L2 EXCERPT from the 2012 **Digital IQ Index®: Fashion**

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L2 DIGITAL IQ *INDEX*®: Fashion

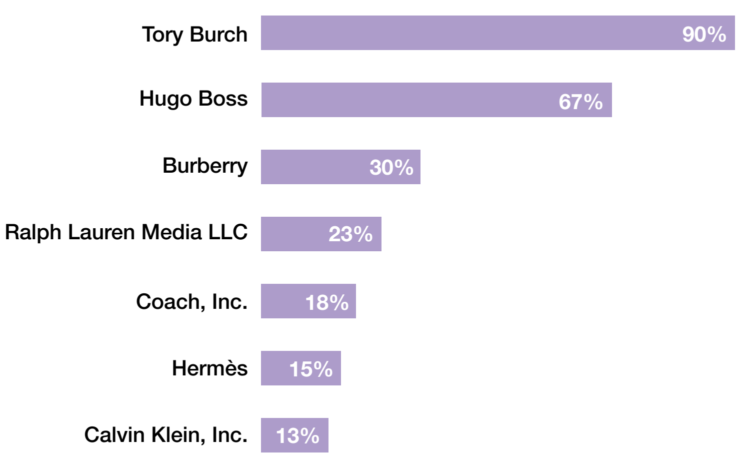
October 4, 2012

SCOTT GALLOWAY
NYU Stern

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.

2010 vs. 2011 U.S. E-commerce Sales Growth
Brands with Published Data



Source: Internet Retailer

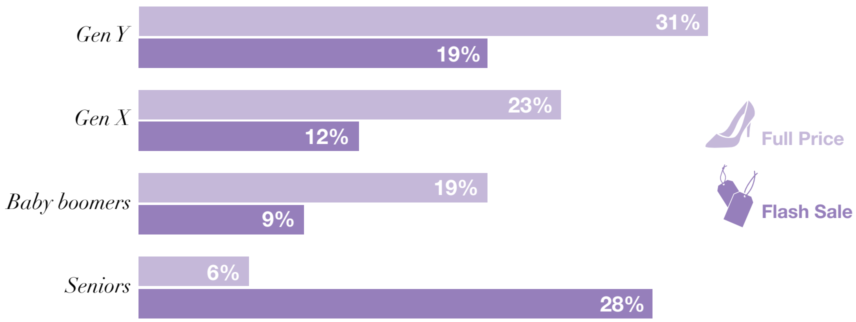
Once considered an unlikely channel for meaningful sales, e-commerce is the must-have accessory for fashion brands. Fifty-two percent of global Internet users say they purchase fashion items online, second only to electronics.[1] Furthermore, at 20 percent growth year-over-year, apparel and accessories 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

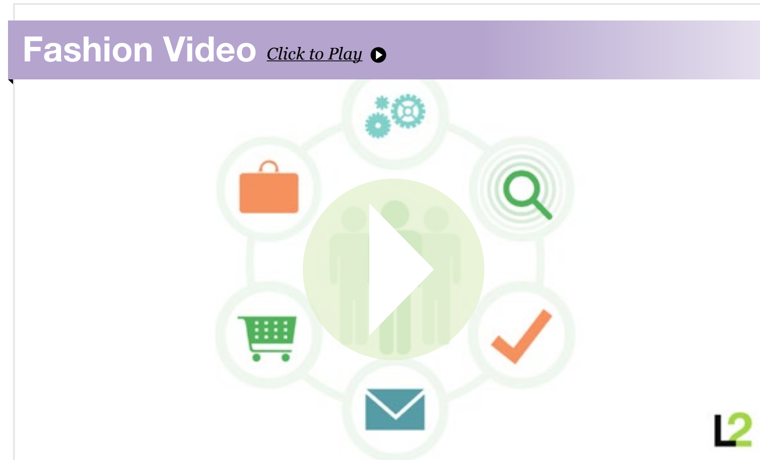
In 2000, Ralph Lauren became one of the first luxury fashion brands to launch e-commerce. Twelve years on, the brand, No. 2 in this year's index, registers year-over-year e-commerce growth of 23 percent—nearly double that of any other channel. Some brands are growing even faster. Digital darling Burberry, 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.

