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

L2

DIGITAL IQ *INDEX*:

Specialty Retail

June 25, 2013

SCOTT GALLOWAY
NYU Stern

Opportunity & THREAT

Specialty retail and digital has been a recipe for growth. An early innovator, the sector has used digital to grow on- and off-line sales, while leveraging new technologies to facilitate multichannel strategy and employing CRM as the connective tissue between bricks and clicks.

The growth of e-commerce, already eight percent of total retail sales in the U.S., will outpace sales growth at brick-and-mortar stores over the next five years to reach $370 billion in sales by 2017.[1] Although specialty retail has ridden this wave of growth, there is one player that looms larger and larger on the horizon—Amazon. While e-commerce grew 13 percent YOY in Q1 2013, Amazon's revenues were up 22 percent on $16 billion in revenue.[2] The nemesis of big box retail is pursuing share across all sectors of retail. In addition to better merchandise and a reputation for great service, the great white shark of retail is redefining consumer expectations via massive CapEx in fulfillment and technology and creeping further and further into specialty retail's turf. Specialty retailers are responding. Specfically:

- Twenty-eight percent of specialty retailers now provide 24/7 customer service, up from just 18 percent a year ago. Live chat is also on the rise, with 10 percent more retailers offering the feature this year than last year.
- To ease the checkout experience for mobile and tablet users, 46 percent of retailers now offer PayPal, up threefold from 2012.
- Four retailers (American Eagle Outfitters, Brooks Brothers, Tommy Hilfiger, and Nine West) have partnered with ShopRunner on free two-day shipping to match two-day shipping provided through Amazon Prime.
- Competitive search purchasing on YouTube rose from just four percent in 2012 to 11 percent in 2013.

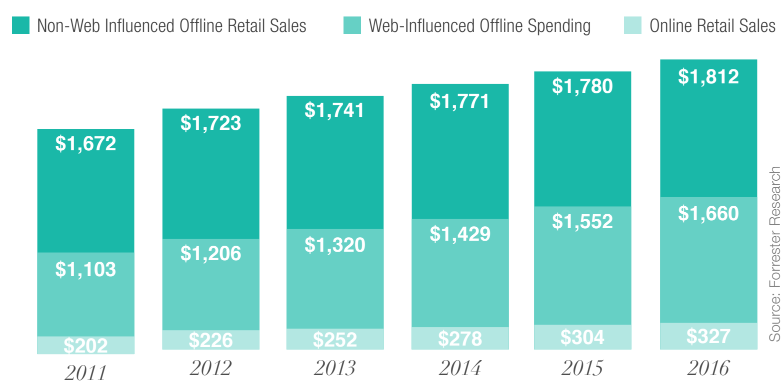
1. Forrester: U.S. Online Retail Sales to Hit $370 Billion by 2017, Mashable, March 12, 2013
2. "Amazon.com Announces First Quarter Sales up 22% to %16.97 Billion," BusinessWire, April 25, 2013.

Watch the
Specialty Retail Video
Click to Play

E-Influence

While e-commerce sales take center stage in earnings calls and management meetings, the real payoff of deft digital investments may be realized in-store. Although online sales (PC and mobile) are expected to reach $262 billion this year,[3] the Internet will influence $1.2 trillion of sales, or 43 percent of retail sales.[4] Furthermore, by 2016, mobile will influence $689 billion in sales, which is more than 20 times the estimated m-commerce dollars. The most successful specialty retailers are prioritizing technology investments, organizational incentives, and attribution metrics to drive online and in-store growth; however, most still have a long way to go. While 69 percent of retailers in the study support online purchase with in-store return, just 14 percent have made the requisite investments at point of sale to support in-store pickup—and only a handful have the capability to ship from the store, a service that provides for more flexible inventory management. There is also substantial opportunity for retailers to make more tactical investments, including store locator optimization, use of email marketing to drive customers in-store, and robust local search engine marketing.

U.S. Cross-Channel Retail
2011–2016



3. "Forrester Research Online Retail Forecast, 2012 to 2017 (US)", Forrester Research, Inc., March 12, 2013.
4. "Web-Influenced Retail Sales Forecast", Forrester Research Inc., July, 2011.

