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

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L2

DIGITAL IQ INDEX®:

Sportswear

September 20, 2012

SCOTT GALLOWAY
NYU Stern

The End of the Beginning

Once peripheral, e-commerce, digital marketing, and mobile are moving to the core of sportswear brands' growth strategy and garnering more capital (financial and creative). Brands from Apple to Cartier to adidas and Converse share one strategy: increasing share of sales from owned and operated (i.e., vertical) retail properties to better control the experience and pricing.

With traditional brick-and-mortar retail down or flat across the U.S. and Western Europe, the sportswear category is in an all-out sprint to increase the percentage of business driven or derived online.

Robust user reviews, product customization, and loyalty programs have rewarded some brands with year-over-year e-commerce growth upward of 30 to 50 percent.[1]

Top players are beginning to beat their traditional retail partners at their own game. Nike, who runs away with the No. 1 spot in our inaugural Digital IQ Index®: Sportswear, trails only Foot Locker in U.S. online sales. While still a small percentage of overall sales, online and other direct-to-consumer sales will likely be many of the brands' primary growth channel.[2]

The Echo

The value of high-budget TV campaigns and generous athlete endorsement contracts is increasingly recognized through extended engagement online. The Facebook communities and Twitter handles of athletes took center stage in the Olympics when participants were forbidden to promote the brands they endorse on social media. A primary factor in an athlete's endorsement contract is the size of his or her social media community and the frequency of communication. This is for good reason: our data indicates that athletes generate substantially more social media engagement when posting about brands than brands generate when posting about their endorsers.

1. Select 10ks; Internet Retailer.
2. "Online Sporting Apparel Sales in the U.S.," IBIS World, March 2012.

Plastic, Rubber, Cloth, Zeroes, and Ones

Few categories are better leveraging digital technologies to increase the perceived value of the product than sportswear. Innovative systems like Nike+ and miCoach from adidas are worth much more to the consumer than the $149 pricetag on a Nike+ FuelBand or the $70 pricetag on a miCoach CONNECT Heart Rate Monitor. The accompanying iPhone apps and online dashboards enhance loyalty and give brands access to new streams of consumer data.

Digital IQ = Shareholder Value

Our thesis is that digital competence is linked to shareholder value. This study attempts to quantify the digital competence of 42 sportswear brands. Our aim is to provide a robust tool to diagnose digital strengths and weaknesses and help brands achieve greater return on incremental investment. Similar to the medium we are assessing, our methodology is dynamic and we hope you will reach out to us with comments that improve our methodology, investigation, and findings. You can reach me at scott@stern.nyu.edu.

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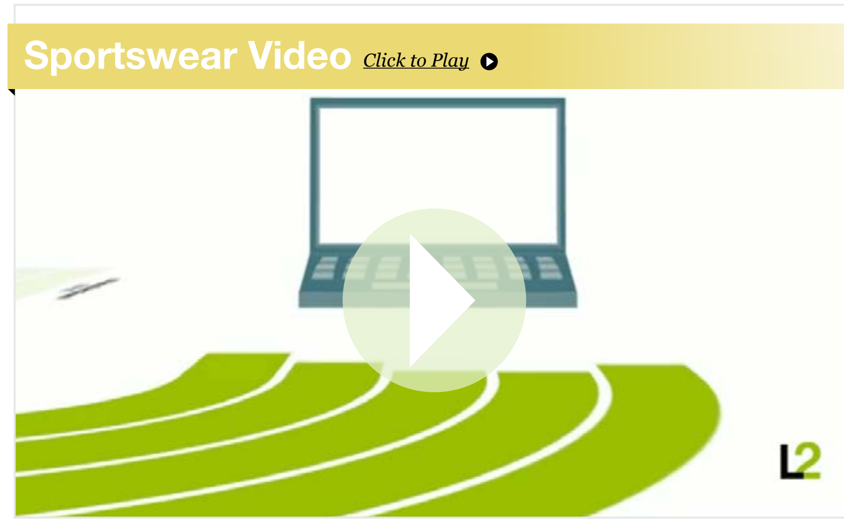
Founder, L2



Inquire about your brand's ranking. Contact us.