1. "Digital Shopper Relevancy: Profiting from Your Customers' Desired All Channel Experience," Capgemini, July 10, 2012.
2. "U.S. Retail Ecommerce Sales Growth, by Product Category, 2010-2016 (% change)," eMarketer, September 1, 2012.
3. "American Express Business Insights Data Show Full-Price Online Luxury Fashion Spending Sizzling as New York Fashion Week Heats Up," American Express Business Insights, February 10, 2012.

Year-over-year Growth in Luxury Spending Online
By Generation
2011



Source: Amex Business Insights



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

ABOUT THE RANKING

The Methodology

20% *Mobile*

Compatibility, optimization, and marketing on smartphones, tablets, and other mobile devices

Mobile Site
- Compatibility
- Functionality
- Transaction Capability

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

Android
- Availability
- Popularity
- Functionality

Innovation
- Geolocal
- Recent Brand Initiatives

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

20% *Social Media*

Brand presence, community size, content, and engagement

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

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

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.

DIGITAL IQ RANKING

RANK	BRAND	PARENT	DIGITAL IQ
1	BURBERRY	Burberry	153
2	RALPH LAUREN	Ralph Lauren Corporation	152
3	kate spade	Fifth & Pacific	148
3	TORY BURCH	Tory Burch	148
5	GUCCI	Gucci Group (PPR)	145
6	COACH	Coach, Inc.	143
7	LOUIS VUITTON	LVMH	141

GENIUS

GENIUS
Burberry
Ralph Lauren
Kate Spade
Tory Burch
Gucci
Coach
Louis Vuitton

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

AVERAGE
Vivienne Westwood
Balenciaga
Alexander McQueen
Christian Louboutin
Lanvin
Bottega Veneta
Christian Dior
Jimmy Choo
Paul Smith
Roberto Cavalli
Salvatore Ferragamo
Valentino
Thomas Pink
Alfred Dunhill
Mulberry
Stuart Weitzman
Versace

CHALLENGED
Bally
Hermès
Emilio Pucci
Prada
Sergio Rossi
Longchamp
Theory
Chloé
Escada
Fendi
Tod's
Belstaff

FEEBLE
Catherine Malandrino
Lancel
Max Mara
Missoni
Derek Lam
Badgley Mischka
Givenchy
Zac Posen
Manolo Blahnik

DIGITAL IQ RANKING

	RANK	BRAND		DIGITAL IQ
GIFTED	8	LACOSTE	Lacoste	138
	9	HUGO BOSS	HUGO BOSS Group	137
	10	TOMMY HILFIGER	PVH Corp	134
	11	GIORGIO ARMANI	Giorgio Armani Corporation	133
	12	DVF	Diane Von Furstenberg	127
	13	STELLA McCARTNEY	Gucci Group (PPR)	126
GIFTED	14	Cole Haan	Nike, Inc.	124

	RANK	BRAND		DIGITAL IQ
GIFTED	15	DOLCE & GABBANA	Dolce&Gabbana Holding S.r.l.	123
	15	MICHAEL KORS	Michael Kors Inc.	123
	17	CHANEL	Chanel	121
	18	Oscar de la Renta	Oscar de la Renta Ltd.	117
	18	vineyard vines martha's vineyard	Vineyard Vines	117
	20	Ermenegildo Zegna	Ermenegildo Zegna	116
GIFTED	21	Calvin Klein	PVH Corp	115

	RANK	BRAND		DIGITAL IQ
GIFTED	21	DONNA KARAN NEW YORK	LVMH	115
	21	john varvatos	Lion Capital	115
	24	TED BAKER LONDON	Ted Baker PLC	114
	25	YSL	Gucci Group (PPR)	112
GIFTED	26	MARC JACOBS	LVMH	110

GENIUS
Burberry
Ralph Lauren
Kate Spade
Tory Burch
Gucci
Coach
Louis Vuitton

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

AVERAGE
Vivienne Westwood
Balenciaga
Alexander McQueen
Christian Louboutin
Lanvin
Bottega Veneta
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Alfred Dunhill
Mulberry
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Max Mara
Missoni
Derek Lam
Badgley Mischka
Givenchy
Zac Posen
Manolo Blahnik

