Excerpt from the 2012 Digital IQ Index®: Fashion

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October 4, 2012
SCOTT GALLOWAY
NYU Stern

Digital IQ INDEX:

Fashion
The Other, More Important, Battle

While the arms race among fashion brands for likes, followers, pins, and views escalates, a handful of fashion brands are fighting a quieter, and likely more important, battle for e-commerce market share.

Once considered an unlikely channel for meaningful sales, e-commerce is the must-have accessory for fashion brands. Fifty-two percent of global Internet users say they purchase fashion items online, second only to electronics.\(^1\) Furthermore, at 20 percent growth year-over-year, apparel and accessories tops all categories.\(^2\) Pricing dynamics have changed considerably. Gen Y and Gen X consumers increased their purchases of full-priced luxury goods by 31 percent and 23 percent, respectively, in 2011.\(^3\)

Leaders & Laggards

In 2000, Ralph Lauren became one of the first luxury fashion brands to launch e-commerce. Twelve years on, the brand, No. 2 in this year’s index, registers year-over-year e-commerce growth of 23 percent—nearly double that of any other channel. Some brands are growing even faster. Digital darling Burberry, which lands in the top spot for the second straight year, registered e-commerce growth of 59 and 30 percent in Europe and the U.S., respectively. First-time Genius Tory Burch saw e-commerce sales rocket up 90 percent. However, many fashion brands have been caught flat-footed, hoping the internet goes away. One in five brands in this year’s Index still do not sell online in the U.S., less than half (48 percent) have launched e-commerce in the U.K., and only a third sell online across Western Europe.

<table>
<thead>
<tr>
<th>2010 vs. 2011 U.S. E-commerce Sales Growth</th>
<th>Brands with Published Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tory Burch</td>
<td>90%</td>
</tr>
<tr>
<td>Hugo Boss</td>
<td>67%</td>
</tr>
<tr>
<td>Burberry</td>
<td>30%</td>
</tr>
<tr>
<td>Ralph Lauren Media LLC</td>
<td>23%</td>
</tr>
<tr>
<td>Coach, Inc.</td>
<td>18%</td>
</tr>
<tr>
<td>Hermès</td>
<td>15%</td>
</tr>
<tr>
<td>Calvin Klein, Inc.</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: Internet Retailer

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Other Forces of Nature

M-commerce, in-store checkout, and smartphones are other meteors striking into the industry. Twenty-two percent of searches for fashion brands now occur from a non-PC device, up from 14 percent just nine months ago. The iPad may be transformative for fashion brands, as the device enjoys twice the conversion rate of desktop or laptop computers and twenty times that of smartphones.

Finally, the bright shiny object effect of social media still burns bright as evidenced by the number of fashion brands that have launched a board on newcomer Pinterest (80 percent)—the same ratio of brands that sell online. Photo-sharing app Instagram has also taken the industry by storm with eight in ten brands maintaining a presence on the platform.

The Whole: Less Than the Sum of the Parts

Despite the hype, several of the industry’s icons are still floundering online. Prada and Hermès find themselves in the Challenged class for the second straight year. In addition, the industry’s largest conglomerates have failed to leverage their competitive advantage...scale. While significant economies of scale across digital channels are apparent for multibrand organizations in other L2 Digital IQ Indices® including Beauty, Hotels, and Specialty Retail, the average Digital IQ for every multibrand fashion house, with the exception of PPR, dropped significantly year-over-year. Our data indicates luxury enterprises are failing to institutionalize e-commerce platform and backend technology decisions and facilitate the sharing of best practices.

Digital IQ = Shareholder Value

In our fourth annual Digital IQ Index®: Fashion, we maintain our original thesis that digital competence is linked to shareholder value. This study attempts to quantify the digital competence of 64 fashion brands. Our aim is to provide a robust tool to diagnose digital strengths and weaknesses and help brands achieve greater return on incremental investment. Like the medium we are assessing, our methodology is dynamic, and we hope you will reach out with comments that improve our approach, investigation, and findings.

You can contact me at scott@stern.nyu.edu.

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

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

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. Social media is integrated across multiple platforms.

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.

The Methodology

20% Mobile
Compatibility, optimization, and marketing on smartphones, tablets, and other mobile devices

20% Social Media
Brand presence, community size, content, and engagement

30% Site
Effectiveness of brand site
Functionality & Content 90%
• Technology
• Navigation & Product / Site Search
• Customer Service & Store Locator
• Product Page
• Checkout
• Account & Personalization

Brand Translation 10%
• Aesthetics
• Messaging & Visuals

30% Digital Marketing
Search, display, and email marketing efforts
Search
• Traffic
• SEM
• SEO
• Web Authority

Advertising & Innovation
• Display
• Retargeting
• Cross-Platform Brand Initiatives

Blogs & Other User-Generated Content
• Mentions
• Sentiment

Email
• Frequency
• Content

Social Media Integration
• Innovation

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 Platforms
• Instagram
• Google+
• Pinterest
• Tumblr
• The Fancy

