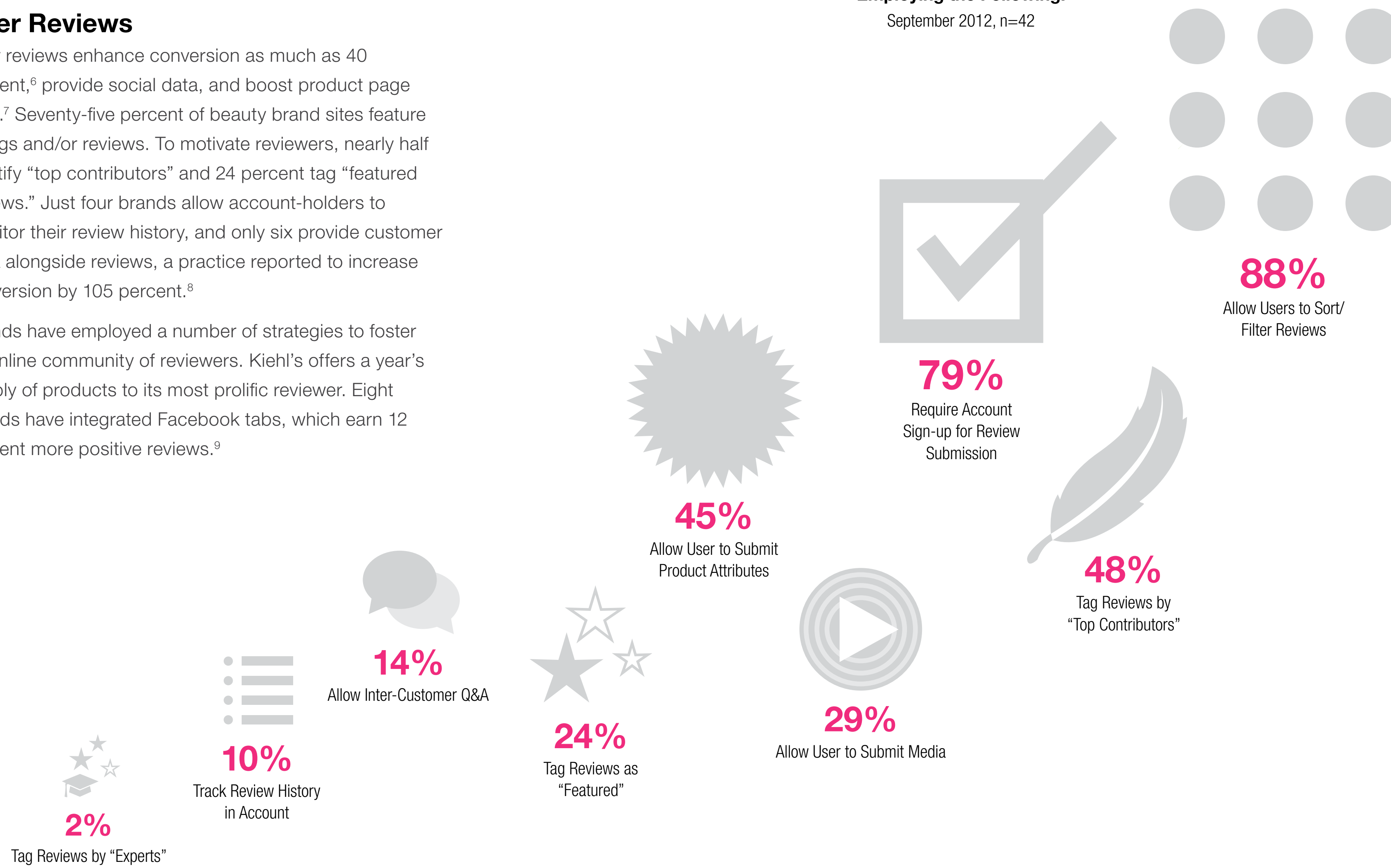
User reviews enhance conversion as much as 40 percent,[6] provide social data, and boost product page SEO.[7] Seventy-five percent of beauty brand sites feature ratings and/or reviews. To motivate reviewers, nearly half identify "top contributors" and 24 percent tag "featured reviews." Just four brands allow account-holders to monitor their review history, and only six provide customer Q&A alongside reviews, a practice reported to increase conversion by 105 percent.[8]