The Next Generation Merchant

Specialty retail is the house built on a foundation of great merchandising—products that share a voice, edited to give the customer confidence in their purchase decision. New technologies will enhance this even more with behavioral-based consumer targeting that further edits merchandise to the most relevant products at the right moment and place. Nearly a third (31 percent) of specialty retailers send a follow-up email when a consumer abandons his or her cart. More than half have invested in personalization technology on their sites to curate selection based on browsing behavior, and 20 percent provide opportunities for shoppers to customize products. Facebook's product evolution is a testament to the power of these tactics: in June, Facebook reduced socially-targeted sponsored story ads in favor of continued development of the Facebook ad exchange (FBX), a behaviorally based ad platform that targets ads based on consumers' browsing history. Less than a year later, FBX accounts for 45 percent of all retargeted ads on the web. Of the more than half of specialty retailers in the Index engaged in Facebook advertising, two-thirds now experiment with FBX ads.

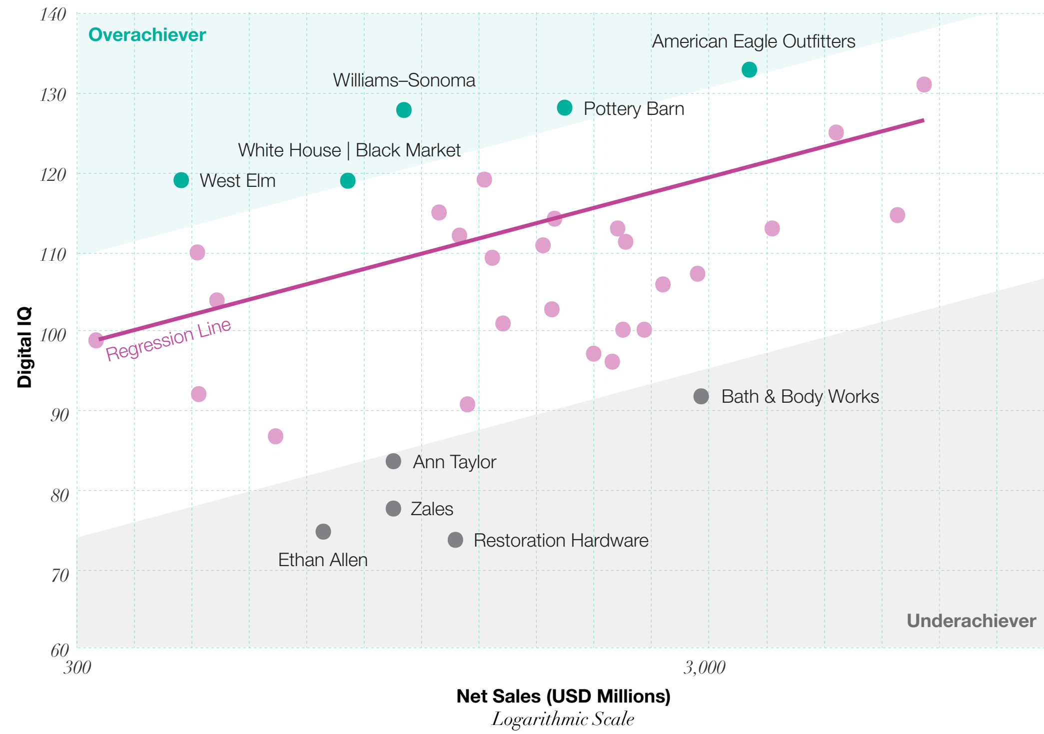
Digital IQ = Shareholder Value

This study attempts to quantify the digital competence of 71 U.S. specialty retailers. 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 to us with comments that improve our methodology, investigation, and findings. You can reach me at scott@stern.nyu.edu.

