



INTELLIGENCE  
REPORT

# E-COMMERCE AGILITY

in partnership with:  demandware

April 15, 2015



## NEW ERA

In just a few short years, e-commerce has changed the competitive landscape of many industries. It has not only redefined customer relationships and business processes, but also provided new distribution channels, payment and delivery methods, and another mode for communication. This study looks at 82 brands across six sectors to examine how quickly they are adapting to the changing retail landscape and which platform types drive higher degrees of agility. Key findings reveal that while platform matters in furthering a brand's success, it should be considered in conjunction with existing resources and long-term growth plans.

## E-Commerce Agility Defined

Looking beyond the dictionary definition of having the power to move quickly and easily, being agile means having the ability to (1) sufficiently run and scale the IT function on-demand, and (2) rapidly respond to changing conditions or opportunities in the marketplace.

Companies are always looking for faster and more innovative ways to drive sales and profitability. Maintaining an IT infrastructure to continuously scale a cutting-edge e-commerce operation demands resources and strategic prioritization.

Overarching trends show that:

- Large retailers with customized solutions sprang ahead at the beginning of this decade, but over time, smaller challengers employed cloud-based systems to target new opportunities online
- SaaS market is expected to grow at an 18 percent annual rate to 28 percent of the enterprise applications market in 2018 (from 17 percent in 2013). Despite accelerating cloud growth, on-premise solutions continue to lead the market with 82 percent penetration<sup>1</sup>, and in-house models are proving successful for retailers with the capital and focus to augment their online capabilities.

## Winners vs. Losers

The ability to respond rapidly to market changes may be what separates the winners from the losers in this ever-evolving digital landscape.

- 56 percent of companies opted for cloud services over on-premise solutions because of easy Internet access and scalability, while 46 percent pointed to the lower costs

1. "IDC Predicts SaaS Enterprise Applications Will Be A \$50.8B Market By 2018", Louis Columbus, Forbes, December 20, 2014.

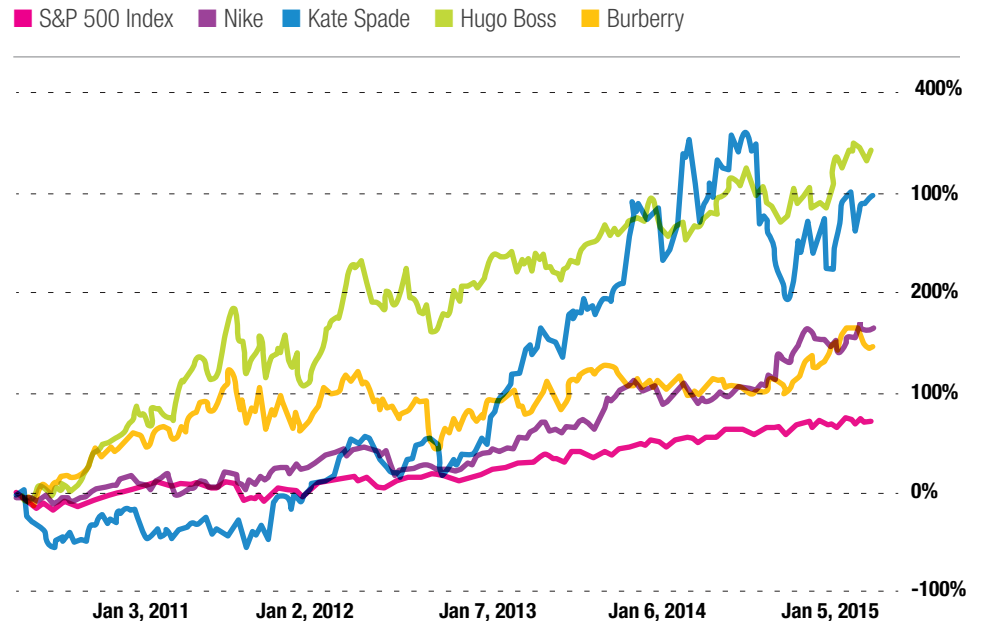
- 43 percent said that faster deployment was a key consideration<sup>2</sup>
- 62 percent of publicly traded brands in this study have yielded strong stock gains by being early movers. However, just 34 percent clocked in double-digit revenue growth over the past five years for keeping up with the times.

Financial performance and site rankings have moved in lockstep over the past five years. L2 research found cloud brands not only had the greatest sales and earnings growth but also the highest overall site rankings, driven by Content, Customer Service, and Search. In-house brands made the greatest strides in Omnichannel. Research reveals that platform clearly plays a key role in implementing change, however, changes are typically fueled by a brand's strategic goals and financial capability.

Regards, **L2 & Demandware**

2. "On-Premise vs. Cloud-based Solutions", GFI White Paper, GFI 2010.

## E-Commerce Agility: Retailer Stock Price Performance vs. S&P 500 Index Percent Change Since 2010



**E-commerce platform “agility”** is a function of how proactively brands and retailers are able to manage their e-commerce businesses. In this study, L2 attempts to quantify the level of digital innovation and nimbleness exhibited by 82 brands, and infer attributes powered by the underlying e-commerce platform.

Specifically, e-commerce agility refers to:

**DYNAMIC CONTENT CREATION:** Agile platforms integrate back-end technologies that enable brands to frequently and seamlessly swap content assets in/out. As a proxy for dynamic content creation, the study measures the number of e-commerce landing page changes detected over a 12-week period including featured items, promotions, and marketing campaigns intended to encourage consumers to return regularly to the site;

**FACILE INTEGRATION OF NEW TECHNOLOGIES:** The pace brands integrate new features into their e-commerce experience is crucial for sustaining, and extending, competitive advantage. The study looks across four sub-dimensions to assess how well brand sites have kept up with incremental innovation. Specifically, adoption of select site features is compared to respective category-level adoption rates over a five-year time frame (2010 to 2014). Sector-specific site features were also considered for Beauty and Sportswear. The observed subdimensions include Content & Commerce, Search & Navigation, Customer Service & Checkout, and Omnichannel.

**EASE OF NEW MARKET ENTRY:** Over the next decade, emerging markets will continue to register robust e-commerce growth, driven by rapid expansion of the middle-class and increasing Internet penetration.<sup>1</sup> Successful brands will provide e-commerce destinations that support multiple currencies and payment options and localized content. In this study, new market entry is measured by the pace of a brand’s year-over-year rollout of retail store locations and country-specific websites in the emerging markets. Findings are tied back to technology decisions to assess which e-commerce platform provides the strongest infrastructure for rapid global expansion.

**FINANCIAL CORRELATION:** After identifying agile firms, the study explores the correlation between platform architecture and financial performance as measured by sales, operating margins and earnings growth.

## METHODOLOGY: INTEGRATION OF NEW TECHNOLOGIES

CONTENT & COMMERCE	SEARCH & NAVIGATION	CUSTOMER SERVICE & CHECKOUT	OMNICHANNEL
Blog	Quick View	Express Checkout/PayPal	Buy Online/Return In-Store
UGC Integration	Product Comparison Tool	Persistent Cart	In-Store Inventory
Shoppable Lookbook	Variable Tile Size	Live Chat	Buy Online/Pickup In-Store
User Reviews & Ratings	View All	Auto-Location/Get Direction	Reserve Online/Pickup In-Store
Product Video	Advanced Filters	Wish List Management	PDP Links to Store Locator
Product Customization	Advanced Sorts	Social Login	Abandoned Cart Reminder
Cross-Selling-Tactics	Search Auto-Complete	In-Cart Modifications	Local Store Promotions
Recently Viewed Items	Multiple Color Views		Save Preferred Store



**ELANA ANDERSON**  
Senior Vice President,  
Worldwide Marketing,  
Demandware

“Agility touches and influences many aspects of your digital commerce operations. An honest and accurate assessment of agility should be a multi-faceted approach that considers a wide range of indicators and metrics.”

1. “Emerging Markets: Overview and Growth Opportunities”, Euromonitor, January 2015.

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**ON-PREMISE**

**APPAREL & ACCESSORIES**
**BEAUTY**

**SPECIALTY RETAIL**
**LUXURY**
**BROADLINES**
**SPORTING GOODS**

Hugo Boss	Bare Escentuals	Nine West	Cole Haan	House of Fraser	Adidas
Lacoste	Clarins	Pier 1 Imports	Diane von Furstenberg	Best Buy	Columbia Sportswear
UGG Australia	Kiehl's	Crate & Barrel	Jimmy Choo	Macy's	New Balance
Banana Republic	Lancôme	Pottery Barn	Kate Spade	Nordstrom	Puma
Gap	Bobbi Brown	Steve Madden	Tory Burch	Walmart	Reebok
Guess	Clinique	West Elm	Cartier	Bed Bath & Beyond	Under Armour
J.Crew	Estée Lauder	Williams-Sonoma	Gucci	Debenhams	Nike
Uniqlo	L'Oréal Paris	DSW	Tiffany & Co.	Harvey Nichols	Patagonia
7 For All Mankind	M-A-C Cosmetics	Lululemon Athletica	Burberry	Home Depot	The North Face
American Eagle Outfitters	Benefit Cosmetics	Sephora	Calvin Klein	Marks & Spencer	
Ann Taylor	L'OCCITANE en Provence	Ulta	Coach	Target	
Anthropologie			Louis Vuitton	Saks Fifth Avenue	
Chico's			Michael Kors		
Free People			Ralph Lauren		
Forever 21			Tommy Hilfiger		
Fossil			Topshop		
H&M			Tumi		
Levi's					
LOFT					
Urban Outfitters					
White House   Black Market					
Zara					

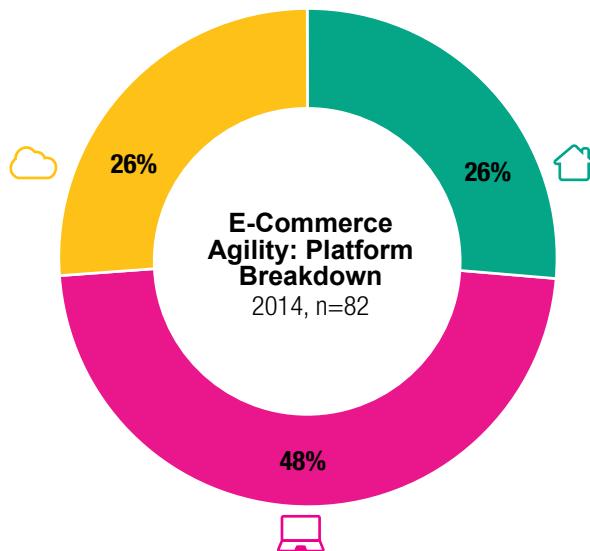




## E-Commerce Platform Types

An e-commerce platform is the software solution that supports online storefronts. Each platform provides a unique set of tools, processes and frameworks for developers to deploy functionalities within the storefront – including search and navigation, user accounts, shopping cart environments, and ordering and shipping capabilities.