Brands have employed a number of strategies to foster an online community of reviewers. Kiehl's offers a year's supply of products to its most prolific reviewer. Eight brands have integrated Facebook tabs, which earn 12 percent more positive reviews.[9]

User Reviews Functionality

% of Brands with User Reviews Systematically Employing the Following:

September 2012, n=42



6. Bazaarvoice client case studies
7. "The Six Essentials of Ratings and Reviews," Reevoo.
8. "The Conversation Index: Volume 1," Bazaarvoice, September 2011.
9. *Ibid.*

KEY FINDINGS

Content and Commerce

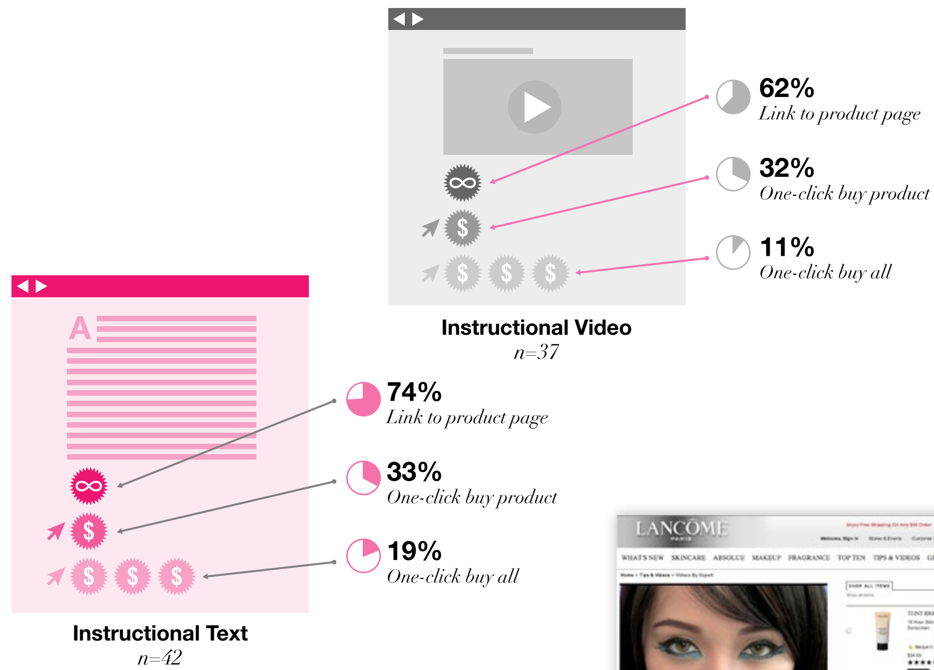
Instructional content is a common fixture on beauty brands' sites: three quarters feature text and two thirds incorporate videos. Cosmetics companies often suggest steps to "get the look," while skincare brands tend to encourage compliance (adherence to a consistent regimen to drive repeat purchases).[10]

However, our data suggests that instructional content is often poorly integrated with e-commerce. Only about a third of sites allow shoppers to add products from instructional text or videos to the cart without leaving the page. Fewer allow the purchase of a multi-product "look" or "collection" with a single click.

Interactive diagnostic tools are also poorly integrated. If seventy-five percent of brands have an interactive tool on their site, in the form of a diagnostic quiz (81 percent) and/or virtual makeover (26 percent). While 86 percent of these tools provide product recommendations, sixty-seven percent incorporate a one-click add-to-cart and only 38 percent allow shoppers to add a multi-product selection to the cart with one click.