SCOTT GALLOWAY
Professor of Marketing, NYU Stern
Founder, L2

2012 Net Sales vs. Digital IQ

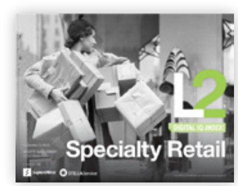
n=36



Related L2 Research:

Multichannel Retail 2013

Tablets: Retail 2013



Specialty Retail Studies

Click to View

About the Ranking

The Methodology

40% *Site*

Effectiveness of Brand Site and E-Commerce Operations

Functionality and Content:
Technology
Navigation and Product/Site Search
Customer Service and Store Locator
Product Page
Checkout and Multichannel Efforts
Account/Registry

30% *Digital Marketing*

Search, Display, and Email Marketing Efforts

Search:
Traffic, SEM, SEO, Web Authority

Advertising and Innovation:
Display, Retargeting, Cross-Platform Initiatives

Blog and Other User-Generated Content:
Mentions, Sentiment

Email:
Frequency, Content, Promotions, Opt-Down, Trigger Emails

20% *Mobile*

Compatibility, Optimization, and Marketing on Smartphones and Tablets

Mobile Site:
Compatibility, Functionality, Transaction Capability

iOS Applications (both iPhone & iPad):
Availability, Popularity, Functionality, iPad Differentiation

Android:
Availability, Popularity, Functionality

Innovation:
SMS, Geolocal, Recent Brand Initiatives

Tablet Site:
Cart Continuity/Saved Items, Menu Optimization, Express Checkout

10% *Social Media*

Brand Presence, Community Size, Content, and Engagement

Facebook:
Likes, Growth, Tabs and Applications, Responsiveness, Interaction Rate

Twitter:
Followers, Growth, Frequency, Online Voice, User Retweet Rate

YouTube:
Views, Number of Uploads, Subscriber Growth, Viral Videos, YouTube Search

Emerging Social Media:
Instagram, Google+, Pinterest, Tumblr, Vine

Digital IQ Classes

Genius 140+
Digital competence is a point of competitive differentiation. Online programming drives marketing, e-commerce, and in store success.

Gifted 110–139
Experimenting and innovating across site, mobile, and social media platforms.

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

Challenged 70–89
Digital investment is limited or inconsistent across platforms. The whole is less than sum of parts.

Feeble <70
Investment does not match opportunity.

Digital IQ Ranking

Genius, Gifted

RANK	BRAND		DIGITAL IQ
			Genius
1	SEPHORA	LVMH	140
			Gifted
2	AMERICAN EAGLE OUTFITTERS	American Eagle Outfitters	133
3	VICTORIA'S SECRET	Limited Brands	131
4	POTTERY BARN	Williams-Sonoma	128
4	WILLIAMS-SONOMA	Williams-Sonoma	128
6	Crate&Barrel	Otto GmbH	127
7	COACH	Coach	125
8	Urban Outfitters	Urban Outfitters	119
8	west elm	Williams-Sonoma	119
8	WHITE HOUSE | BLACK MARKET	Chico's FAS	119
11	ANTHROPOLOGIE	Urban Outfitters	115
11	GAP	Gap	115
13	J.CREW	J.Crew Group	114
13	Pier 1 imports	Pier 1 Imports	114
15	EXPRESS	Express	113

GENIUS
Sephora
GIFTED
American Eagle Outfitters
Victoria's Secret
Pottery Barn
Williams-Sonoma
Crate & Barrel
Coach
Urban Outfitters
West Elm
White House | Black Market
Anthropologie
Gap
J.Crew
Pier 1 Imports
Express
Talbots
Tiffany & Co.
Topshop
Steve Madden
Chico's
Tory Burch
ULTA
Brooks Brothers
Kate Spade New York
L'OCCITANE en Provence
AVERAGE
lululemon athletica
Ralph Lauren
Banana Republic
Guess
7 For All Mankind
Juicy Couture
Swarovski
Abercrombie & Fitch
Nine West
Tommy Hilfiger
Fossil
Aéropostale
H&M
ALDO
Free People
Swatch
The Body Shop
UNIQLO
AIX Armani Exchange
Kay Jewelers
Michael Kors
Tumi
Lacoste
Bath & Body Works
Lucky Brand
Cole Haan
Diesel
Gymboree
LUSH
CHALLENGED
Cartier
American Apparel
Ann Taylor
Zara
Godiva Chocolatier
French Connection
J Brand
Stuart Weitzman
Zales
BCBG
Ethan Allen
Restoration Hardware
Club Monaco
FEEBLE
Intermix
Massimo Dutti
Vince Camuto
Joe Fresh