DIGITAL IQ RANKING

RANK	BRAND		DIGITAL IQ
27	Vivienne Westwood	Vivienne Westwood	107
28	BALENCIAGA	Gucci Group (PPR)	106
29	ALEXANDER McQUEEN	Gucci Group (PPR)	104
30	Christian Louboutin	Christian Louboutin	103
31	LANVIN PARIS	Lanvin	102
32	BOTTEGA VENETA	Gucci Group (PPR)	99
32	Dior	LVMH	99
34	JIMMY CHOO	Labelux Group Inc	98
35	Paul Smith	Paul Smith	96
35	roberto cavalli	Roberto Cavalli S.p.A.	96
35	Salvatore Ferragamo	Salvatore Ferragamo Italia S.p.A.	96
38	VALENTINO	Valentino S.p.A	95
39	PINK THOMAS PINK JERMYN STREET LONDON	LVMH	94
40	ALFRED DUNHILL ESTABLISHED 1893	Compagnie Financiere Richemont S.A	93
40	MULBERRY	Mulberry Group PLC	93
42	STUART WEITZMAN	Jones Group Inc.	91
43	VERSACE	Gianni Versace S.p.A	90

AVERAGE

GENIUS
Burberry
Ralph Lauren
Kate Spade
Tory Burch
Gucci
Coach
Louis Vuitton

GIFTED
Lacoste
Hugo Boss
Tommy Hilfiger
Giorgio Armani
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Dolce & Gabbana
Michael Kors
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Manolo Blahnik

DIGITAL IQ RANKING

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CHALLENGED	44	BALLY	Labelux Group Inc	88
CHALLENGED	44	HERMÈS PARIS	The Hermès Group	88
CHALLENGED	46	EMILIO PUCCI	LVMH	87
CHALLENGED	47	PRADA	Prada S.p.A.	86
CHALLENGED	48	sergio rossi	Gucci Group (PPR)	85
CHALLENGED	49	LONGCHAMP PARIS	Longchamp	82
CHALLENGED	50	theory	Fast Retailing Co., Ltd	76
CHALLENGED	51	Chloé	Compagnie Financiere Richemont S.A	75
CHALLENGED	51	ESCADA	Escada Group	75
CHALLENGED	51	FENDI	LVMH	75
CHALLENGED	54	TOD'S	Tod's SPA	74
CHALLENGED	55	Belstaff	Labelux Group Inc	72
FEEBLE	56	Catherine Malandrino	Catherine Malandrino	59
FEEBLE	57	LANCEL	Compagnie Financiere Richemont S.A	58
FEEBLE	58	MaxMara	Max Mara S.R.L.	56
FEEBLE	59	MISSONI	Missoni S.p.A.	52
FEEBLE	60	DEREK LAM	Labelux Group Inc	45
FEEBLE	61	BADGLEY MISCHKA	Iconix Brand Group, Inc.	44
FEEBLE	62	GIVENCHY	LVMH	42
FEEBLE	63	ZAC POSEN	Zac Posen-House of Z LLC	38
FEEBLE	64	MANOLO BLAHNIK	Manolo Blahnik	35

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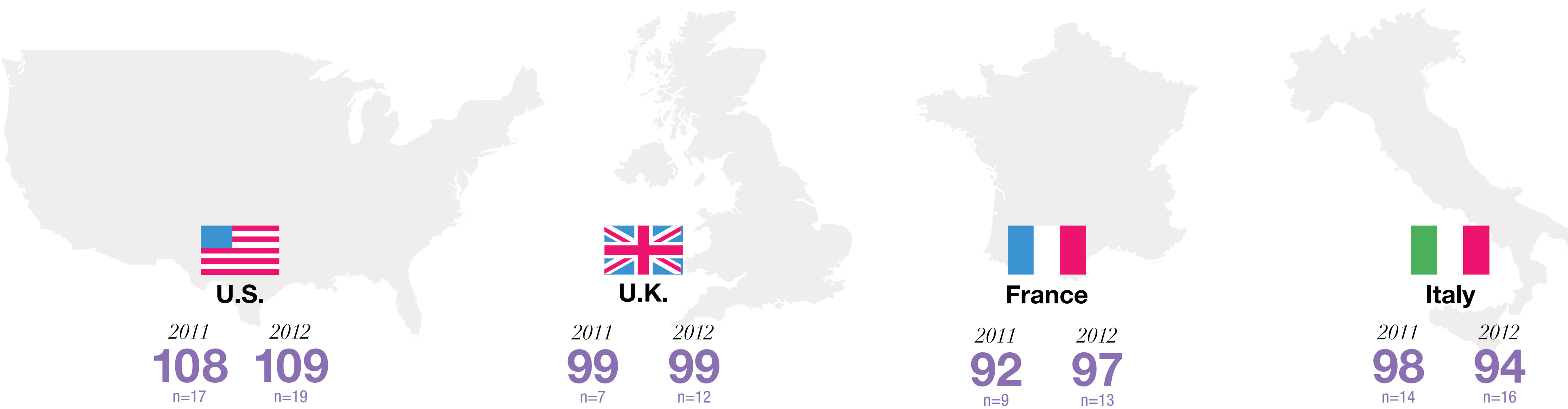
KEY FINDINGS