Hosting and implementation options available to brands generally bucket into three major types of platform: “cloud” (or SaaS), “on-premise” (for the purposes of the study, encompasses both licensed and managed models), and “in-house” (or homegrown). In order to measure and compare platform performance, the 82 brands in the study were grouped based on these classifications. Cloud and in-house solutions each represent a quarter of the brand list, while on-premise comprises half, closely reflecting adoption rates across the broader e-commerce landscape.



### Cloud

Cloud platforms are hosted on servers maintained and controlled by a cloud-computing provider. The multi-tenant approach of cloud places all customers on the same software blueprint, which often results in a more robust response to marketplace shifts. Much of the “lift” for site upgrades is transferred from client to host, as upgrades are done via open APIs to facilitate integration of new features into existing applications.

The price for cloud-based solutions is typically less up-front as development cost is amortized across numerous clients and funded by the hosting firm; however, costs grow in a linear fashion and can, for brands with large e-commerce businesses, exceed other options. Data and security issues are a greater concern when evaluating a cloud solution.

### In-House

In-house platforms are homegrown sites leveraging a highly customized tool kit and framework. An internal tech team develops the site and handles ongoing maintenance. Well-resourced in-house platforms can be a competitive advantage. However, the requisite capital to maintain this advantage continues to rise as third-party solutions access financial markets to fund robust product development.

Upgrades can be more cumbersome as workflows require new build-outs and tight synchronization between business and tech teams. For small-to-mid-sized brands with limited resources, there is a real risk of underestimating the complexity of operating customized solutions as business needs grow. This model works well for retailers with deep capital resources and e-commerce volume to support ongoing investment. Custom platforms require a large commitment to fund the initial purchase of software, site launch, and an IT department.

### On-Premise

An on-premise platform is software installed in a customer’s server and operated by the customer’s IT infrastructure. It typically requires a software license for each server, purchased from an independent vendor (such as Oracle ATG, IBM WebSphere, Magento). Though the customer is responsible for security and management, the vendor provides integration and ongoing support services.

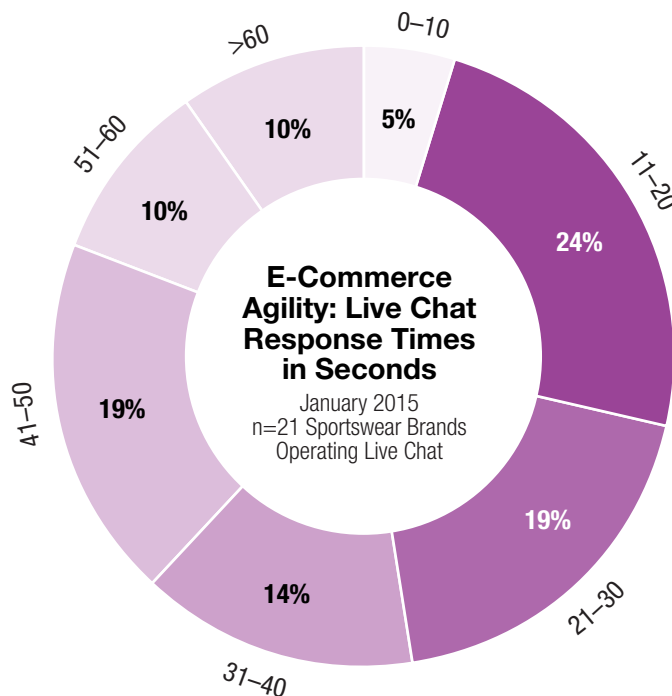
Changes to an on-premise platform can be more arduous because the initial site build-out is customized and can lock a business into its existing practices. For multi-brand organizations, enterprise-wide changes can be more costly as individual sites are hosted on unique servers. On-premise solutions are considered more secure, as the software and data sit inside the organization and have a lower risk of being compromised.

## Limiting Factors

From a user perspective, the Internet is limitless, imposing almost no marginal cost for additional research or browsing. The data centers, energy infrastructure, and even the code that shapes the online experience remain out of sight and create the illusion of a costless warehouse of information. But 2.0 executives are intimately familiar with the expensive arms race that defines our digital economy. E-commerce may scale faster than terrestrial channels, but there are similar breathtaking, up-front investments and stubborn on-going rents (i.e., investments) to stay relevant. Like a physical store, e-commerce groups must thoughtfully conceive sites as they become living organisms that require ongoing care and feeding.

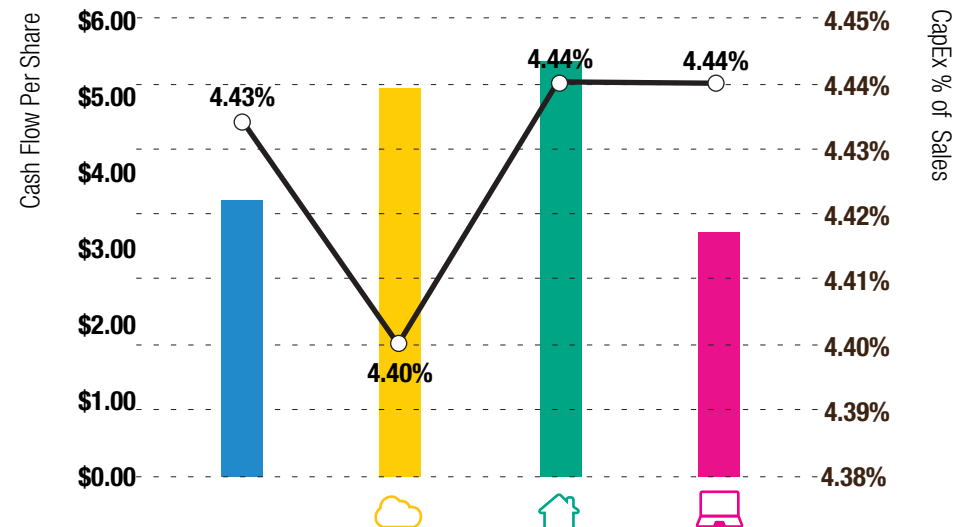
The two pools of scarcity are labor and capital. Labor is the limiting factor of rapid site rollouts and new feature integrations. As cloud platforms are designed to better scale when new features are implemented, brand IT departments do not

bear the full burden of ongoing upgrades. Conversely, retailers with custom-built platforms must identify and train developers in the nuance of their infrastructure. In addition, as customer service becomes more digital, the consequence of insufficient staffing can be sluggish online performance and dissatisfied customers. More than 14 percent of retailers offering Live Chat in L2's Digital IQ Index®: Sportswear 2015 failed to consistently staff that function when advertised. Of the companies for which information is available, IT represented an average of 19.8% of CapEx, with the majority of spend going to new store openings and corporate maintenance. In the coming years, expect more money to flow into the online space, as demand increasingly congregates there.



## E-Commerce Agility: Resources & Strategy

■ Average ○ Median CapEx % of Sales



## Platform Adoption Rates

Rising competition, changing business needs, and tightening budgets are driving companies to seek more flexible alternatives to traditional e-commerce platform providers. As e-commerce becomes an increasingly important piece of the business, management teams are no longer willing to tolerate highly customized and complex applications that demand significant upfront capital and long deployment cycles<sup>1</sup>.

Among the 82 brands in the study, the proportion on a cloud-based platform has increased from 16 percent to 23 percent since 2010, as teams increasingly prioritize flexible infrastructure solutions that support agility and innovation. Notably, the proportion on custom-built platforms has declined, from 32 percent of the brand list in 2010 to 25 percent in 2014, suggesting that cloud growth has been aided by a move away from in-house solutions. On-premise platform adoption has increased slightly, from 51 percent to 52 percent over the same five-year period.

If adoption rates continue on their current trajectory across the six categories benchmarked in the study, the percentage of brands on a cloud-based commerce platform in 2015 should surpass the percentage built in house.