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June 25, 2013

Digital IQ Ranking

Gifted, Average

RANK	BRAND		DIGITAL IQ
15	Talbots	Talbots	113
15	Tiffany & Co.	Tiffany & Co.	113
15	TOPSHOP	Arcadia Group	113
19	Steve Madden	Steve Madden	112
20	chico's	Chico's FAS	111
20	Tory Burch	Tory Burch	111
20	ULTA Beauty	ULTA	111
23	Brooks Brothers	Retail Brand Alliance	110
23	kate spade	Fifth & Pacific Companies	110
23	L'OCCITANE	L'OCCITANE Group	110
			Average
26	lululemon athletica	lululemon athletica	109
27	Ralph Lauren	Ralph Lauren Corporation	108
28	Banana Republic	Gap	107
29	Guess	Guess	106
30	7 for all mankind	VF Corporation	105
31	Juicy Couture	Fifth & Pacific Companies	104
31	Swarovski	Swarovski Group	104
33	Abercrombie & Fitch	Abercrombie & Fitch Co.	103
33	Nine West	The Jones Group	103
33	Tommy Hilfiger	PVH Corp.	103
36	Fossil	Fossil	101

GENIUS
Sephora
GIFTED
American Eagle Outfitters
Victoria's Secret
Pottery Barn
Williams-Sonoma
Crate & Barrel
Coach
Urban Outfitters
West Elm
White House I Black Market
Anthropologie
Gap
J.Crew
Pier 1 Imports
Express
Talbots
Tiffany & Co.
Topshop
Steve Madden
Chico's
Tory Burch
ULTA
Brooks Brothers
Kate Spade New York
L'OCCITANE en Provence
AVERAGE
lululemon athletica
Ralph Lauren
Banana Republic
Guess
7 For All Mankind
Juicy Couture
Swarovski
Abercrombie & Fitch
Nine West
Tommy Hilfiger
Fossil
Aéropostale
H&M
ALDO
Free People
Swatch
The Body Shop
UNIQLO
AIX Armani Exchange
Kay Jewelers
Michael Kors
Tumi
Lacoste
Bath & Body Works
Lucky Brand
Cole Haan
Diesel
Gymboree
LUSH
CHALLENGED
Cartier
American Apparel
Ann Taylor
Zara
Godiva Chocolatier
French Connection
J Brand
Stuart Weitzman
Zales
BCBG
Ethan Allen
Restoration Hardware
Club Monaco
FEEBLE
Intermix
Massimo Dutti
Vince Camuto
Joe Fresh

Digital IQ Ranking

Average, Challenged

RANK	BRAND		DIGITAL IQ
37	AÉROPOSTALE	Aéropostale	100
37	H&M	H & M Hennes & Mauritz	100
39	ALDO	The ALDO Group	99
39	free people	Urban Outfitters	99
39	swatch	The Swatch Group	99
39	THE BODY SHOP	L'Oréal	99
43	UNIQLO	Fast Retailing Co.	98
44	A|X Armani Exchange	Giorgio Armani	97
44	KAY Jewelers	Sterling Jewelers	97
46	MICHAEL KORS	Michael Kors	96
46	TUMI	Tumi Holdings	96
48	LACOSTE	Lacoste	95
49	Bath & Body Works	Limited Brands	92
49	Lucky Brand	Fifth & Pacific Companies	92
51	Cole Haan	Apax Partners	91
51	DIESEL	Diesel	91
51	GYMBOREE	The Gymboree Corporation	91
51	LUSH	LUSH	91
	Challenged		
55	Cartier	Richemont	89
56	American Apparel™	American Apparel	87
57	ANN TAYLOR	ANN	84

GENIUS
Sephora

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Victoria's Secret
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Williams-Sonoma
Crate & Barrel
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Digital IQ Ranking

Challenged, Feeble

RANK	BRAND	DIGITAL IQ
57	ZARA INDITEX Group	84
59	GODIVA Chocolatier Yildiz Holding	81
60	FRENCH CONNECTION French Connection Group	78
60	J BRAND Fast Retailing Co.	78
60	STUART WEITZMAN Stuart Weitzman Holdings	78
60	ZALES Zale Corporation	78
64	BCBGMAXAZRIA BCBG Max Azria Group	75
64	ETHAN ALLEN Ethan Allen Global	75
66	RESTORATION HARDWARE Restoration Hardware Holdings	74
67	CLUB MONACO Ralph Lauren Corporation	72
	Feeble	
68	INTERMIX Gap	64
69	Massimo Dutti The INDITEX Group	63
70	VINCE CAMUTO Camuto Group	59
71	Joe FRESH STYLE FRAIS Loblaw Companies	54