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
- iPad Differentiation

Android
- Availability
- Popularity
- Functionality

Innovation
- SMS
- Geolocal (Foursquare)
- Recent Brand Initiatives

35% *Site*

Effectiveness of brand site

Site Technology

Site Search & Navigation

Product Pages & Checkout

Customer Service & Store Locator

Account, Product Customization, & Fitness Tracking

Brand Translation
Aesthetics & Messaging

20% *Social Media*

Brand presence, community size, content, and engagement on social media platforms

Facebook
- Likes & Growth
- Tabs & Applications
- Content
- Interaction Rate
- F-Commerce

Twitter
- Followers
- Growth
- Frequency
- Online Voice

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

Emerging Platforms
- Instagram
- Google+
- Pinterest
- Tumblr

25% *Digital Marketing*

Search, display, and email marketing efforts

Search
- Traffic
- SEM
- SEO
- Web Authority

Display Advertising & Innovation
- Text & Banner Ads
- Retargeting
- Cross-Platform Innovation Initiatives

Blogs & Other User-Generated Content
- Mentions
- Sentiment

Email
- Frequency
- Content
- Social Media Integration
- Mobile Optimization

Digital IQ Classes

Genius 140+
Digital competence is a point of competitive differentiation. Brands creatively engineer commerce and content for a variety of devices and online environments.

Gifted 110–139
Brands are experimenting and innovating across site, mobile, and social platforms. Digital presence supports brand image and larger marketing efforts.

Average 90–109
Digital presence is functional yet predictable. Uninspired efforts are often siloed across platforms.

Challenged 70–89
Limited or inconsistent adoption of mobile and social media 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 COMPANY	DIGITAL IQ	CLASS
1	NIKE	NIKE, Inc.	148	GENIUS
2	adidas	adidas AG	142	GENIUS
3	THE NORTH FACE	VF Corporation	130	GIFTED
4	PUMA	PPR	128	GIFTED
5	L.L.Bean	L.L.Bean, Inc.	123	GIFTED
6	UNDER ARMOUR	Under Armour, Inc.	122	GIFTED
7	new balance	New Balance Athletic Shoe, Inc.	120	GIFTED
8	QUIKSILVER	Quiksilver, Inc.	118	GIFTED
9	Reebok	adidas AG	116	GIFTED
10	LACOSTE	Lacoste S.A.	115	GIFTED
11	BURTON	Burton Corporation	110	GIFTED
11	CONVERSE	NIKE, Inc.	110	GIFTED
11	VANS	VF Corporation	110	GIFTED

GENIUS
Nike
adidas

GIFTED
The North Face
PUMA
L.L.Bean
Under Armour
New Balance
Quiksilver
Reebok
Lacoste
Burton
Converse
Vans

AVERAGE
Teva
Timberland
Speedo
Columbia Sportswear
UGG Australia
SKECHERS
Merrell
Brooks Sports
Athleta
Patagonia
Sperry Top-Sider
Volcom
Reef

CHALLENGED
Eddie Bauer
Saucony
Mizuno
Mountain Hardwear
KEEN
Billabong
TYR
Hurley
K-Swiss
ASICS

FEEBLE
Arc'teryx
Marmot
Vibram FiveFingers
Fila
Danskin
SKINS

Inquire about your brand's ranking. Contact us.