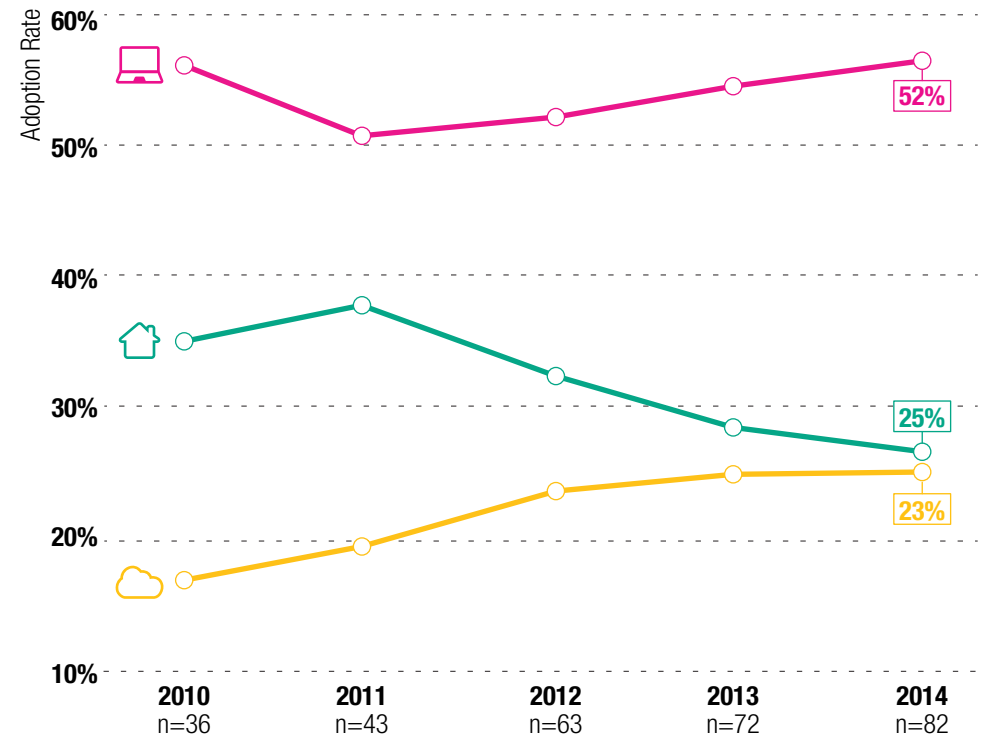


**ROB GARF**  
Vice President, Industry  
Strategy and Insights,  
Demandware

“The accelerating adoption of cloud architectures clearly indicates the industry’s endorsement of its strategic value and validity in today’s fast-paced commerce environment.”

## E-Commerce Agility: Adoption Rates of Platform Type

Among Brands in L2 Digital IQ Index®  
2010-2014



1. [A New Model for Partner Success in the Cloud](#), THINKstrategies, 2009.





## Landing Page Changes

Website landing pages showcase dynamic content, including products and promotions – ideally updated in real-time to reflect changing seasonality and retail nuances. Over a 12-week period, L2 systematically tracked landing page changes for the 82 brands in the study. Although the frequency and strategy of alterations varied considerably between brands, across platforms, and by industry, every landing page underwent at least one content change over the observation period.

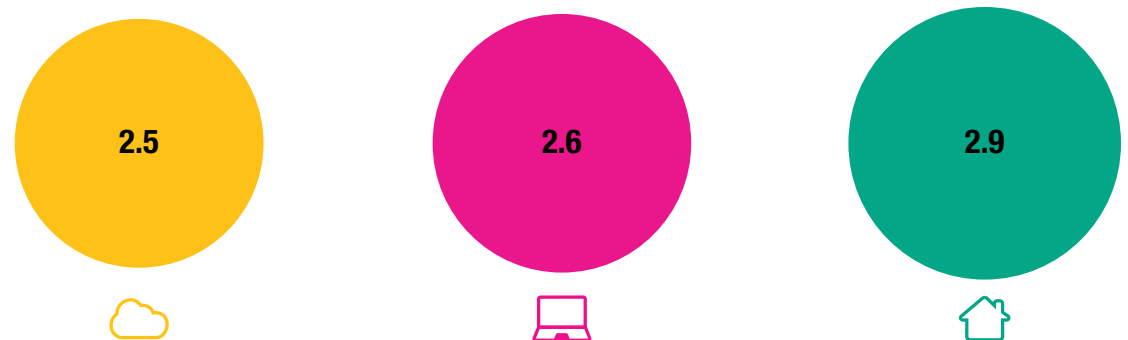
Overall, brands averaged 2.7 landing page changes per week. Sites built on cloud platforms lagged peers in this regard, averaging 2.5 changes per week. In-house platforms recorded the most frequent changes, averaging 2.9 per week, and brands using on-premise solutions followed with an average of 2.6.

Focusing exclusively on disparities between platform types obscures the strategic variation between verticals. Of the top-10 brands in terms of landing page updates, five belong to the Broadlines category, which led the study with an average of just over 3.7 updates per week. In addition, brands in this category are more likely to have the resources to invest in in-house or on-premise solutions, fueling the performance of these platform types with respect to dynamic content creations.

## E-Commerce Agility: Average Number of Landing Page Updates per Week

By Platform Type

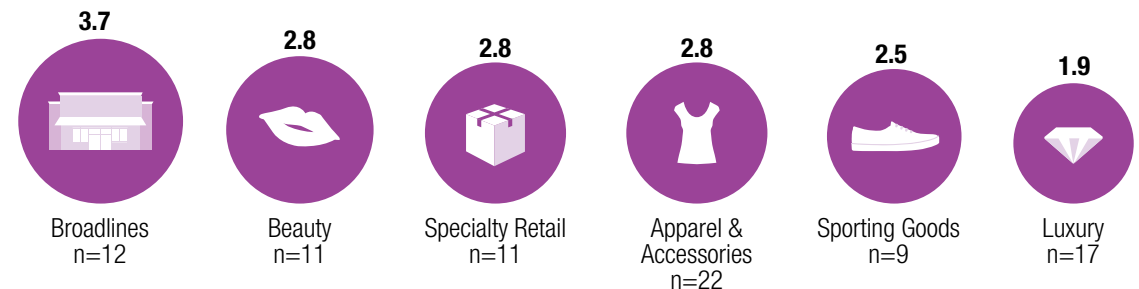
January 28, 2015 - March 24, 2015, n=82 Brand Websites



## E-Commerce Agility: Average Number of Landing Page Updates Per Week

By Category

January 28, 2015 - March 24, 2015, n= 82 Brands Websites





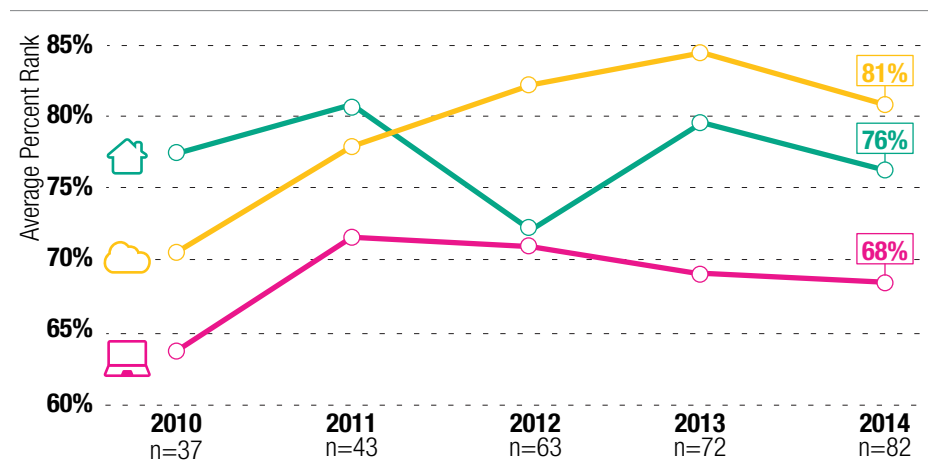
## Site Sophistication by Platform

In L2's Digital IQ Index® reports, brand sites are evaluated using a proprietary methodology that incorporates more than 350 data points, customized to the category being evaluated. The availability of specific site functionalities earns brands points, with a higher weighting given to features proven to drive outside return on investment (e.g., real-time inventory) or a significantly richer customer experience (e.g., live chat).

Percent rank scores are an effective way to evaluate the sophistication – and resulting performance – of a brand's site relative to the average level of digital maturity across its sector. For example, a Beauty brand with a score in the 94th percentile outperforms 94 percent of other brands in the category in terms of the degree to which it has integrated crucial, conversion-boosting features on its site. When analyzed in aggregate, brand site scores reveal critical insights on the ability of in-house and on-premise e-commerce platforms to keep pace with the level of e-commerce agility exhibited by cloud-based platforms over the past five years.

### E-Commerce Agility: Average Site Score Percent Rank in L2 Digital IQ Index®

By Platform Type  
2010-2014



**2010:** The 12 brands in the study with an in-house platform averaged a site score that was in the 78th percentile, significantly outpacing brands on cloud (70th percentile) and on-premise (64th percentile) platforms. In this year, many of the early movers in e-commerce (among them, Estée Lauder Companies, Gucci, and Tiffany & Co.) were on custom-built sites, which were leveraged to develop differentiated experiences that outperformed the majority of off-the-shelf solutions available at the time. In 2011, in-house sites remained dominant, though brands leveraging cloud closed the performance gap significantly.

**2012:** Sites on the cloud surpassed those built in-house, as well as those using an on-premise solution. In that year, the average performance of sites developed in-house plummeted, falling from the 81st percentile in 2011 to the 72nd percentile in 2012. The trend mirrors the conventional rhetoric on custom builds – while they initially provide a unique commerce experience, maintenance over a longer time period often proves to be technically challenging and increasingly costly.

**2013 ONWARD:** Cloud-powered sites have remained at the vanguard of e-commerce innovation, outperforming all other site types.



**ELANA ANDERSON**  
Senior Vice President,  
Worldwide Marketing,  
Demandware

“Innovation must be a guiding principle that’s engrained in your culture. Since innovation can come from anywhere -at any time- it’s imperative to quickly, continuously and effectively harness emerging and cutting-edge technology to not only meet but exceed consumer expectations. Retailers who do this will thrive and separate themselves from the pack.”



## Site Sophistication by Platform

### CASE STUDY: BEAUTY

In terms of average site performance among brands in the study, the strongest cloud verticals over the past five years have been in the Beauty and Luxury sectors. In Beauty, relatively little movement has occurred from a platform-switching perspective, with nearly all 11 brands in the category staying on the same platform type since 2010. This can be attributed to the tendency of large Beauty conglomerates to approach platform decisions from an enterprise standpoint, curtailing the autonomy of individual brand teams.