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BCBG
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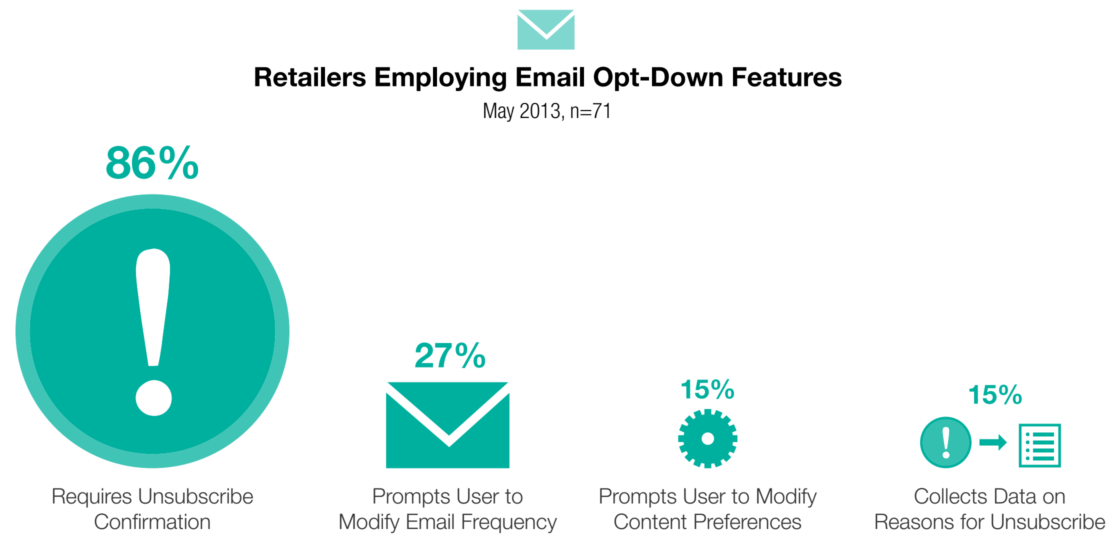
Key Findings *Digital Marketing*