DIGITAL IQ RANKING

Class	Rank	Brand	Company	Digital IQ
AVERAGE	14	Teva	Deckers Outdoor Corporation	109
AVERAGE	15	Timberland	VF Corporation	108
AVERAGE	16	speedo	Pentland Group plc*	107
AVERAGE	17	Columbia Sportswear Company	Columbia Sportswear Co.	106
AVERAGE	18	UGG australia	Deckers Outdoor Corporation	103
AVERAGE	19	SKECHERS	SKECHERS USA, INC.	100
AVERAGE	20	MERRELL	Wolverine Worldwide, Inc.	99
AVERAGE	21	BROOKS	Berkshire Hathaway Inc.	96
AVERAGE	22	ATHLETA	Gap Inc.	93
AVERAGE	22	patagonia	Patagonia, Inc.	93
AVERAGE	22	SPERRY TOP-SIDER	Collective Brands, Inc.	93
AVERAGE	25	VOLCOM	PPR	91
AVERAGE	26	REEF	VF Corporation	90
CHALLENGED	27	Eddie Bauer	Eddie Bauer Holdings Inc.	89
CHALLENGED	28	saucony	Collective Brands, Inc.	88
CHALLENGED	28	MIZUNO	Mizuno Corporation	88
CHALLENGED	30	MOUNTAIN HARD WEAR	Columbia Sportswear Co.	83
CHALLENGED	31	KEEN	KEEN, Inc.	81
CHALLENGED	32	BILLABONG	Billabong International Limited	79
CHALLENGED	33	TYR	Swimwear Anywhere, Inc.	77
CHALLENGED	34	Hurley	NIKE, Inc.	75
CHALLENGED	35	K-SWISS	K-Swiss, Inc.	74
CHALLENGED	36	asics	ASICS Corporation	70
FEEBLE	37	ARC'TERYX	Amer Sports	64
FEEBLE	38	Marmot	Jarden Corporation	60
FEEBLE	38	Vibram fivefingers	Vibram USA Inc.	60
FEEBLE	40	FILA	Fila Korea, Ltd.	57
FEEBLE	41	DANSKIN	Iconix Brand Group, Inc.	55
FEEBLE	42	SKINS	SKINS International Trading AG	54

GENIUS
Nike
adidas

GIFTED
The North Face
PUMA
L.L.Bean
Under Armour
New Balance
Quiksilver
Reebok
Lacoste
Burton
Converse
Vans

AVERAGE
Teva
Timberland
Speedo
Columbia Sportswear
UGG Australia
SKECHERS
Merrell
Brooks Sports
Athleta
Patagonia
Sperry Top-Sider
Volcom
Reef

CHALLENGED
Eddie Bauer
Saucony
Mizuno
Mountain Hardwear
KEEN
Billabong
TYR
Hurley
K-Swiss
ASICS

FEEBLE
Arc'teryx
Marmot
Vibram FiveFingers
Fila
Danskin
SKINS

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KEY FINDINGS

Site Features

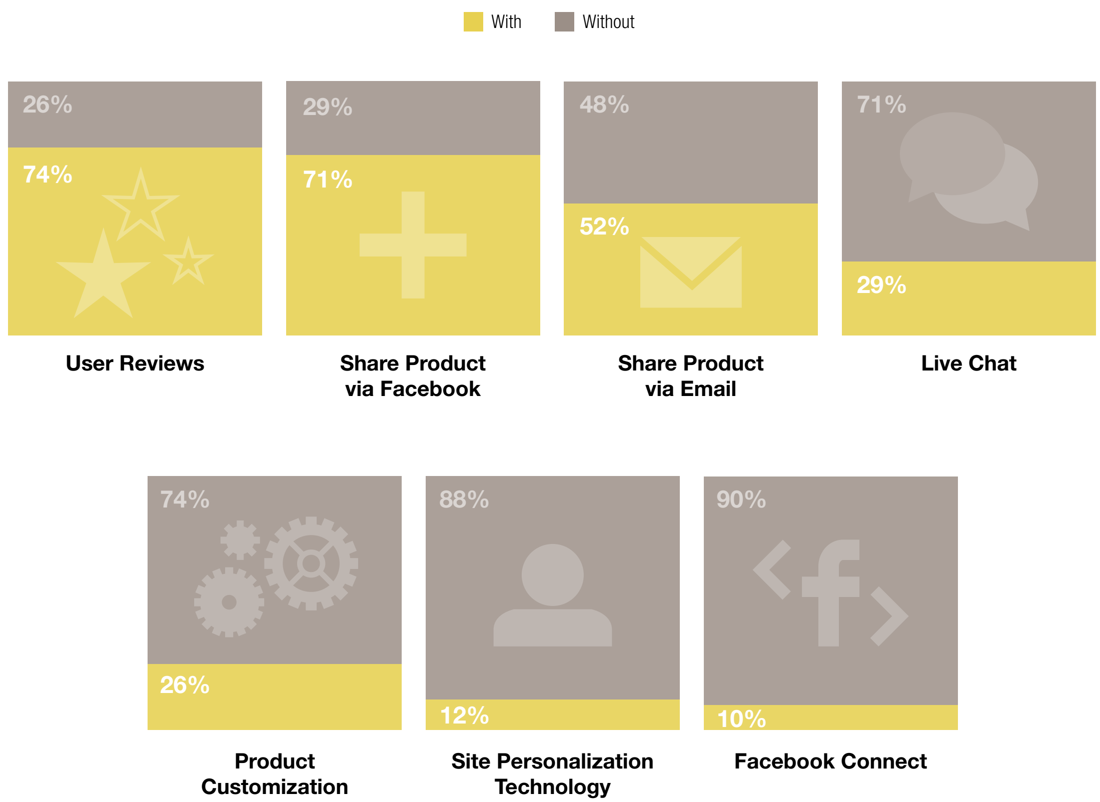
Although 71 percent of brands allow product sharing via Facebook, only half allow sharing via email. Customer research suggests the latter is more commonly used.[4] More advanced Facebook Connect technology, which allows users to log on to a brand's site through Facebook, is employed by just four brands: New Balance, Nike, SKECHERS, and Speedo.