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.

Average Digital IQ by Country of Origin

2011 vs. 2012



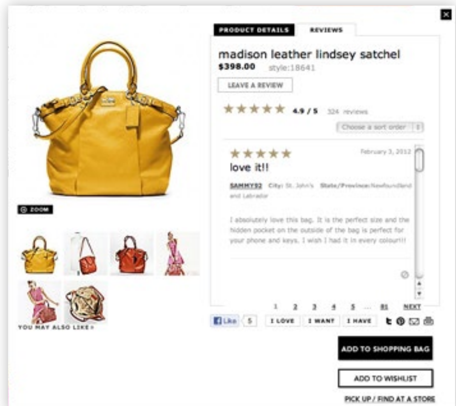
KEY FINDINGS

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.

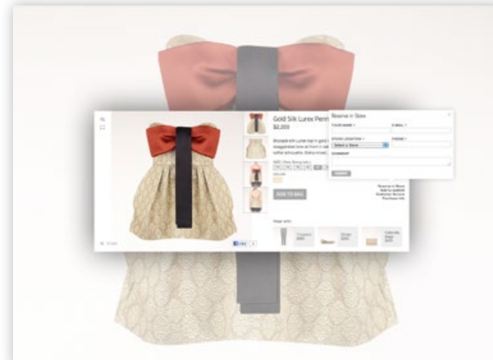
Twenty-three percent of brands in the Index maintain flash-powered sites. Our data suggests that brands with flash sites register 57 percent higher bounce rates than brands with more advanced technology.

COACH



Coach was one of the first to have product ratings and reviews on its website. Just one in seven brands offer this function.