Search
• Traffic
• SEM
• SEO

Brand Translation 10%
• Aesthetics
• Messaging & Visuals

Monkey
<table>
<thead>
<tr>
<th>RANK</th>
<th>BRAND</th>
<th>DIGITAL IQ</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>BURBERRY</td>
<td>153</td>
</tr>
<tr>
<td>2</td>
<td>RALPH LAUREN</td>
<td>152</td>
</tr>
<tr>
<td>3</td>
<td>kate spade</td>
<td>148</td>
</tr>
<tr>
<td>3</td>
<td>TORY BURCH</td>
<td>148</td>
</tr>
<tr>
<td>5</td>
<td>GUCCI</td>
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<td>COACH</td>
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</tr>
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<td>7</td>
<td>LOUIS VUITTON</td>
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## DIGITAL IQ RANKING

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<td>DOLCE &amp; GABBANA</td>
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<td>Vineyard Vines</td>
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<td>Ermenegildo Zegna</td>
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<tr>
<td>21</td>
<td>Calvin Klein</td>
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### EXCERPT from the 2012 Digital IQ Index®: Fashion

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<td>Salvatore Ferragamo</td>
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<td>PINK</td>
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<td>Alfred Dunhill</td>
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<td>Stuart Weitzman</td>
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<td>43</td>
<td>Versace</td>
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**AVERAGE RANK**

- 34
- 98
- 35
- 96
- 35
- 96
- 35
- 96
- 35
- 95
- 39
- 94
- 40
- 93
- 40
- 93
- 42
- 91
- 43
- 90

**CHALLENGED**

- Bally
- Hermès
- Emilio Pucci
- Prada
- Sergio Rossi
- Longchamp
- Theory
- Chloé
- Escada
- Freda
- Ted's

**FEEBLE**

- Catherine Malandrino
- Lason
- Max Mara
- Miu Miu
- Miu Miu
- Miu Miu
- Miu Miu
- Miu Miu
- Miu Miu

**GENIUS**

- Burberry
- Ralph Lauren
- Kate Spade
- Tony Burch
- Gucci
- Coach
- Louis Vuitton

**GIFTED**

- Lanvin
- Hugo Boss
- Tommy Hilfiger
- Giorgio Armani
- Diane von Furstenberg
- Stella McCartney
- Cole Haan
- Dolce & Gabbana
- Michael Kors
- Chanel
- Oscar de la Renta
- Vineyard Vines
- Emmanuelle Ungaro
- Calvin Klein
- Donna Karan
- John Varvatos
- Ted Baker
- Yves Saint Laurent
- Marc Jacobs

**GIFTED & CHALLENGED**

- Gucci Group (PPR)
- Gucci Group (PPR)
- Gucci Group (PPR)
- Gucci Group (PPR)

**AVERAGE**

- 98
- 98
- 98
- 96
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- 96
- 96
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- 96
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- 96
# DIGITAL IQ RANKING

## RANK | BRAND | DIGITAL IQ
---|---|---
44 | **BALLY** | 88
Labelux Group Inc

44 | **HERMES PARIS** | 88
The Hermes Group

46 | **EMILIO PUCCI** | 87
LVMH

47 | **PRADA** | 86
Prada S.p.A.

48 | **SERGIO ROSSI** | 85
Gucci Group (PPR)

49 | **LONGCHAMP PARIS** | 82
Longchamp

50 | **THEORY** | 76
Fast Retailing Co., Ltd

51 | **CHLOE** | 75
Compagnie Financiere Richemont S.A

51 | **ESCADA** | 75
Escada Group

54 | **FENDI** | 74
LVMH

55 | **TOD'S** | 72
Tod's SPA

56 | **CATHERINE MALANDRINO** | 59
Catherine Malandrino

57 | **LANCEL** | 58
Compagnie Financiere Richemont S.A

58 | **MAXMARA S.P.A.** | 56
Max Mara S.R.L.

59 | **MISONI S.P.A.** | 52
Missoni S.p.A.

60 | **DEREK LAM** | 45
Labelux Group Inc

61 | **BADGLEY MISCHKA, INC.** | 44
Iconix Brand Group, Inc.

62 | **GIVENCHY** | 42
LVMH

63 | **ZAC POSEN-HOUSE OF Z LLC** | 38
Zac Posen-House of Z LLC

64 | **MANOLO BLAHNIK** | 35
Manolo Blahnik

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## CHALLENGED

<table>
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<td>TOD'S</td>
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<td>CATHERINE MALANDRINO</td>
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<tr>
<td>MAXMARA S.P.A.</td>
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<td>DEREK LAM</td>
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<td>MANOLO BLAHNIK</td>
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**Formidable**

Luxury’s capital—France—strikes back. After trailing the pack in last year’s Digital IQ Index®: Fashion, companies headquartered in France are narrowing the gap, outpacing Italian brands and trailing U.K.-headquartered organizations by just two points. U.S.-headquartered brands continue to register a significant advantage, garnering an average Digital IQ of 109. Four of the seven Genius brands—Ralph Lauren, Kate Spade, Tory Burch, and Coach—are U.S.-based.