Although 42 percent of all shoppers suggest that they prefer to shop sites that have live chat[5] (the statistic significantly over-indexes among affluent males), only 29 percent of sportswear brands offer live chat on their sites. Almost three quarters of brands in sportswear incorporate conversion-enhancing user reviews, compared with just 56 percent of the brands in the 2012 Digital IQ Index®: Specialty Retail.

Just over a quarter of brands differentiate their sites from retail partners through product customization tools. These tools range in sophistication from NIKEiD (which enables users to customize a wide selection of Nike's products) to TYR's customization tool (which is limited to goggles). Sites with product customization tools registered 2.5 times higher monthly traffic and 21 percent annual traffic growth versus 13 percent for sites without these tools.[6]

Only 12 percent of brands have experimented with personalization software on site to customize content. One brand, Patagonia, uses Monetate software to provide site content to customers based on local weather and geography.[7]

Site Features
% of Brands With and Without
August 2012



4. "Social still can't beat search in online shopping," Donna Tam, *CNET*, August 10, 2012.
5. "Live Chat Effectiveness—A Survey of Internet Shoppers 2012," Bold Chat Research Report.
6. Compete.com data
7. "E-Tailer Customization: Convenient or Creepy?," Natasha Singer, *New York Times*, June 23, 2012.

KEY FINDINGS

Combating Amazon

Facebook is an important traffic driver to sportswear sites, contributing 10 percent of upstream traffic. Other sportswear retailers, such as rei.com or backcountry.com, account for almost 3 percent of upstream traffic.

Online retail giant amazon.com is playing an increasingly important role in the traffic ecosystem. Amazon is a top downstream site for three quarters of the brands, averaging 5 percent of all downstream traffic, reinforcing the notion that customers are comparing price on Amazon after selecting on the brand site.