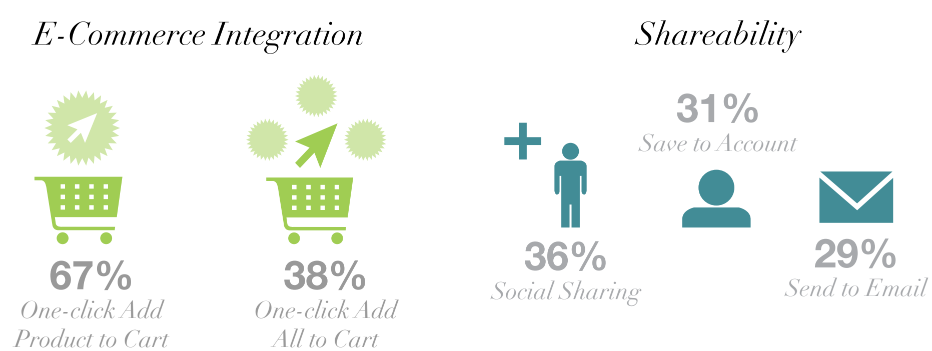
Less than one third of brands save tool results to the user's account, and just four brands highlight tool-recommended items on product pages. Mobile apps are even less commerce-oriented. Just one virtual makeover app and two diagnostic quiz apps are e-commerce enabled, and most apps fail to integrate with recommendations on site.

Instructional Content
September 2012



Visitors to Lancôme's site can add multiple items to the cart while watching how-to videos

Interactive Tools
September 2012, n=42

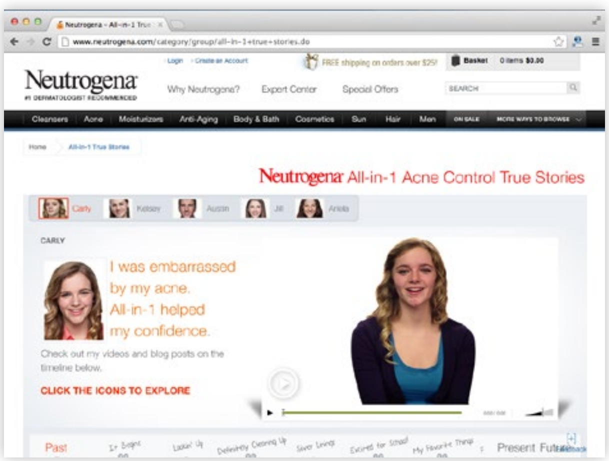


10. "When Skin Cream Gets Bossy," The Wall Street Journal, August 22, 2012.