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**Average Digital IQ by Country of Origin**

2011 vs. 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>2011</th>
<th>2012</th>
<th>n</th>
</tr>
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<tbody>
<tr>
<td>U.S.</td>
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<td>109</td>
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<td>U.K.</td>
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</tr>
<tr>
<td>France</td>
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</tr>
<tr>
<td>Italy</td>
<td>98</td>
<td>94</td>
<td>16</td>
</tr>
</tbody>
</table>
**KEY FINDINGS**

**Missing the Mark continued**

Although half of retailers indicate that multichannel consumers are more valuable than e-commerce-only shoppers\(^9\), just four brands, Coach, Stella McCartney, Ted Baker, and Thomas Pink, offer in-store pickup.

Twenty-three percent of brands in the Index maintain flash-powered sites. Our data suggests that brands with flash sites register 57 percent higher bounce rates than brands with more advanced technology.

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KEY FINDINGS

Back to Basics
Although open rates have risen for four consecutive quarters, email click-through continues to decrease (4.7 percent in Q1 of 2012 versus 5.9 percent in 2011 and 6.0 percent in 2010), suggesting that strong email marketing messaging is imperative to cut through the noise. Email volume in the fashion industry is up slightly, from 0.73 emails per week in 2011 to 0.96 in 2012, however, it still pales in comparison to other industries. (Specialty retailers average 2.7 emails per week).

Only 14 percent of fashion brands are sending abandoned shopping cart emails versus 36 percent of specialty retailers. While data suggests almost a third of emails are opened on mobile or tablet devices, one in three brands send email not optimized for the small screen.

Brands are beginning to recognize the power of customer data and email marketing, and a third provide a pop-up encouraging shoppers to provide their email addresses. Brands ranging from Oscar de la Renta to Stella McCartney partially gate site browsing until shoppers provide their data.

Email Frequency
Emails per Week
2011 vs. 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Emails per Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>0.73</td>
</tr>
<tr>
<td>2012</td>
<td>0.96</td>
</tr>
</tbody>
</table>

Email Feature Adoption
% of Brands With and Without the Following Features

<table>
<thead>
<tr>
<th>Feature</th>
<th>August 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Email Viewable on Mobile</td>
<td>33% With, 67% Without</td>
</tr>
<tr>
<td>Send Abandoned Shopping Cart Emails</td>
<td>86% With, 14% Without</td>
</tr>
<tr>
<td>Email Sign-up Pop-up</td>
<td>64% With, 36% Without</td>
</tr>
</tbody>
</table>

11. Ibid.
KEY FINDINGS

Adopted
Participation on the big three—Facebook, Twitter, and YouTube—is nearly ubiquitous. Manolo Blahnik became the last fashion brand to join Facebook this past summer. The iconic footwear brand boasts fewer than 1,000 fans. Twitter and YouTube adoption has breached 90 percent. More surprising is the speed brands have joined Instagram and Pinterest. Participation across both platforms hovers around 80 percent, the same rate as e-commerce adoption. Conversely, Tumblr, once touted as Fashion’s digital darling, has recorded mediocre growth.

Analysis of the month-over-month growth rates from mid-July to mid-August suggests social media darlings Instagram and Pinterest are currently capturing the bulk of industry growth. While communities are small—fashion brands average just under 4,000 followers on Pinterest and just over 50,000 on Instagram—they are growing 42 percent and 38 percent, respectively, even though neither platform offers paid advertising.

Average Community Size vs. Growth by Platform
Mid-July – Mid-August 2012

Social Media Penetration
% of Brands Present on the Following Platforms:

= 2009 (n=16)  = 2010 (n=43)  = 2011 (n=49)  = 2012 (n=64)
**Key Findings**

**What Should Take Ten Years...**

Smartphone penetration is 47 percent in the U.S. with an equal share predicted to own tablets by 2013. Forty-eight percent of the brands in the Index now have a mobile-optimized site with an additional 25 percent featuring sites built in mobile-optimized HTML5.

46 percent of consumers with HHI of more than $100k own an iPhone. The number jumps to 53 percent when looking at the share of iPads. The increase in year-over-year adoption in iPad and Android applications mirrors the larger mobile industry trend, with the percentage of e-commerce-enabled iPad apps outpacing that of the iPhone. Concurrently, iPhone app adoption was the only metric to see a decrease year-over-year as many fashion brands took down early generation apps that lacked utility and stickiness.

Our data indicates most brand apps suffer from low ratings on iTunes, confirming fashion brands have yet to crack the code in the App Store. While 80 percent of affluent smartphone owners claim to have downloaded an app, only 12 percent indicated they have downloaded a luxury-related application.

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