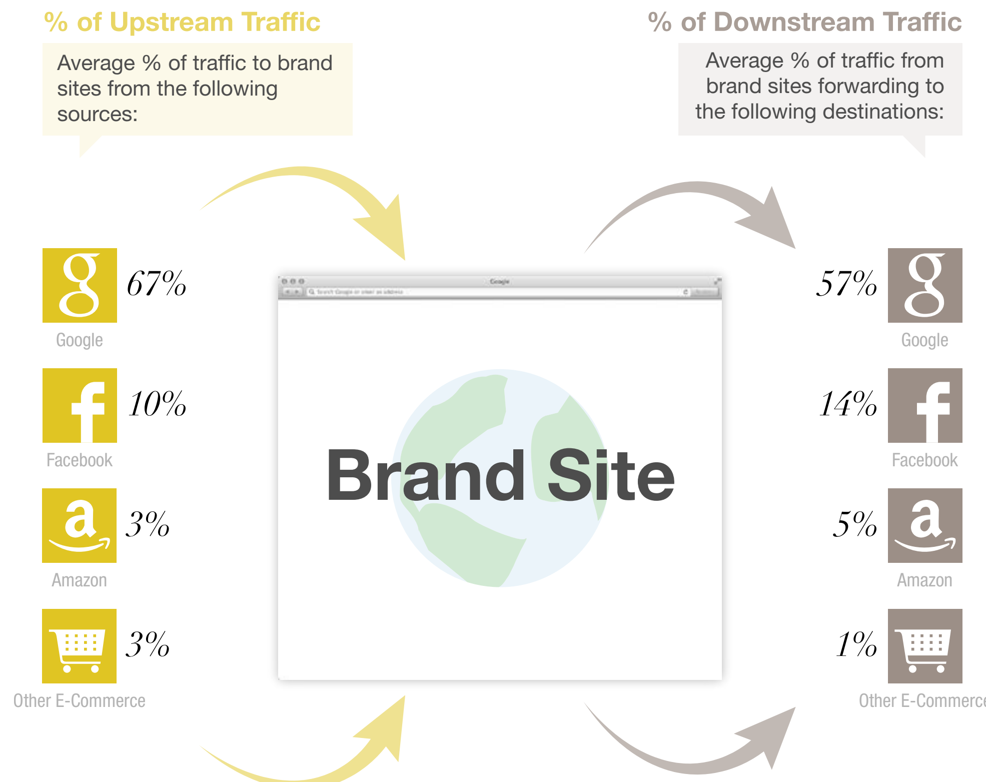
Sportswear brands are attempting to mitigate the Amazon threat through offers, and 71 percent of brands provide free shipping to combat the compelling value proposition of Amazon Prime. Of these brands, 70 percent require an order minimum. The average minimum to qualify for free shipping is $86. These offers are consistent with e-commerce best practices, as 55 percent of customers have abandoned a purchase after realizing the shipping charges were higher than expected.[8]

8. "Online Shopping Customer Experience Study," comScore, June 2012.

Referral and Destination Traffic: Sportswear Sites

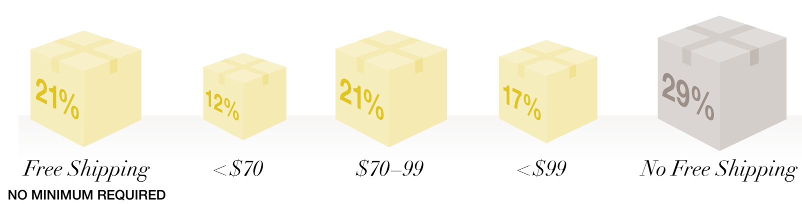
Upstream and Downstream Traffic to and from the Following Sources

August 2012



Free Shipping Thresholds

August 2012, n=42



KEY FINDINGS

Email: Missing the Basics

Sportswear brands have underinvested in basic email marketing tactics. Social media is more in vogue, but email still enjoys the highest conversion-rate (4.25 percent in the second quarter of 2012 versus 0.59 percent from social media).[9] Sportswear brands averaged just 0.9 emails per week in July and August, compared to the 2.7 emails per week sent by retailers in the 2012 Digital IQ Index®: Specialty Retail.

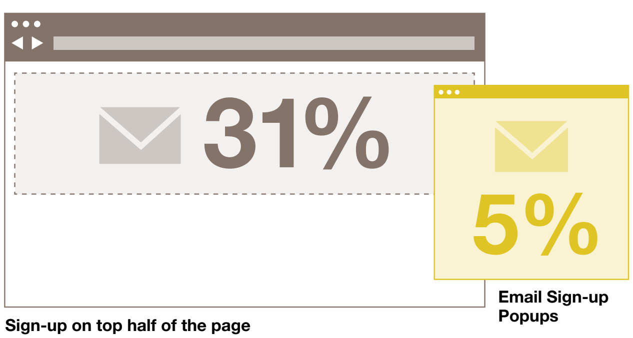
Email sign-up is also poorly optimized. Just 31 percent of the brands offer sign-up on the top half of the page, and only 5 percent are experimenting with sign-up pop-ups.