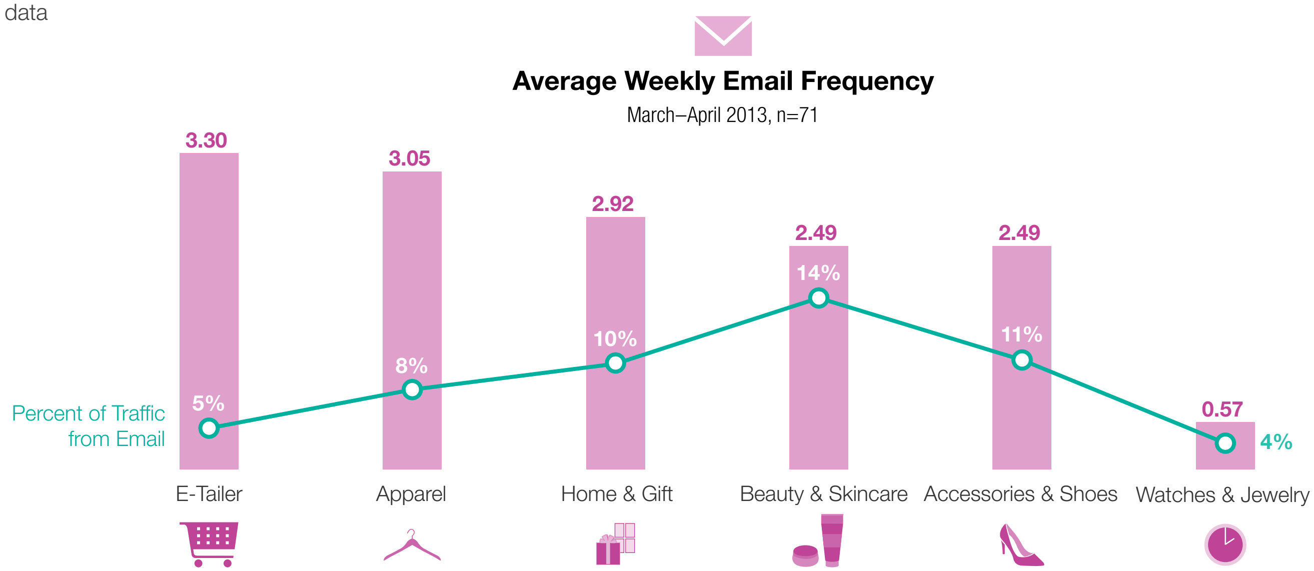
Email

Despite the proliferation of new tactics and tools, email remains an effective call-to-action marketing vehicle. Two-thirds of in-house marketers rate email as having an "excellent" or "good" ROI.[5] Retailers in the Index drive, on average, 8.7 percent of traffic to their sites from email marketing activities.

Email frequency varies dramatically by product category. Beauty & Skincare retailers send 2.5 emails per week, using the medium as a driver to promote sampling initiatives and gift-with-purchase offers. They garner an average 14 percent share of their traffic from email.

Given that "frequency" and "relevance" are the primary reasons that email users unsubscribe from email marketing,[6] email opt-down offerings remains a missed opportunity for specialty retailers. Although 86 percent of brands request an email unsubscribe confirmation, most have yet to embrace opt-down options such as reduced frequency or content modification. Furthermore, just 15 percent are collecting data on the reasons users unsubscribe.





Source: SimilarWeb

5. "Email Marketing Industry Census 2013," eConsultancy, 2013.
6. "2013 Consumer Views of Email Marketing," BlueHornet, March 14, 2013.

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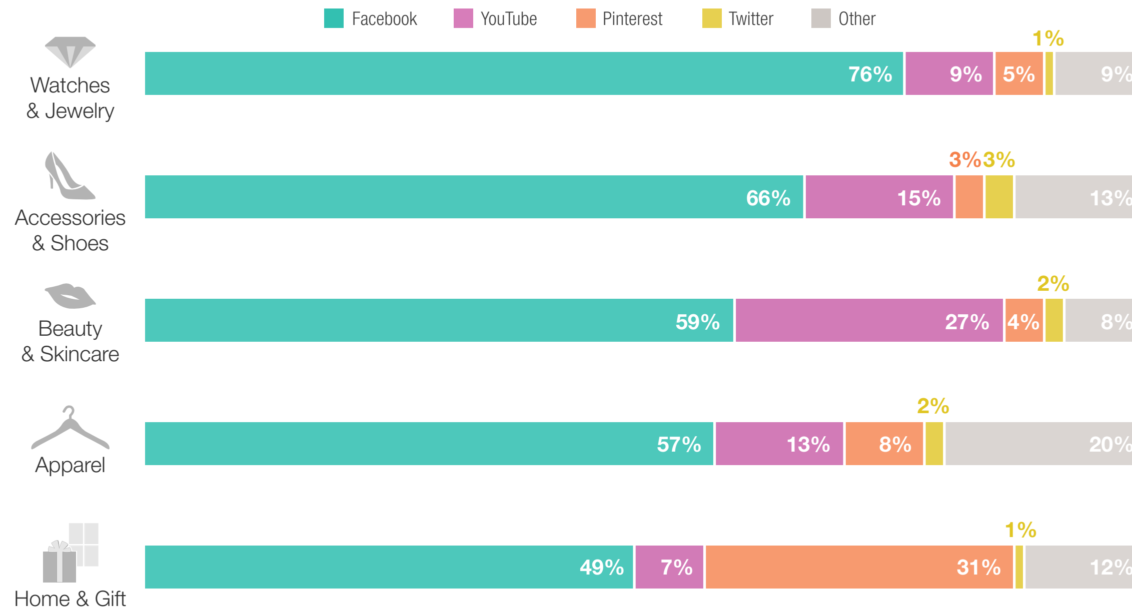
Key Findings *Social Media*