KEY FINDINGS

YouTube as Search Engine

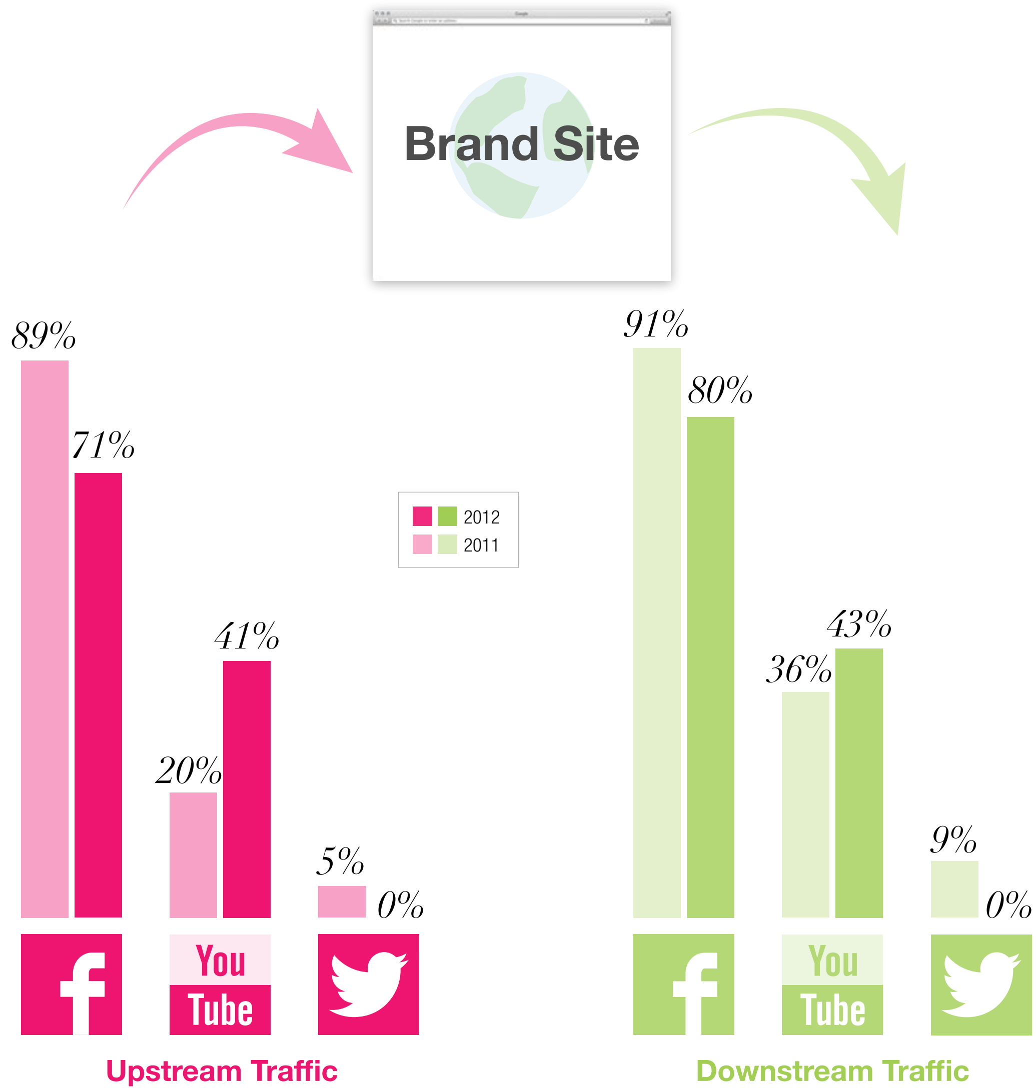
The majority of Beauty brands register a social media property as a top eight source of traffic to and from the brand site. Of social platforms, Facebook remains the largest source of referral traffic, but a year-over-year analysis suggests that its influence is waning. In contrast, YouTube has become a top source of upstream traffic for twice as many brands as last year, while Twitter has fallen completely off the map.



Neutrogena.com receives more upstream traffic from YouTube than any other site in the Index.

Year-Over-Year Upstream & Downstream Traffic to Beauty Sites

2011 (n=55)–2012 (n=56)