Less than half of the brands allow users to customize their preferences when they sign up, and only 19 percent send a personalized welcome email. Mizuno and adidas are experimenting with sending automatically triggered abandoned-cart emails, which can register conversion rates as high as 50 percent.[10]

Email Feature Adoption

% of Brands With the Following

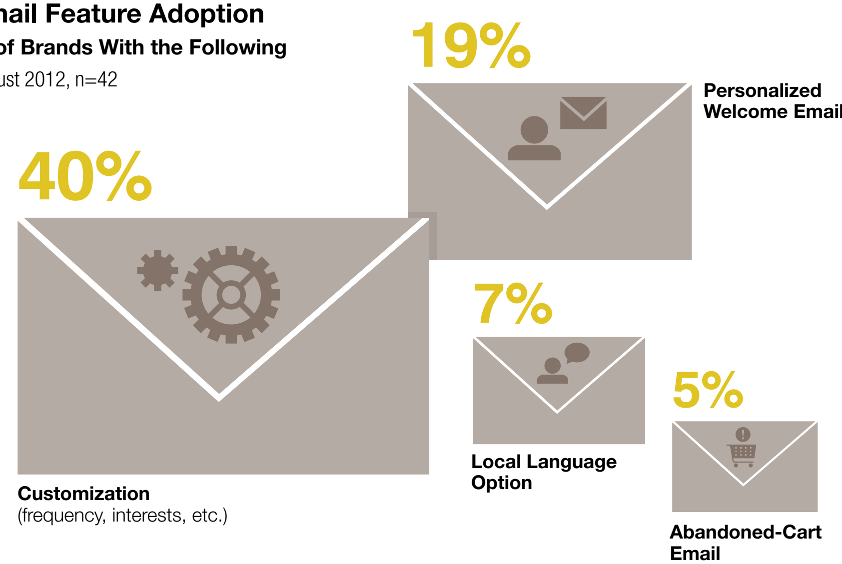
August 2012, n=42



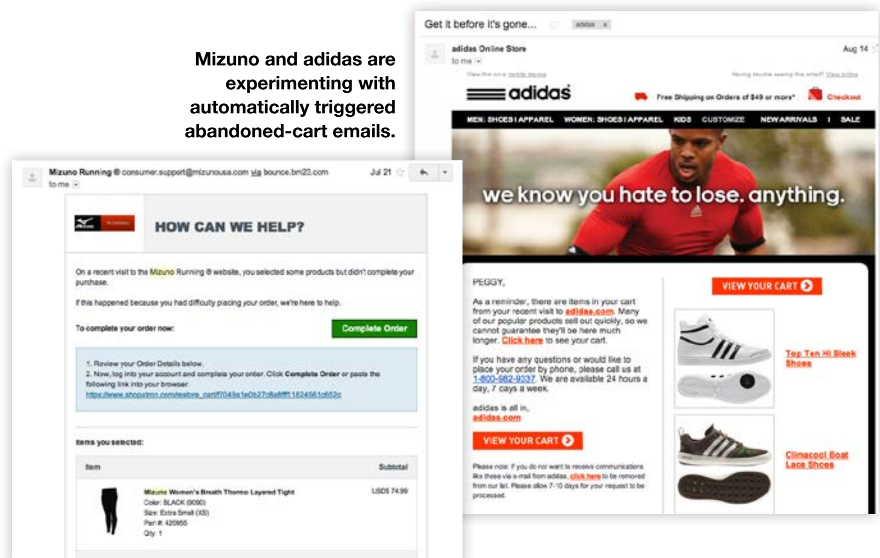
Email Feature Adoption

% of Brands With the Following

August 2012, n=42



Mizuno and adidas are experimenting with automatically triggered abandoned-cart emails.