Social Media

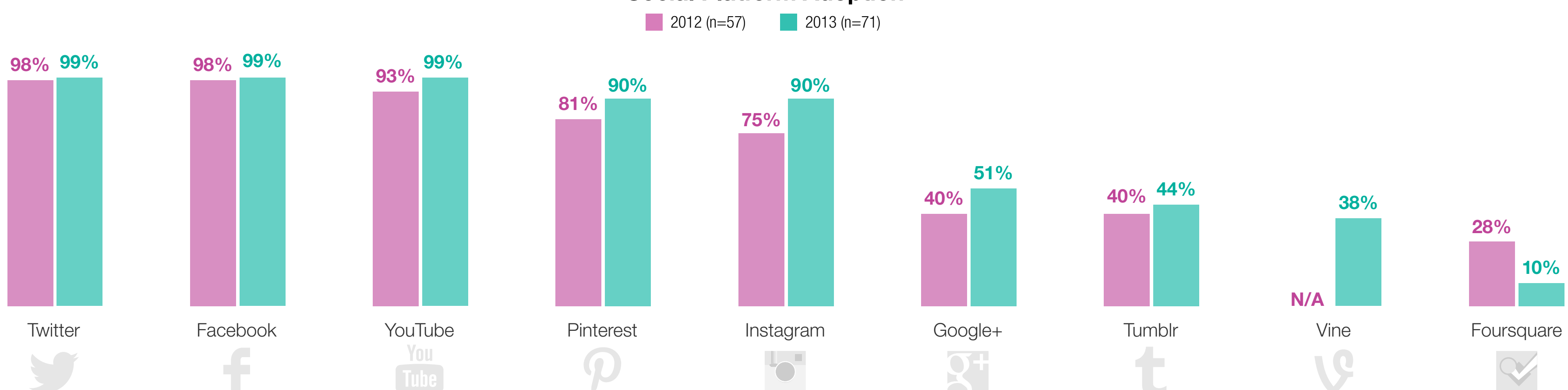
In 2013, Pinterest and Instagram join Facebook, YouTube and Twitter as "must be there" platforms for retailers. Both register 90 percent penetration across the category. In contrast, Tumblr and Google+ adoption has been relatively static year over year and much of the content on both platforms is either rarely updated or syndicated from other channels. Just 10 percent of retailers actively use Foursquare as a marketing tool, suggesting the platform has lost relevance.

Facebook continues to be the leading source of social media upstream traffic to retailers; however, some categories are starting to shift. Beauty & Skincare brands register a disproportionate percentage of their traffic from YouTube as a result of the popularity of "how-to" videos in the space. Home & Gift brands overindex on Pinterest which now drives larger cart sizes ($168.83 average order value compared with $94.70 for Facebook and $70.84 for Twitter).[7]

Average Referral Traffic from Social Media Platforms
Percentage of Total Traffic from Social Media
February–April 2013



Social Platform Adoption



7. "Who's Driving Shipping Traffic for Retail Sites?" RichRelevance, Inc., 2012.

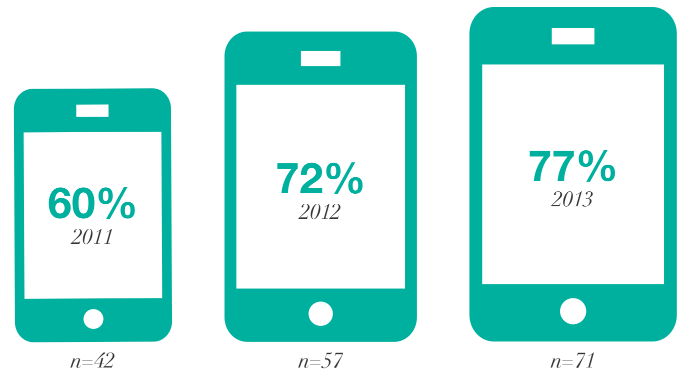
Key Findings *Mobile*

Mobile Site Adoption

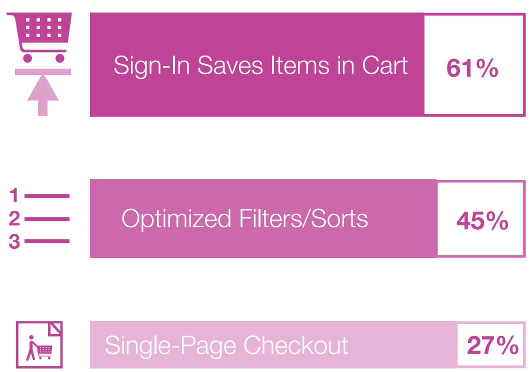
Forty-eight percent of the time spent browsing retail sites occurred on mobile devices in Q1 2013,[8] and 77 percent of Index retailers now have mobile sites.