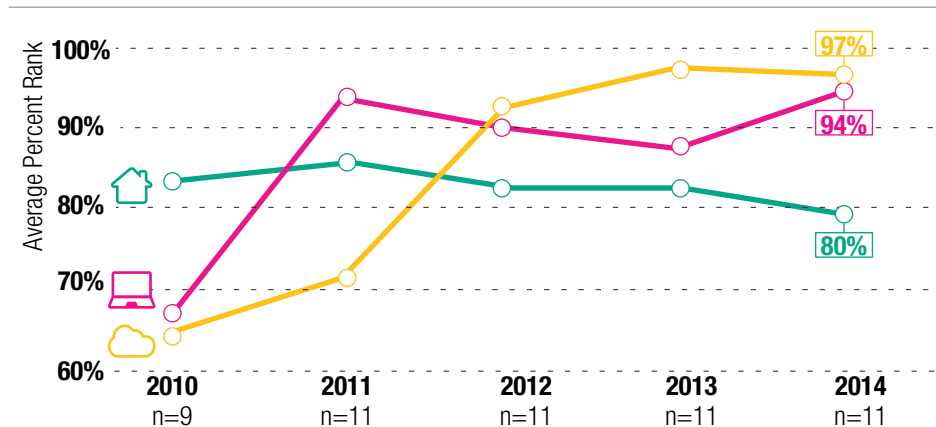
Within Beauty, in-house builds excelled in 2010, driven by the success of the Estée Lauder Companies. Capitalizing on its e-commerce legacy and shared services team, Estée Lauder rolled out live chat and user reviews across all of its color cosmetics and skincare brands by 2011; in the same year, many competitors in prestige beauty were just launching their first e-commerce sites. However, some of the Estée Lauder brands have been the biggest “losers”

in relative site performance over the past five years. M·A·C Cosmetics, Bobbi Brown, and Estée Lauder have seen the largest year-on-year declines, falling from the lofty heights of the 100th, 98th, and 92nd percentiles in 2011, respectively, to the 64th, 68th, and 84th percentiles in 2014.

The speculative investments made by Estée Lauder in features once considered cutting-edge are now common – democratized by cloud-based and on-premise platforms and their suites of plug-ins. As a group, brands on in-house platforms now have the weakest collection of sites in Beauty, hamstrung by overdue site relaunches and the slow global rollout of new features to regional sites. As of 2014, brands on cloud and on-premise platforms have a significant competitive edge in the Beauty space, averaging site scores in the 97th and 94th percentiles, respectively. Kiehl's, Lancôme and Clarins have enjoyed the largest year-over-year gains after moving to the cloud, quickly introducing features such as live chat, interactive tools, and product videos integrated with commerce.

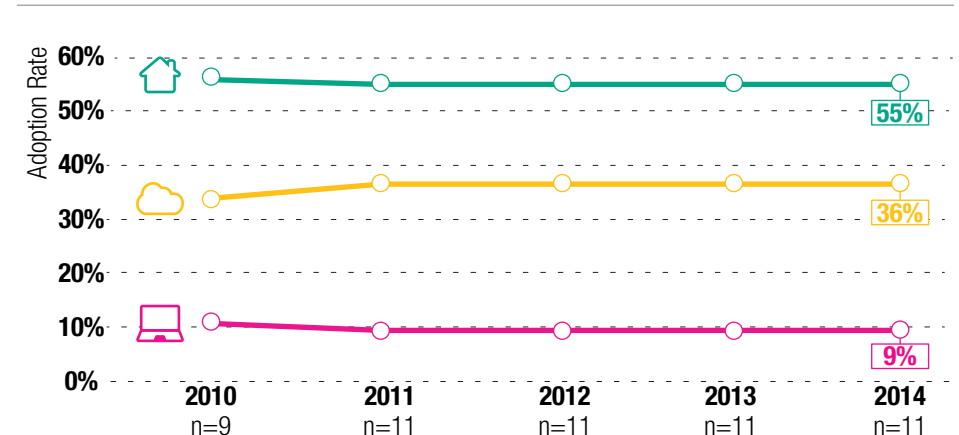
## E-Commerce Agility: Average Site Score Percent Rank in L2 Digital IQ Index®

Beauty Category  
2010-2014



## E-Commerce Agility: Platform Type Adoption Rates

Beauty Category  
2010-2014



## Site Sophistication by Platform

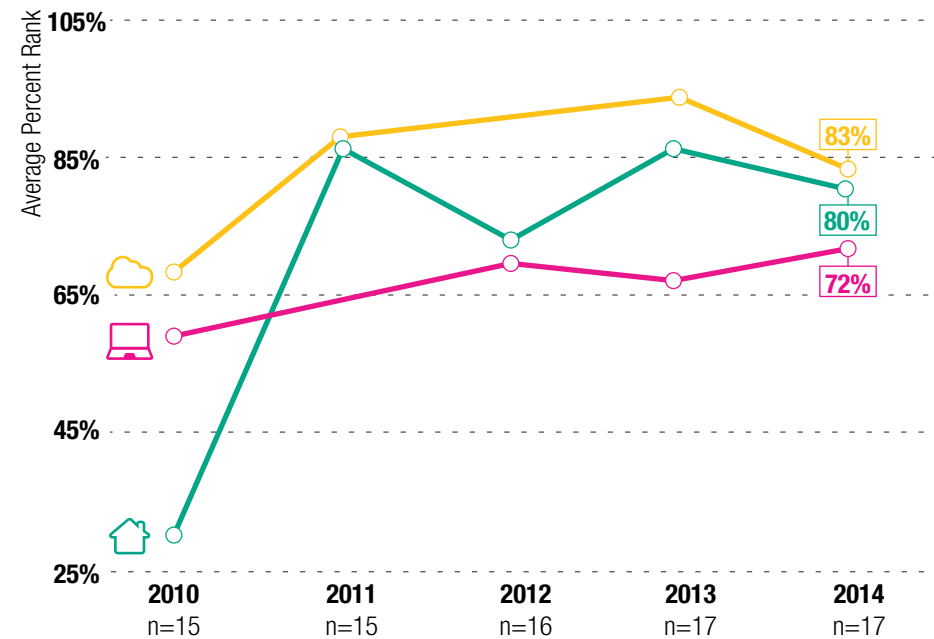
### ◆ CASE STUDY: LUXURY

In Luxury, the proportion of brands on a cloud platform has increased substantially, growing from 13 percent of the category in 2010 to 29 percent in 2014, taking share from on-premise platforms. Over the past five years, brands leveraging cloud have consistently outperformed peers with on-premise and in-house platforms in terms of average site score.

Organizations looking to replatform during this time period have had reason to move to cloud-powered solutions, taking a page from the e-commerce playbook of high-growth, early cloud adopters (e.g., Kate Spade, Tory Burch, Diane von Furstenberg).

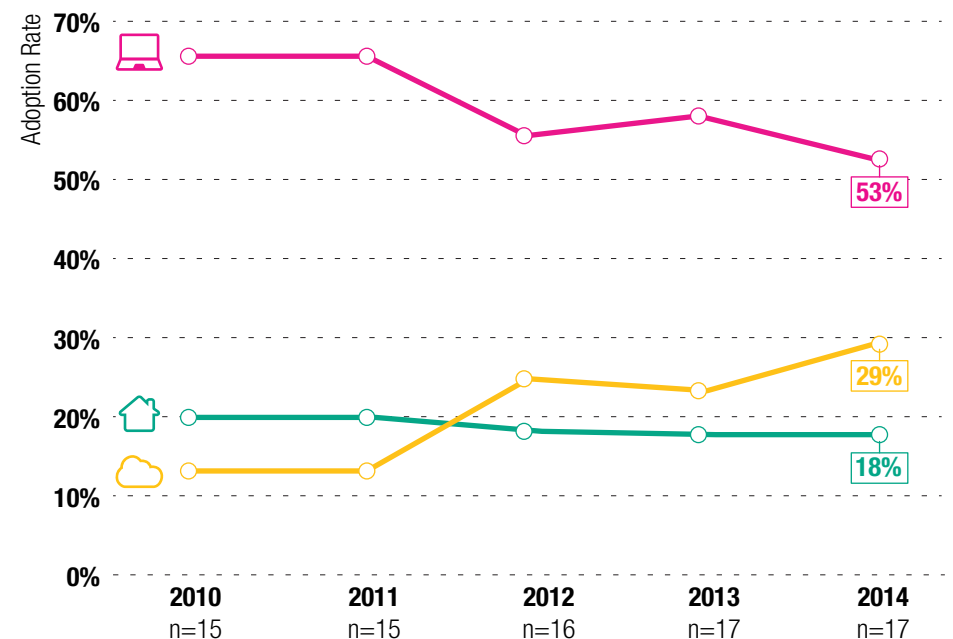
### E-Commerce Agility: Average Site Score Percent Rank in L2 Digital IQ Index®

Luxury Category  
2010-2014



### E-Commerce Agility: Platform Type Adoption Rates

Luxury Category  
2010-2014



## Implementation Trends by Platform

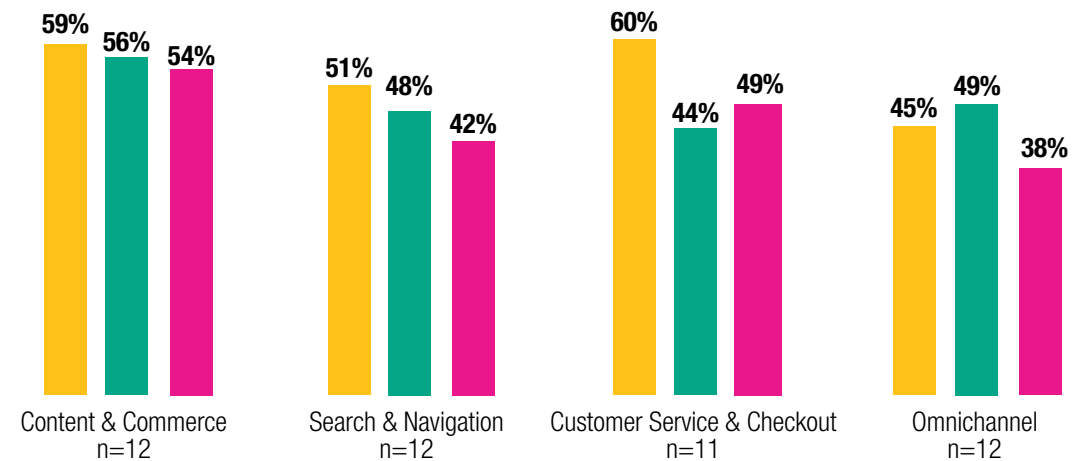
In addition to leveraging L2 Digital IQ Index® research and aggregate site scores, data on specific site feature implementation was also compiled for the purposes of this study to provide a basis for comparison across categories. Binary data on the implementation of unique site features was collected across four subdimensions (Content & Commerce, Search & Navigation, Customer Service & Checkout, Omnichannel), with an emphasis on nonubiquitous site features that indicate innovation in e-commerce retailing.