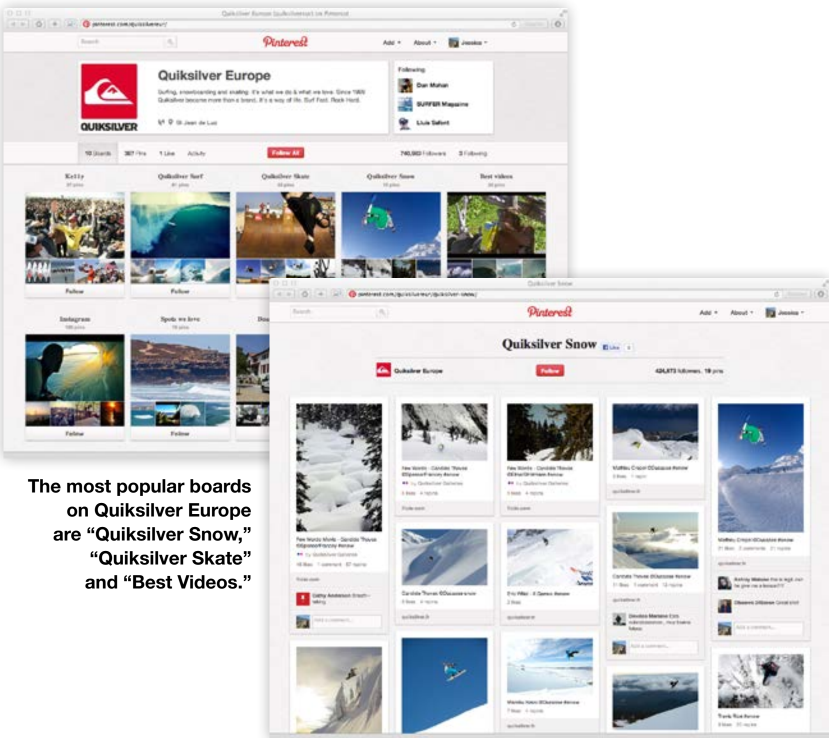


9. "Social still can't beat search in online shopping," Donna Tam, *CNET*, August 10, 2012.
10. "Email Marketing Benchmarks: Key Data, Trends and Metrics," eMarketer, August 2012.

KEY FINDINGS

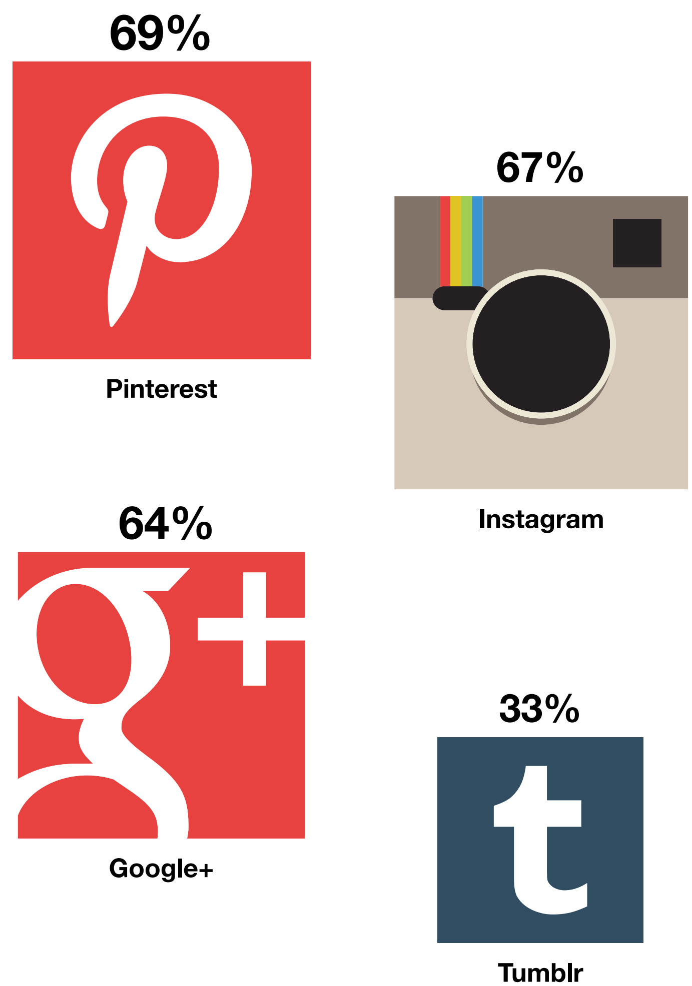
Emerging Platforms

Sixty-nine percent of the brands have launched one or more Pinterest pages. As 80 percent of Pinterest users are women[11], it follows that the platform would be less of a priority for some brands in the category. The exception is Quiksilver Europe, which has more than 400,000 followers.