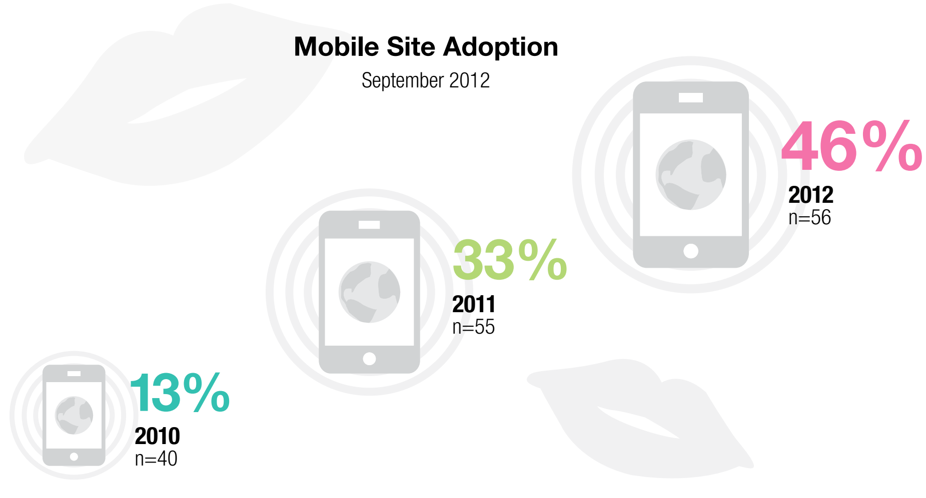


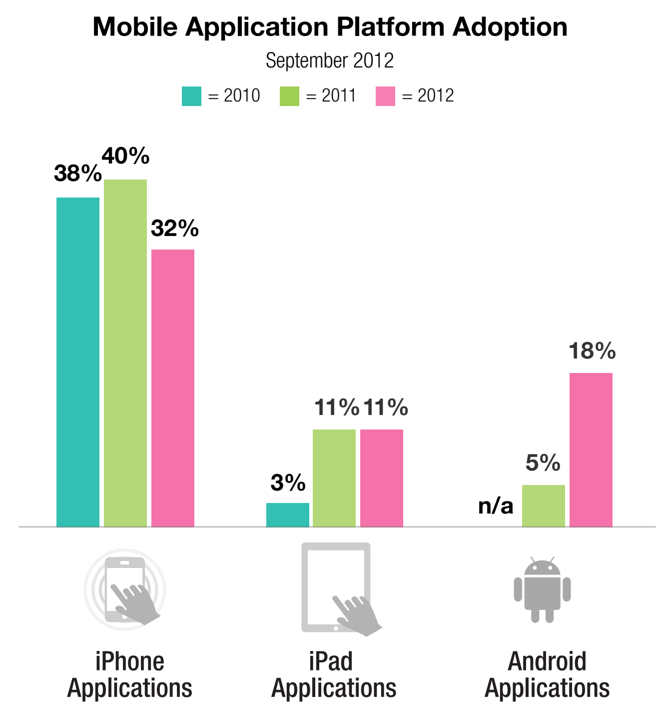
KEY FINDINGS

Immobile

Research shows that 67 percent of users are more likely to buy from a mobile-friendly site[11] than a site that is not optimized. However, not all Beauty brands are facilitating this experience: 54 percent still do not have mobile sites, versus just 22 percent of brands in our Digital IQ Index®: Specialty Retail and 51 percent in our Digital IQ Index®: Fashion.

Adoption of iPhone and iPad applications has been relatively stagnant since 2010, although Android experienced a net increase. The role of mobile apps remains unclear. Only 17 percent of iPhone apps are e-commerce enabled, and 50 percent failed to mention specific products.





11. "Mobile-friendly Sites Turn Visitors into Customers," Google Mobile Ads Blog, September 25, 2012.

L2 is a think tank for digital innovation.

We are a membership organization that brings together thought leadership from academia and industry to drive digital marketing innovation.

RESEARCH

Digital IQ Index®: The definitive benchmark for online competence, Digital IQ Index® reports score brands against peers on more than 600 quantitative and qualitative data points, diagnosing their digital strengths and weaknesses.

L2 Collective®: Series of benchmarking reports designed to help member brands better understand resources, human capital, budgets, and priorities supporting digital strategies.

EVENTS

Forums: Big-picture thinking and game-changing innovations meet education and entertainment. The largest gatherings of prestige executives in North America.
300+ attendees

Clinics: Executive education in a classroom setting with a balance of theory, tactics, and case studies.
120–180 attendees

Working Lunches: Members-only lunches led by digital thought leaders and academics. Topic immersion in a relaxed environment that encourages open discussion.
40–80 attendees

CONSULTING

Advisory Services: L2 works with brands to garner greater return on investment in digital initiatives. Advisory work includes Digital Roadmaps, Social Media Strategy, and Organizational Strategy engagements.