**Cloud brands were most likely to implement best-in-class site features across three of the four subdimensions, Content & Commerce, Search & Navigation, and Customer Service & Checkout. Sites built in-house showed the greatest degree of sophistication in the Omnichannel subdimension, likely a result of:**

- The tendency of larger organizations with a mature store base to be on an in-house platform (e.g. Walmart, Macys, Nordstrom); a large network of stores is an incentive to use site investments to drive offline sales and grow the overall business.
- Some platform vendors leverage a revenue sharing business model, which incentivizes them to drive clients' online sales and deprioritize omnichannel retailing/offline influence.

## E-Commerce Agility: Adoption Rates of Key Site Features

By Platform Type  
2014



**ELANA ANDERSON**  
Senior Vice President, Worldwide  
Marketing, Demandware

“Creative features that enhance the consumer experience come in many varieties. Finding the right combination can feel like trial and error. But the beauty of an open and flexible platform is that it enables seamless integration, and you can test the waters until you find a winning combination.”

## Content & Commerce

Many brands struggle to integrate content into their commerce experience and thus leverage assets in a way that drives conversion. Eighty-three percent of marketers admit to being unable to tie the value of their content marketing efforts to their overall business performance.<sup>1</sup> L2 observed that adding explicit “shoppable” features to content remains a challenge for marketers, with less than half of brands in the study offering an on-site shoppable lookbook and just 25 percent linking from video assets back to related product pages.

Brands on cloud platforms had the highest adoption rates of several key content assets, including product videos (65 percent versus 52 percent for on-premise and 45 percent for in-house) and shoppable looks (30 percent versus 17 percent for on-premise and 20 percent for in-house). On-premise brands were most likely to integrate user-generated content into the site experience, leveraging both plug-ins (e.g., Olapic, Curelate) and homegrown builds (e.g., Sephora’s Beauty Board) to deliver this content type to consumers.

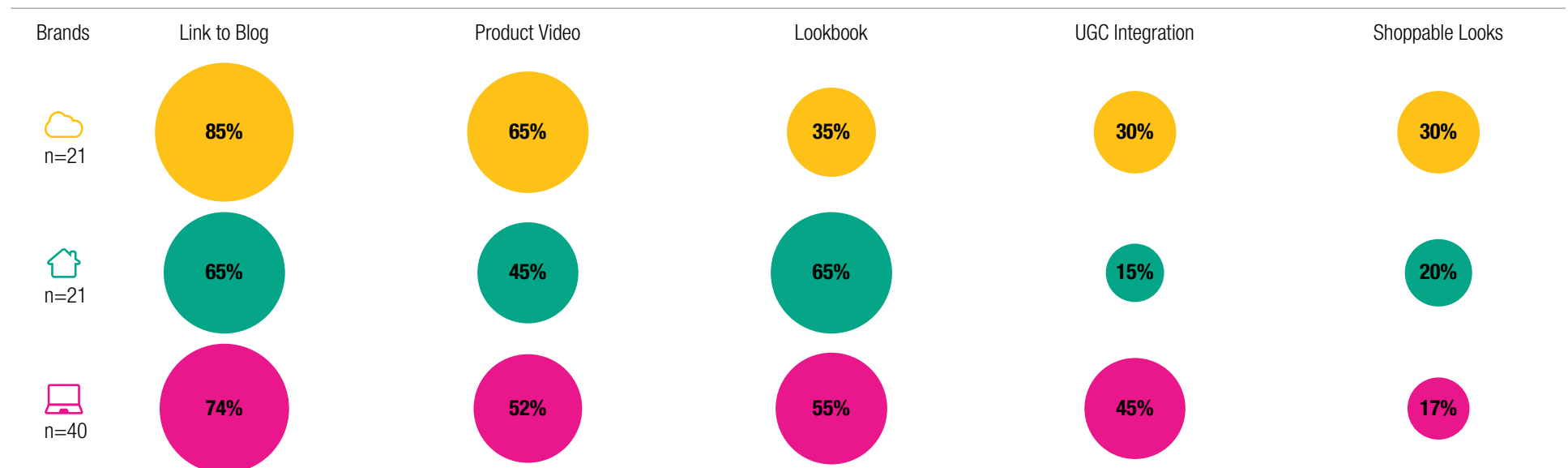
In-house brands generally under-performed in the adoption of more cutting-edge features, such as UGC integration and product video, suggesting back-end constraints have limited the ability of these brands to implement emerging features quickly.

1. [Marketers Still Struggle with the Value of a Content Marketing Strategy](#), HubShout, August 1, 2014.

## E-Commerce Agility: Adoption Rates of Key Content & Commerce Features

By Platform Type

2014, n=82 Brands





## Content & Commerce

### CASE STUDY: KATE SPADE PUSHING RELEVANT CONTENT

As retailers adapt to handle new demands for content creation, brands can look to Kate Spade for a template of success. With e-commerce driving over 20 percent of sales,<sup>1</sup> significantly outperforming the U.S. Q4 2014 retail average of 7.7 percent,<sup>2</sup> the brand demonstrates a digital savvy in the content arena that has powered strong growth and allowed for strategic reinvestment.

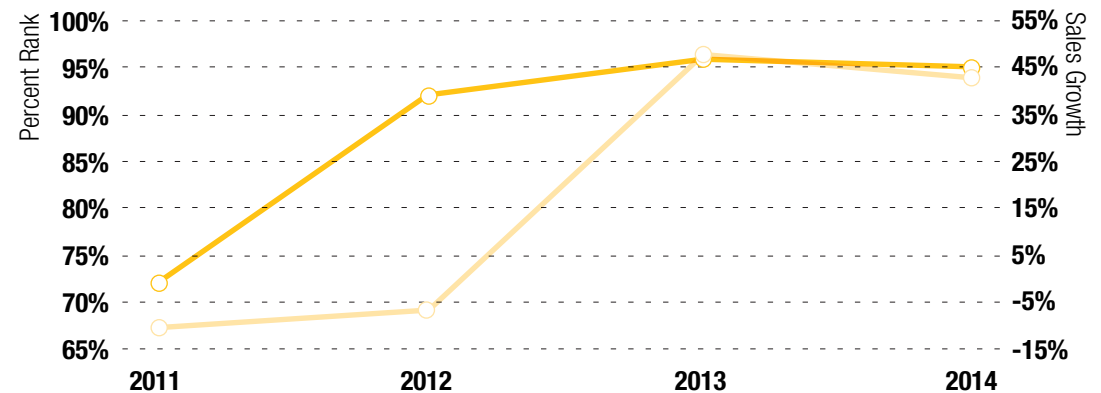
Since moving onto a cloud platform in 2010, Kate Spade has steadily risen to the forefront of the digital curve, moving from the 72nd percentile of Fashion brand sites in 2011 to the 95th percentile in 2014. Cloud technology has helped Kate Spade avoid many of the growing pains of a young brand expanding quickly – enabling it to consistently adopt new and emerging site features over the past five years.

In 2011 the brand seamlessly integrated social media to its site with a prominent link to its blog in the navigation bar and the ability to share or like a product. Only 35 percent of the Index offered a blog and just a handful of the 49 Fashion brands had links to share product in 2011. In 2012, Kate Spade added the ability to share branded content videos (which only 19 percent of the Index allowed). The following year, the brand launched product-focused videos on its product pages (which 13 percent of the Index had in 2013). The interactive nature of these features offers an opportunity to drive customer engagement and loyalty.

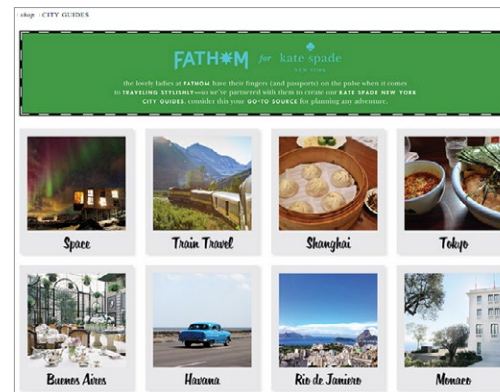
## E-Commerce Agility: Site Percent Rank vs. Sales Growth

Kate Spade

2011-2014 ■ Percent Rank ■ Sales Growth



kate spade



Blogs and on-site content investment have helped Kate Spade create an emotional connection with the consumer.

1. "Kate Spade & Company", March 27, 2014

2. "Quarterly4 Retail E-Commerce Sales", 4th Quarter 2014 U.S. Census Bureau, February 17, 2015

## Search & Navigation

Seventy-six percent of Internet users will leave an e-commerce site within two minutes if they are unable to locate the product(s) they are interested in researching or purchasing, underscoring the necessity of on-site navigational features that promote intuitive browsing.<sup>1</sup> This study benchmarked a variety of Search & Navigation features employed by the 82 brands, including filters, sorts, category page elements, and product comparison tools, and found that brands on cloud platforms provided the most sophisticated set of navigational elements.