The most popular boards on Quiksilver Europe are "Quiksilver Snow," "Quiksilver Skate" and "Best Videos."

Emerging Social Media Presence
% of Brands on the Following Platforms
August 2012, n=42



11. "Pinterestly Enough: Interesting Pinterest Stats," David Wallace, *Search Engine Journal*, June 22, 2012.

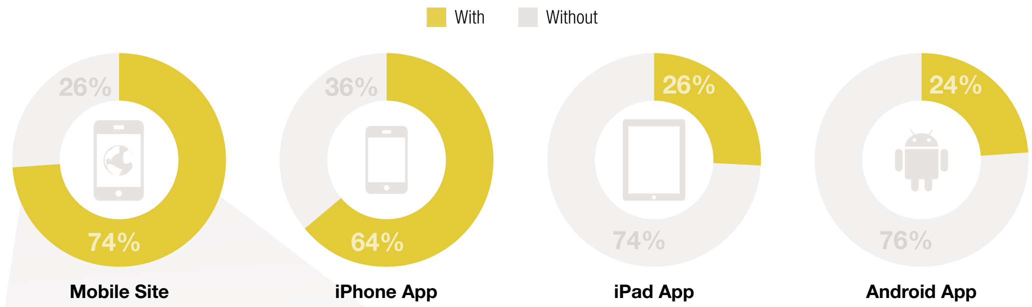
KEY FINDINGS

Mobile: Brands Get the Message

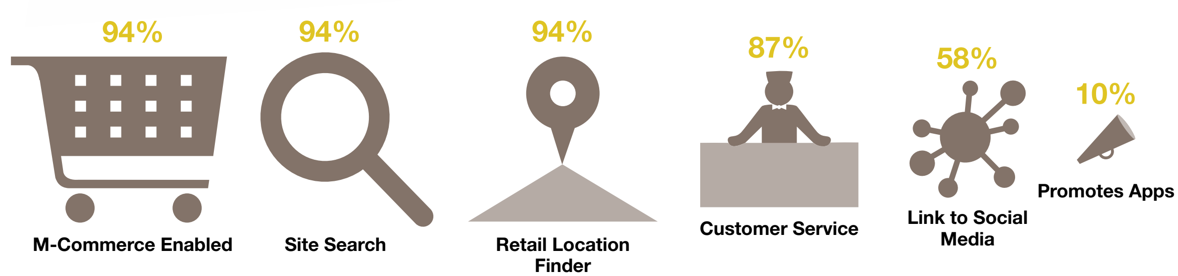
Smartphones now account for nearly half of mobile phones in the U.S., and show no signs of slowing down[13]. The global m-commerce market grew to $65.6 billion in 2011 and is forecasted to account for 24 percent of e-commerce revenues by the end of 2017[14]. All signs indicate mobile is becoming critical for brands focused on increasing direct-to-consumer sales. Seventy-four percent of sportswear brands in the Index have a mobile-optimized site, and all but two are m-commerce enabled.

Brands are active in both the iOS and Android app markets, however iOS investment dominates and in-app commerce is not the focus. Just 22 percent of apps are e-commerce enabled. iPad apps are less popular across the category; nearly half of iPad investment to date is in games or brand catalogs and magazines.

Mobile Adoption Rates
% of Sportswear Brands
August 2012, n=42



Mobile Site Features
% of Mobile Sites
August 2012, n=31



13. "comScore Reports May 2012 U.S. Mobile Subscriber Market Share," comScore, July 2, 2012.
14. "M-Commerce Growing from 24% of Total E-Commerce Market Value on Back of Smartphone Adoption," ABIresearch, July 30, 2012.

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