STELLA McCARTNEY

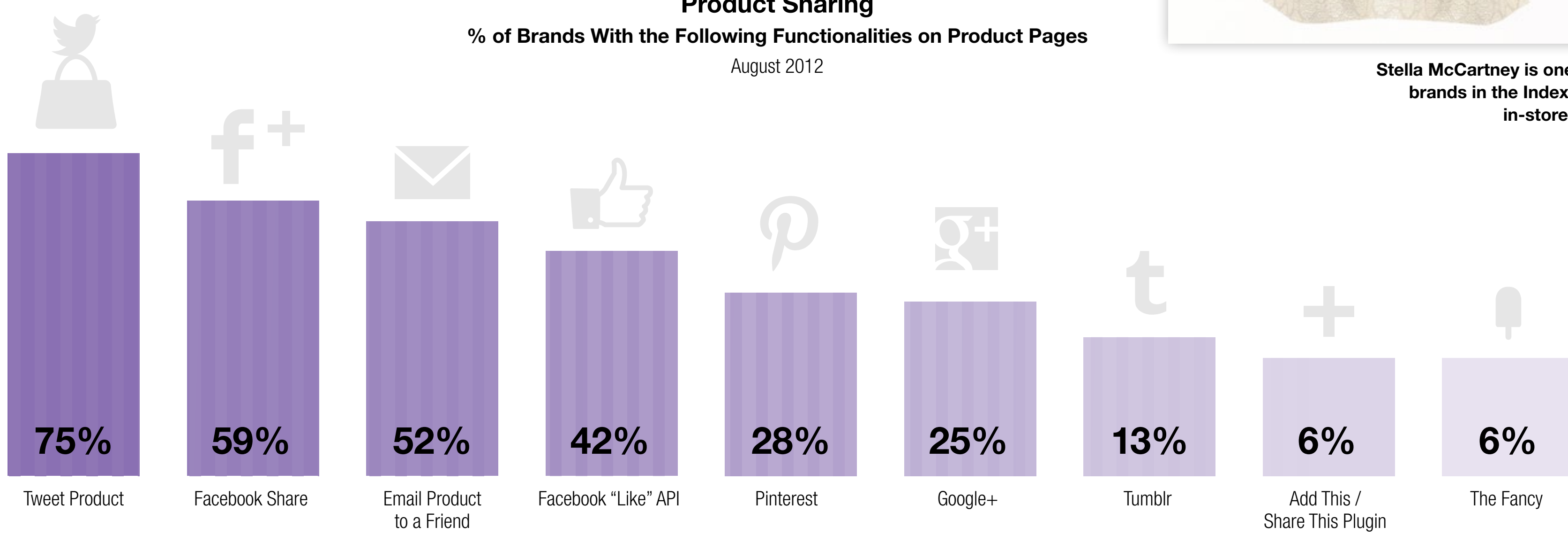


Stella McCartney is one of four brands in the Index to offer in-store pickup.

Product Sharing

% of Brands With the Following Functionalities on Product Pages

August 2012



9. "Live Chat Effectiveness: A Survey of Internet Shoppers," BoldChat, 2012.

KEY FINDINGS

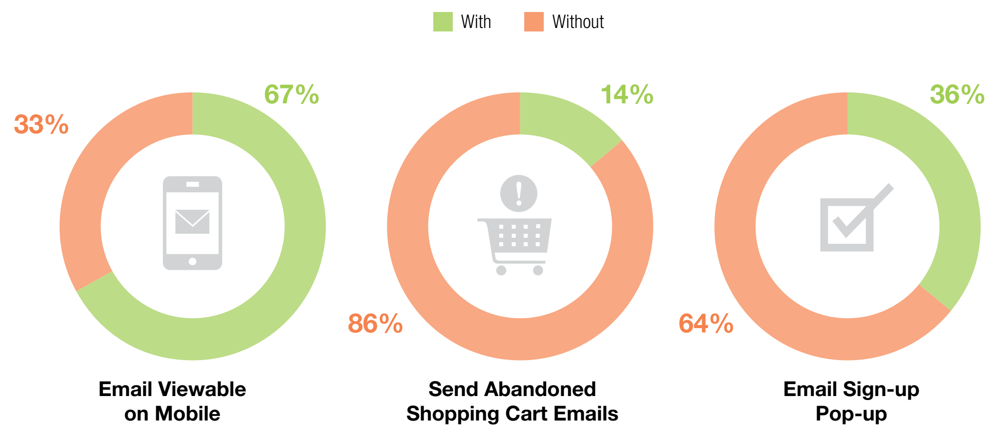
Back to Basics

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.[10] 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).

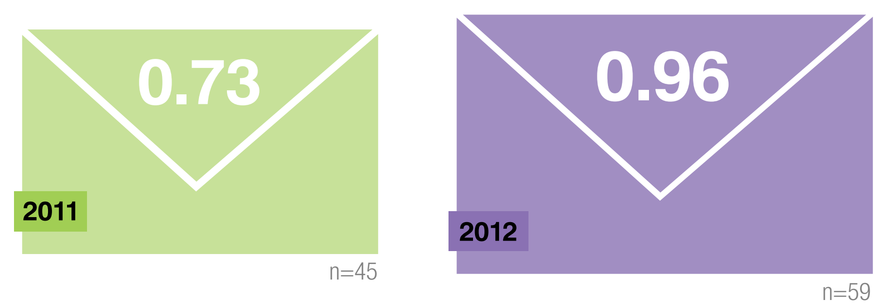
Only 14 percent of fashion brands are sending abandoned shopping cart emails versus 36 percent of specialty retailers. While data suggests almost a third of emails are opened on mobile or tablet devices,[11] one in three brands send email not optimized for the small screen.

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 Feature Adoption
% of Brands With and Without the Following Features
August 2012



Email Frequency
Emails per Week
2011 vs. 2012



10. "Email Marketing Benchmarks: Key Data, Trends and Metrics," Lauren Fisher, eMarketer, August 15, 2012.
11. Ibid.