Brands on cloud registered the highest adoption rates for tools that begin and end the search process. Basic features, such as sorting by price, were adopted

1. "Why Use Layered Navigation?", Mareva Jeandel, Presta Shop April 19, 2012

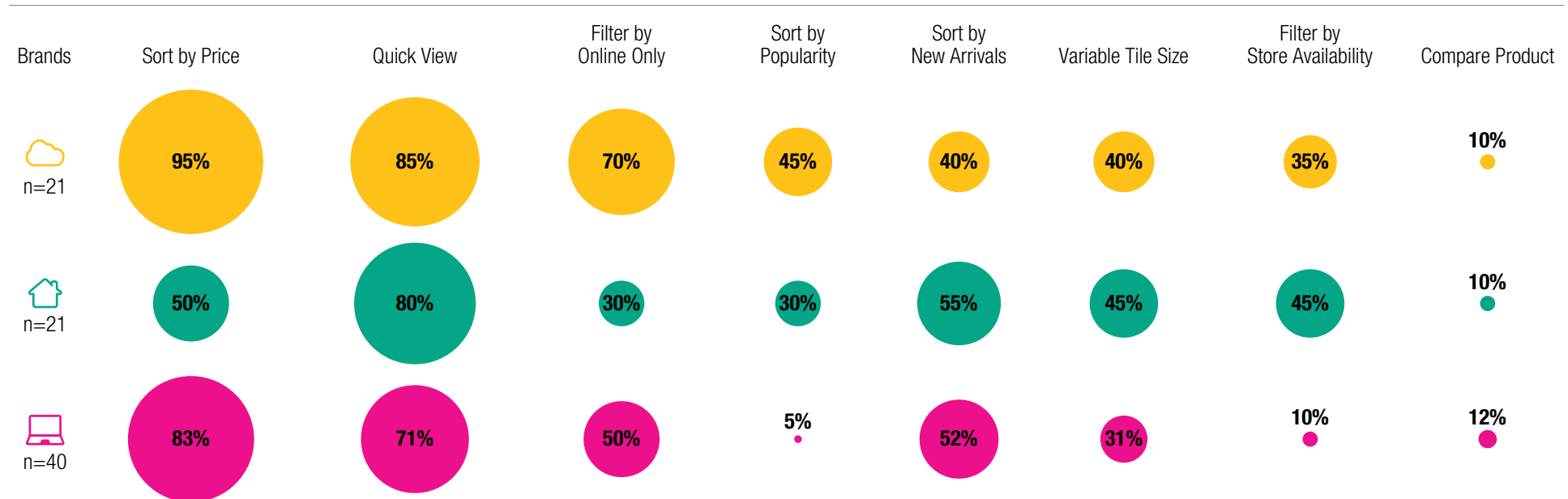
by 95 percent of the cloud brands, compared with 83 percent for on-premise and just 50 percent for in-house. Brands on cloud also showed higher adoption rates for more advanced features, such as sort by popularity, filter by online availability, and product quick view.

In-house brand investments in navigation concentrated on different filtering options, suggesting these brands are better able to customize their filters to support brand-specific product attributes. Brands on this platform type had the highest adoption rates for the ability to filter by rating, new arrivals, and store availability. Overall, brands on an on-premise platform have invested the least in the Search & Navigation subdimension.

## E-Commerce Agility: Adoption Rates of Key Search & Navigation Features

By Platform Type

2014, n=82 Brands



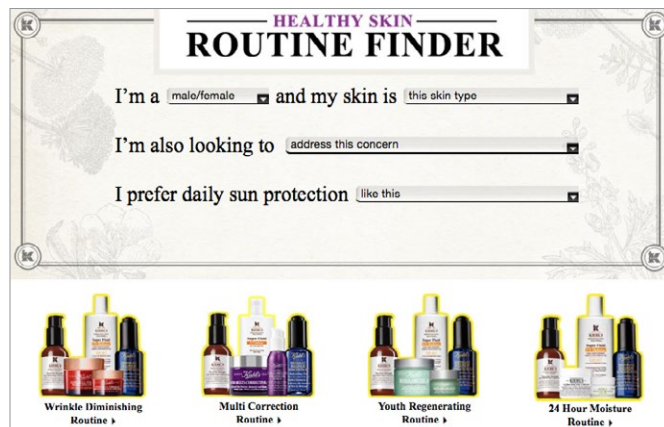
## Search & Navigation

### CASE STUDY: KIEHL'S VS. CLINIQUE

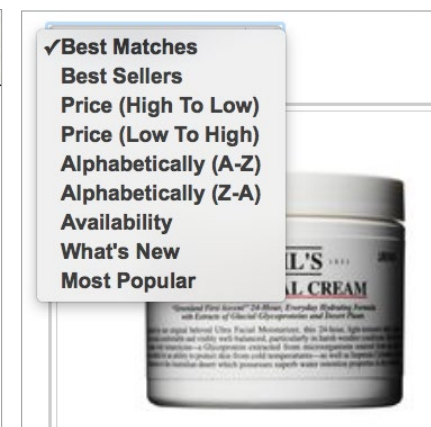
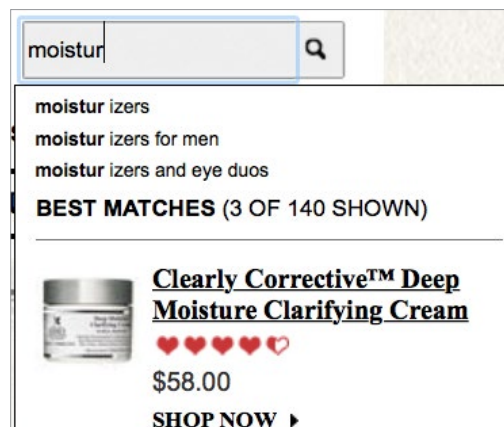
#### Kiehl's

Kiehl's migrated onto a cloud platform in 2010, along with the other brands in L'Oréal's Luxe division. The brand's relative site performance, in the 57th percentile at the time of the replatforming, has improved to the 97th percentile over the course of five years. Much of the improvement can be attributed to the enhanced navigational elements that the prestige skincare brand debuted.

Kiehl's launched its first set of major feature changes in 2012 with the adoption of interactive tools. Specifically, the brand introduced a short diagnostic quiz called "Routine Finder" that incorporates several advanced filters to solicit basic information from the consumer. Upon submission, a recommended routine is offered with the option to purchase any or all of the products. Though only 46 percent of Beauty brands offer interactive tools today, this emerging feature is being used by all the cloud brands and 83 percent of in-house brands in the study. Enhancements did not end there – Kiehl's added on-site search auto-complete in 2012, as well as additional sorting capabilities (by availability and popularity).



Kiehl's has added several critical elements (sorting and auto-complete) to help consumers find products more easily.

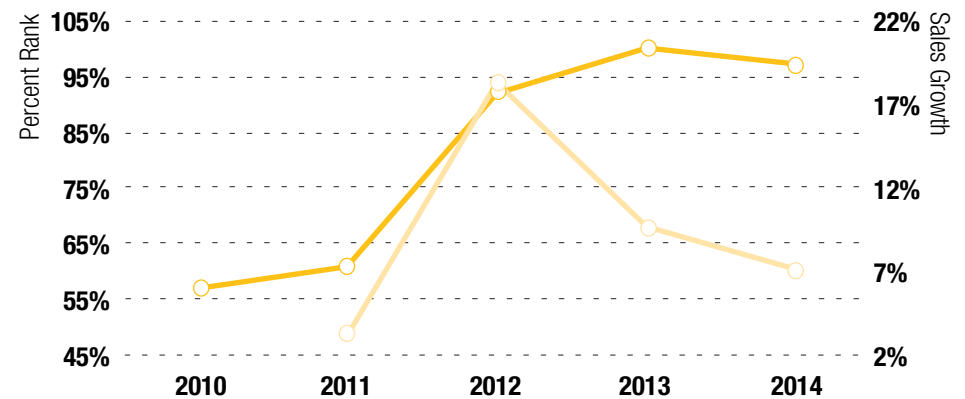


Highly personalized navigation is critical in the Beauty space as a brand tries to formulate the right recommendation and guide the sale.

## E-Commerce Agility: Site Percent Rank vs. Sales Growth

Kiehl's

2010-2014 Site Percent Rank Sales Growth



## Search & Navigation

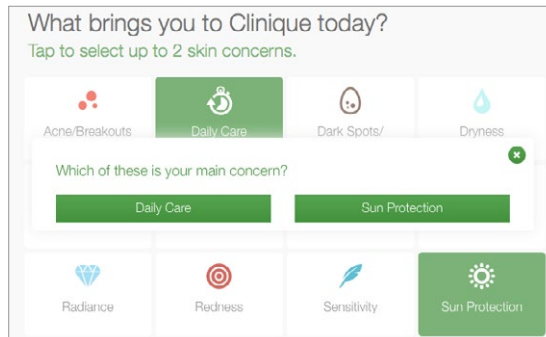
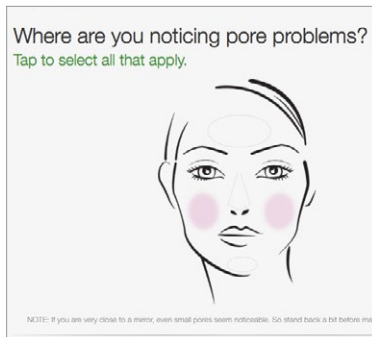
### CASE STUDY: KIEHL'S VS. CLINIQUE

#### Clinique

The Clinique site, which sits on the Estée Lauder in-house platform, is a perennial digital leader in the Beauty category. As sister brands, including Bobbi Brown, M·A·C Cosmetics and Estée Lauder, have struggled to maintain momentum in terms of site score, Clinique's site has consistently ranked in the 90th percentile or above over the past five years.