MEMBERSHIP

For membership info and inquiries: membership@L2ThinkTank.com

Upcoming Events

L2 FORUM: INNOVATION 2012
November 6 & 7, 2012 • New York City

L2 LUNCH: COLLECTIVE: MEDIA MIX
November 13, 2012 • New York City

L2 CLINIC: BRANDS AS MEDIA COMPANIES
November 28, 2012 • New York City
October 18, 2012 • San Francisco

L2 LUNCH: END OF YEAR MEMBER'S LUNCH
December 4, 2012 • New York City

Upcoming Research

DIGITAL IQ INDEX® REPORTS:
Spirits & Champagne
Hotels
Automotive
Haircare

L2 100® REPORTS:
China IQ
Mobile IQ
Asia Pacific IQ

L2 COLLECTIVE® REPORTS:
Media Mix
Social Media
Omni-Channel Commerce

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L2

Co-hosted with:

NYU STERN

Talks/Speakers *Agenda* *Venue* *RSVP* ▸

Innovation Forum 2012

NOVEMBER 6 & 7, 2012 | THE MORGAN LIBRARY

Expanded to two days this year, the TED-style Forum will cover innovations in digital marketing, evolving roles of social media, and digital commerce.

TOPICS INCLUDE: *(in no particular order)*

MODULE 1: Organization *(Nov 6)*

TED Our Righteous Nation: Why America is Divided in Three
JONATHAN HAIDT *NYU Stern*

Genius, Youth, and Design: Award Winning Projects From NYU ITP Students
KATHERINE DILLON *NYU ITP*

ITP Demo: BurritoBot
MARKO MANRIQUEZ *NYU ITP*

Conversation with CEOs
JEROME GRIFFITH *TUMI*
FRÉDÉRIC DE NARP *Harry Winston, Inc.*
CRAIG LEAVITT *kate spade new york*

Leadership—What to Ask the Person in the Mirror
ROB KAPLAN *Harvard Business School; Draper Richards Kaplan Foundation*

MODULE 2: Behavior *(Nov 7)*

Welcome
PETER HENRY *NYU Stern*

Science of Desire and Desirability
BABA SHIV *Stanford Graduate School of Business*

TED Social Media and the End of Gender
JOHANNA BLAKLEY *Norman Lear Center*

Going Solo: The Extraordinary Rise and Surprising Appeal of Living Alone
ERIC KLINENBERG *NYU*

Cross-Platform News Consumption
BRIAN BRETT *The New York Times*

What Hunting for a Mate Teaches You About Great Design
AYCA CAKMAKLI *Smart Design*

ITP Demo: Descriptive Camera
MATT RICHARDSON *NYU ITP*

MODULE 3: Big Data *(Nov 7)*

TED The Power of Social Media and Big Data: Closing the Audience Feedback Loop
DEB ROY *Bluefin Labs*

How to Turn Data Into Art
EDDIE OPARA *Yale School of Art; University of the Arts, Philadelphia*

Stock Picking and the Digital IQ
VASANT DHAR *NYU Stern*

How to be More Interesting
JESSICA HAGY *Artist & Writer*

Social Contagion
SINAN ARAL *MIT*

Mobile: What It Means to Prestige
ANDREA DERRICKS & COLIN GILBERT *L2*

TED Big History: What We Can Learn From the Digitized Historical Record
JEAN-BAPTISTE MICHEL *Harvard Cultural Observatory*
EREZ LIEBERMAN AIDEN *Harvard Society of Fellows and Visiting Faculty at Google*

ITP Demo: Augmented Reality
ANH LY *NYU ITP*

MODULE 4: Genius *(Nov 7)*

Tuvan Throat Singer
ROBERT MCLAUGHLIN

0 or 1, Winners and Losers in a Digital World
SCOTT GALLOWAY *NYU Stern; L2*

Creative Leadership in Civic Life
DOUG GUTHRIE *The George Washington University School of Business*

Top 8 Digital Programs in Prestige
MAUREEN MULLEN *L2*

ITP Demo: Sound Table
BRETT PAIN MURPHY *NYU ITP*

The New, New Panel
CAROLINE VAN SICKLE *Pretty in my Pocket (PRIMP)*
CAROLYN PARENT *timeRAZOR*
HASHEM BAJWA *CEO, DE-DE*
KELLEE KHALIL *Love.ly*

The Human Face of Big Data
RICK SMOLAN *Against All Odds Productions*

Invitation only.
L2 Member tickets are complimentary.
Please contact Joseph@L2ThinkTank.com to request an invitation or RSVP.

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for DIGITAL INNOVATION

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