H&M and White House | Black Market are the only two brands to have optimized their site experience for tablets, while the majority (86 percent) still redirect tablet users to desktop sites. Furthermore, just 61 percent have incorporated cart continuity across the tablet and PC, catering to users who begin shopping on one device and elect to check out on another.

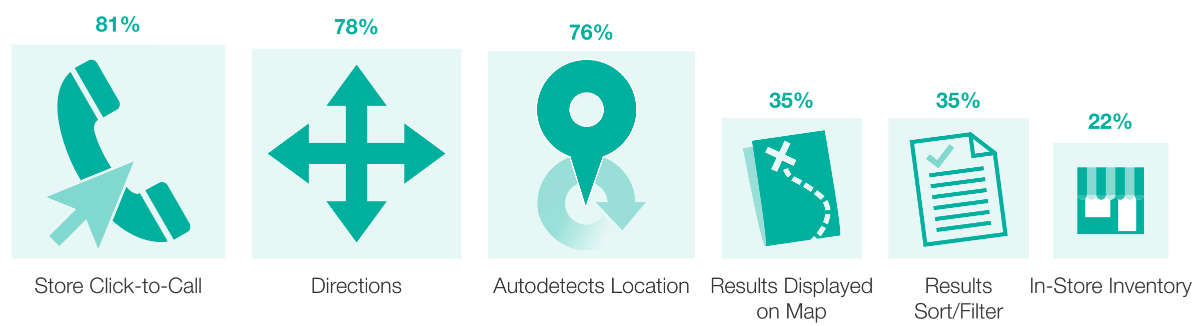
Mobile Site Adoption
2011–2013



Tablet: Site Features and Functionality
April 2013 , n=71



Mobile Site: Store Locator Features
April 2013, n=54



8. "comScore Reports $50.2 Billion in Q1 2013 Desktop-Based U.S. Retail E-Commerce Spending, Up 13 Percent vs. Year Ago," comScore, May 10, 2013.

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About L2

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® is the global benchmark for digital performance of prestige brands. By analyzing more than 650 data points across four dimensions—Site & E-Commerce, Digital Marketing, Social Media, and Mobile—we quantitatively diagnose brands' digital strengths and weaknesses and rank peer-to-peer performance within the following verticals: Luxury, Beauty, Retail, Travel, Drinks, Auto, and CPG.

L2 Intelligence Reports complement L2's flagship Digital IQ Index® with a deeper dive on platforms or geographies of future growth. Critical areas of investigation include: Mobile, Video, Emerging Platforms, APAC and Brazil Russia India.

L2 Supplements provide an in-depth regional or platform-specific analysis of our Digital IQ Index® reports.

EVENTS

The Forum: Our annual flagship conference, held each November. The Forum is a one-day, TED-style event where the largest gathering of prestige executives in North America learn about case studies and best practices within the broader categories of Leadership, Genius, Organization and Behavior, among others.
300+ attendees

Clinics: L2's version of the one-day M.B.A, our quarterly clinics, held at NYU Stern and Hotel Palais Brongniart in Paris offer members an in-depth look at the issues, trends, strategies and technologies changing the face of prestige marketing.
120–180 attendees

Working Lunches: Held in cities across the world every month, our working lunches provide members with a midday opportunity to learn about our latest research releases and gain insight into digital opportunities.
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

LUNCH: DEPARTMENT STORES
June 27, 2013 • NYC

LUNCH: PLATFORMS
July 18, 2013 • NYC

BREAKFAST: CPG
August 13, 2013 • NYC

CLINIC: E-INFLUENCE
September 12, 2013 · NYC

CLINIC: E-INFLUENCE
September 17, 2013 • Paris

Upcoming Research

DIGITAL IQ INDEX® REPORTS:
Department Stores
Russia: Luxury
Brazil: Luxury
Middle East: Luxury
Personal Care
Russia: CPG
Brazil: CPG
India: CPG

INTELLIGENCE REPORTS:
Platform Analysis

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