The customizability of the brand's in-house platform has allowed it to implement unique navigation elements that support Clinique's signature diagnostic tool and 3-Step system. After a user goes through the skincare questionnaire and identifies her skin type, Clinique saves this data point to the user's account as a part of a holistic consumer profile. The site navigation then dynamically adapts to personalize the browsing experience, identifying specific products as most appropriate for the consumer.

Clinique has also implemented other advanced search features and guided selling tools, including the ability to filter by color family and skin type. The Estée Lauder in-house platform has been a critical enabler of the customized navigation experience.

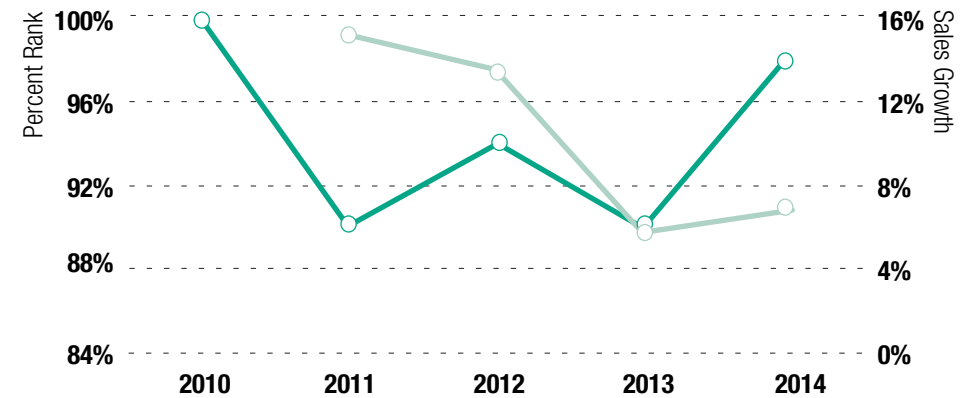


Clinique's diagnostic quiz is highly personalized, collecting between 11 and 17 data points.

## E-Commerce Agility: Site Percent Rank vs. Sales Growth

Clinique

2010-2014 Site Percent Rank Sales Growth

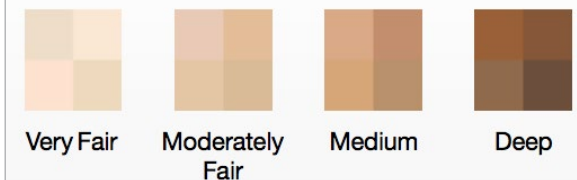


CLINIQUE

### Filter by skin type

- 1 Very Dry To Dry
- 2 Dry Combination
- 3 Combination Oily
- 4 Oily

### Filter by colour family



Filtering by skin type and color are emerging features, with Index adoption rates of 16 and 15 percent, respectively.

## Customer Service & Checkout

Customer service has become the new battleground for e-commerce differentiation.<sup>1</sup> The study benchmarked brands across a wide range of metrics related to customer service and a seamless checkout experience, including live chat, persistent cart, store locator functionality, and checkout options. L2 found customer service to be a significant point of differentiation for brands on a cloud platform; over the past four years, cloud brands nearly doubled their feature adoption in this subdimension.

With the exception of a few brands (Nike and The North Face), the majority of brands with an on-premise solution maintain an average or below-average site positioning in this area. Brands on this platform type generally focused on

implementing just a few key features, including store locator geo-location, to meet customer expectations. Similarly, brands on an in-house platform generally underperformed cloud.

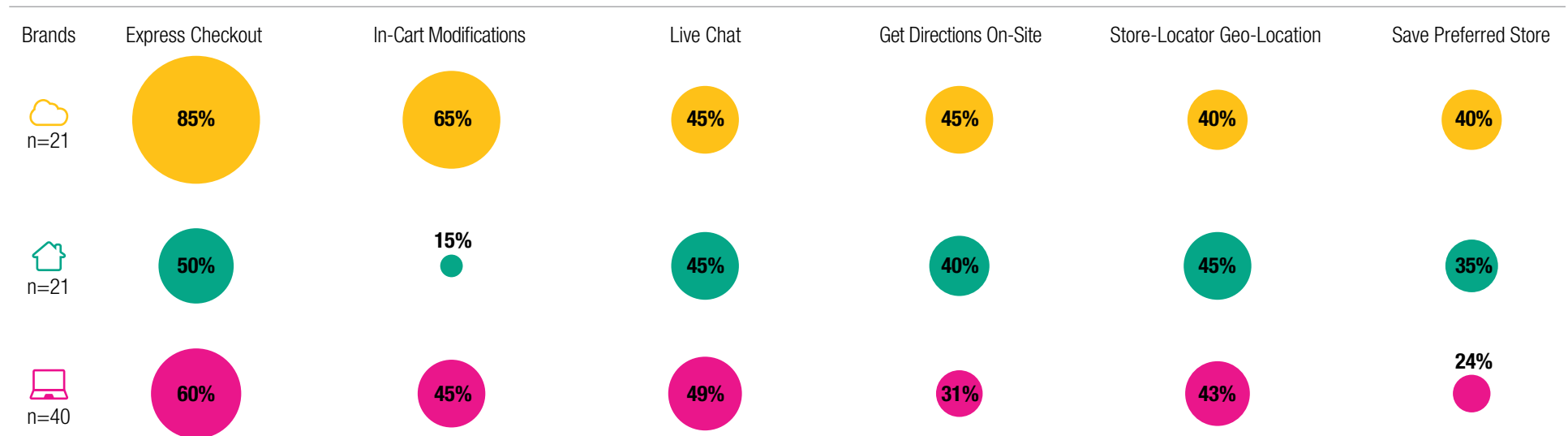
Notably, customer service solutions that can be easily outsourced to a third-party vendor – such as live chat – showed consistent adoption rates across all three platform types, with uptake of slightly less than 50 percent across all groups. Conversely, features requiring extensive upgrades to the existing site (such as one-page checkout, or the ability to edit items in the cart) were much more likely to be adopted by brands leveraging a cloud platform, followed by those employing an on-premise platform.

1. "The Secret Ingredient for Winning the Customer Service Battle in E-commerce", KISSmetrics.

## E-Commerce Agility: Adoption Rates of Key Customer Service Features

By Platform Type

2014, n=82 Brands



## Customer Service & Checkout

### CASE STUDY: COLE HAAN

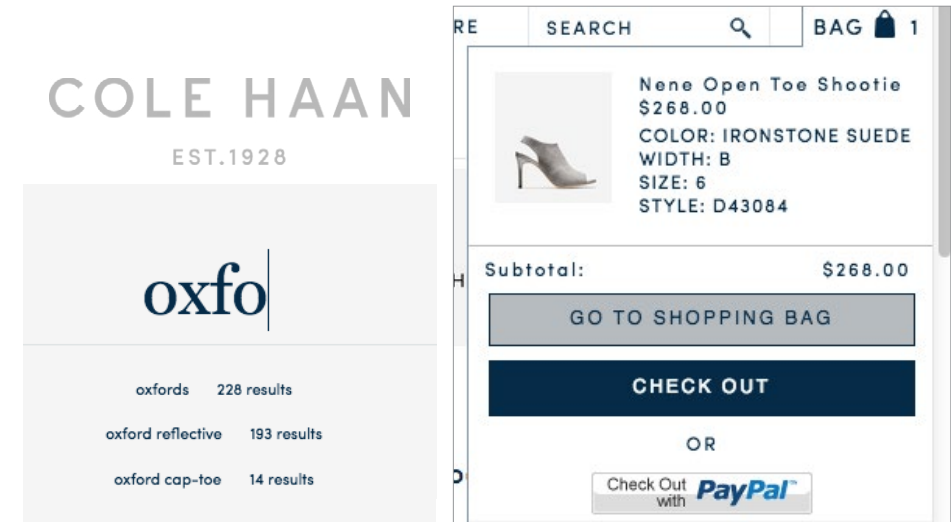
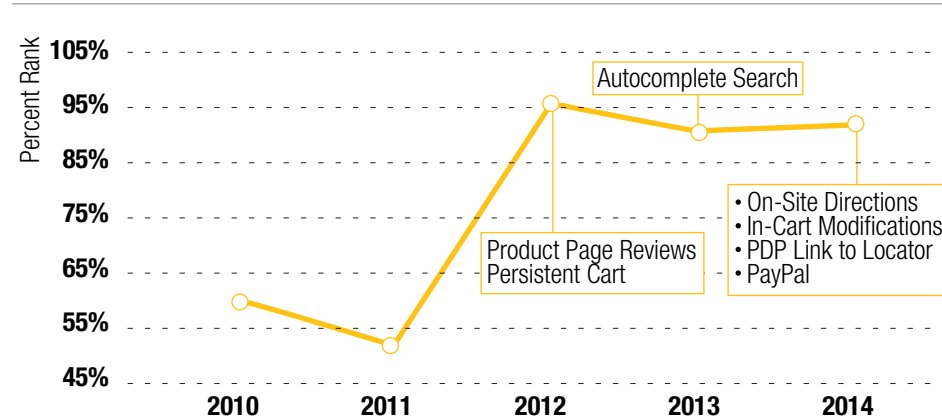
Cole Haan fully migrated to a cloud platform from an on-premise solution by 2012. The platform switch activated a string of site improvements, driving the brand's site ranking up from the 52nd percentile to the 96th percentile. Much of the rise can be attributed to the enhanced Customer Service & Checkout elements that the footwear brand debuted.

After adding a persistent cart to its site in 2012 (using cookies to save items added to the cart in previous browsing sessions), Cole Haan began swift implementation of new features as they were catching on in the space. The brand added a slew of functionalities in 2014, including the ability to get store directions

without leaving the site (Index adoption 11 percent), edit items directly from the cart (Index adoption 30 percent), find a store from a product page (Index adoption 54 percent), and checkout with PayPal (Index adoption 52 percent). This rapid deployment of advanced features allowed Cole Haan to radically improve its online shopping experience relative to what it provided when using an on-premise solution.