KEY FINDINGS

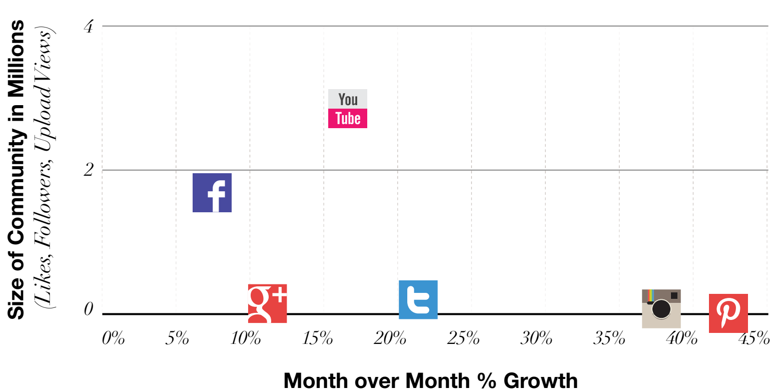
Adopted

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

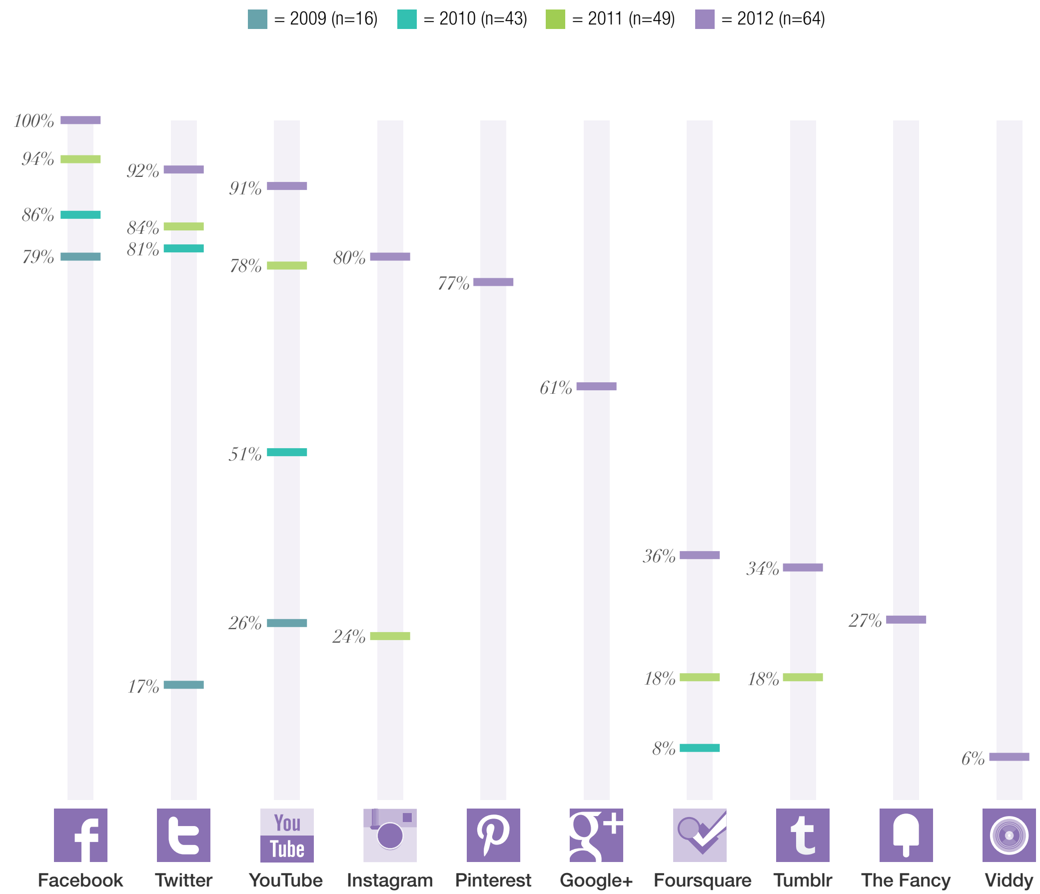
Mid-July – Mid-August 2012



Social Media Penetration

% of Brands Present on the Following Platforms:

September 2009, 2010, 2011, 2012



KEY FINDINGS

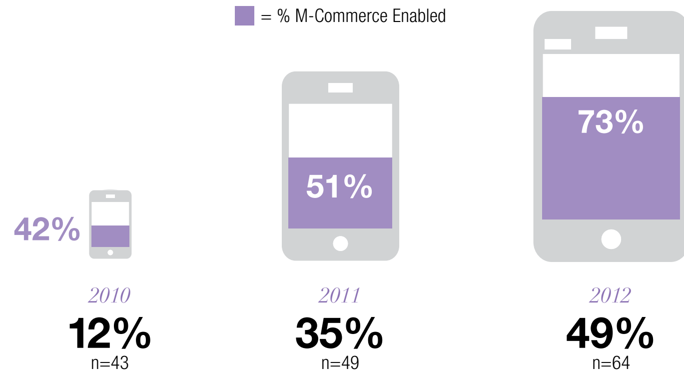
What Should Take Ten Years...

Smartphone penetration is 47 percent in the U.S.[17] with an equal share predicted to own tablets by 2013.[18] 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.

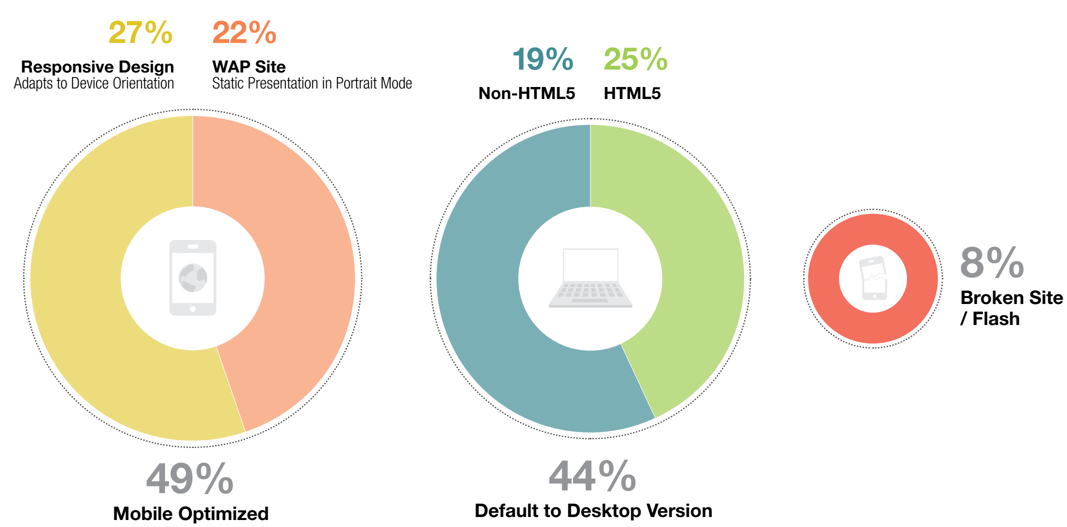
46 percent of consumers with HHI of more than $100k own an iPhone. The number jumps to 53 percent when looking at the share of iPads.[19] The increase in year-over-year adoption in iPad and Android applications mirrors the larger mobile industry trend, with the percentage of e-commerce-enabled iPad apps 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.[20]

Mobile Site Adoption
Including Percentage M-Commerce Enabled
2010–2012



Mobile Site Sophistication
% of Brands Employing the Following Mobile Site Tactics
September 2012



17. "ComScore: US Smartphone Penetration 47% In Q2; Android Remains Most Popular, But Apple's Growing Faster," Ingrid Lunden, TechCrunch, August 1, 2012.
18. "OPA: iOS and Android Level in U.S. Tablet Market, Penetration 47% by 2013, $2.6B Spent on Apps in 2012," Ingrid Lunden, TechCrunch, June 18, 2012.
19. "Apple is the top smartphone and tablet brand among wealth," Salvador Rodriguez, Los Angeles Times, July 15, 2012.
20. "Luxury Brand Apps Can Open the Mcommerce Door," eMarketer, May 10, 2012.

TABLE OF CONTENTS

Click to Jump To:

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