### E-Commerce Agility: Site Percent Rank

Cole Haan  
2010–2014



The autocomplete search function was added in 2013, which was followed by express checkout in 2014.



## Omnichannel Integration

It is imperative for brands to offer consistent information and services across all channels, catering to consumer expectations for an omnichannel retail experience. Currently, less than a third of brands in the study have activated key features such as Buy Online, Pick Up In-Store and less than half offer the ability to check In-Store Availability.

Features in the Omnichannel subdimension examine how brands support a holistic experience, as well as drive offline influence, through such features as inventory visibility, fulfillment options, and cross-channel personalization. Data reveals brands on in-house platforms are strongest in terms of their omnichannel integration, enabled by the greater control they maintain over all commerce options. In-house brands also tend to be larger organizations with a mature store

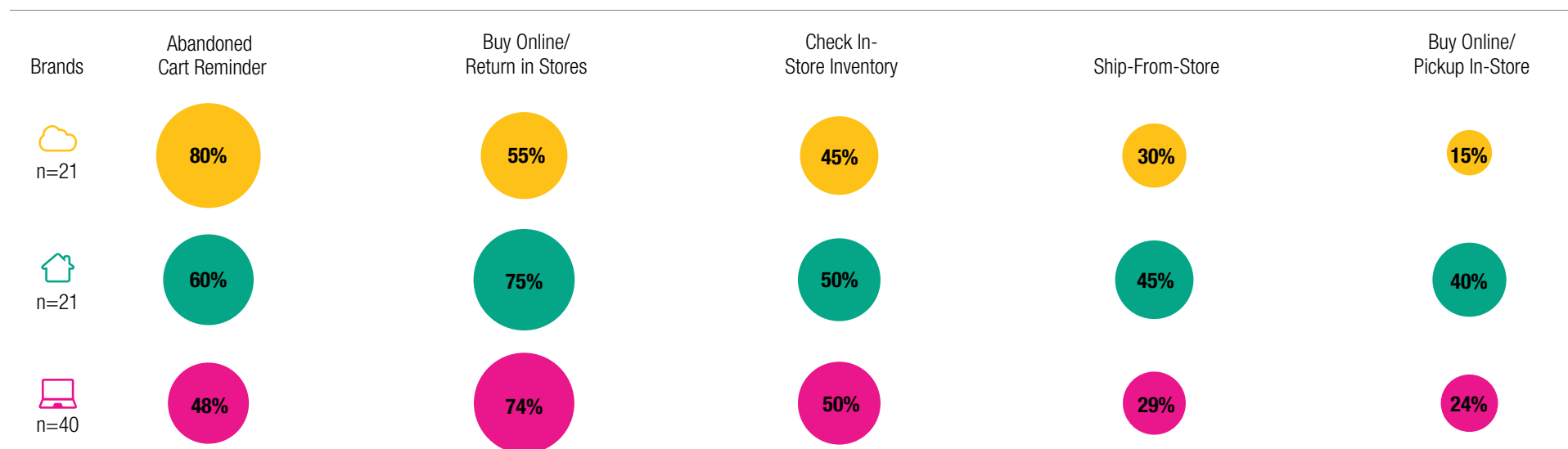
base, and thus focus on omnichannel capabilities to drive higher returns. Brands on the cloud invested more selectively (concentrating on incentives and trigger emails), while on-premise brands exhibited the lowest feature adoption in the sub-dimension.

The ability to Buy Online, Return In-Store is offered by 75 percent of in-house brands (versus 73 percent for on-premise and 55 percent for cloud). In-house platforms have an even bigger lead for less prevalent capabilities such as Buy Online, Pick Up In-Store (40 percent adoption versus 24 percent for on-premise and 15 percent for cloud) and Ship-from-Store (45 percent adoption versus 29 percent for on-premise and 30 percent for cloud).

## E-Commerce Agility: Adoption Rates of Key Omnichannel Features

By Platform Type

2014, n=82 Brands



## Omnichannel Integration

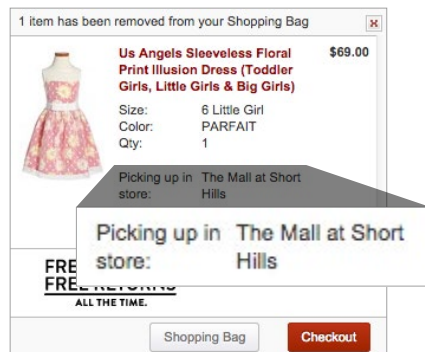
### CASE STUDY: NORDSTROM RETOOLS SITE TO EXCEL IN OMNICHANNEL

After relaunching in 2011, Nordstrom's site ranking increased from the 55th percentile to the 93rd percentile of Specialty Retail brands after the retailer added stronger navigational features. In the intervening years, Nordstrom's custom-built in-house platform responded to changing consumer tastes as retail strategy shifted to an era of omnichannel experience and rapid, robust fulfillment capabilities. As an early omnichannel adopter – specifically, one of the first to roll out real-time in-store inventory to its site in 2010 – Nordstrom was able to leverage its custom platform to enable systems integrations at a time when few retailers were demanding this type of inventory transparency from vendors and platform providers.<sup>1</sup> The early-mover advantage helped the department store realize an 8 percent increase in comparable-store sales in the 11 months following the implementation.<sup>2</sup>

1. "Nordstrom Links Online Inventory to Real World," Stephanie Clifford's The New York Times, August 23, 2010.  
2. Ibid.

## NORDSTROM

Key to Nordstrom's online success has been its proactive implementation of up-and-coming e-commerce features, particularly in the Omnichannel subdimension.

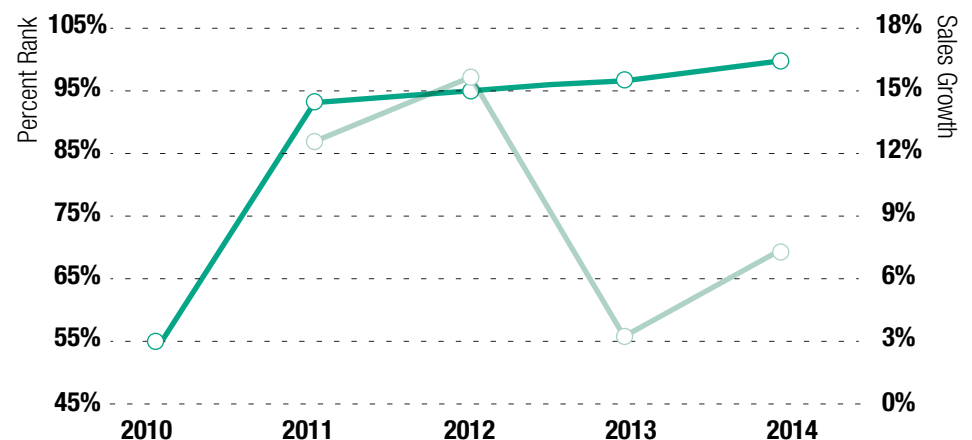


The option to Buy Online, Pick Up In-Store rolled out in 2012, followed by same-day shipping in 2014. These features play into a comprehensive drive for a digital presence linked with physical properties and inventory. Nordstrom's store base is entirely within the U.S. The brand uses a partner to service international demand through its U.S. site. The department store's sister brand, Nordstrom Rack, already operates stores in Canada. If a wider international expansion is in the works, it remains to be seen how quickly Nordstrom's online infrastructure can scale to meet a multinational consumer base.

### E-Commerce Agility: Site Percent Rank vs. Sales Growth

Nordstrom

2010-2014 ■ Site Percent Rank ■ Sales Growth



## Aging Platforms Have Hurt High-Growth Brands

### CASE STUDY: GUCCI

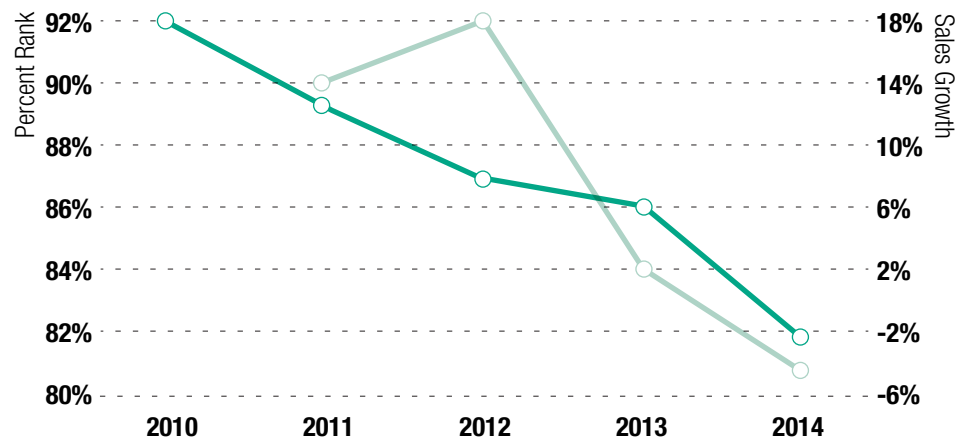
Ongoing changes in consumer shopping behavior are driving an increasing need for emerging e-commerce features. Select early movers, whose sites were once highly ranked, have been dethroned as they fail to keep up with today's fast-changing retail environment.

Gucci, which sits on an in-house platform, was highly ranked five years ago for providing innovative shoppable content and checkout features. The World of Gucci destination offered a variety of branded content, with links to purchase. The brand was also early in offering digital personal shopper services. By 2014, Gucci's site ranking fell behind peers, including smaller sister brands in the Kering portfolio. While the portfolio migrated to an enterprise on-premise solution, the brand sacrificed nimbleness in the short-term.

### E-Commerce Agility: Site Percent Rank vs. Sales Growth



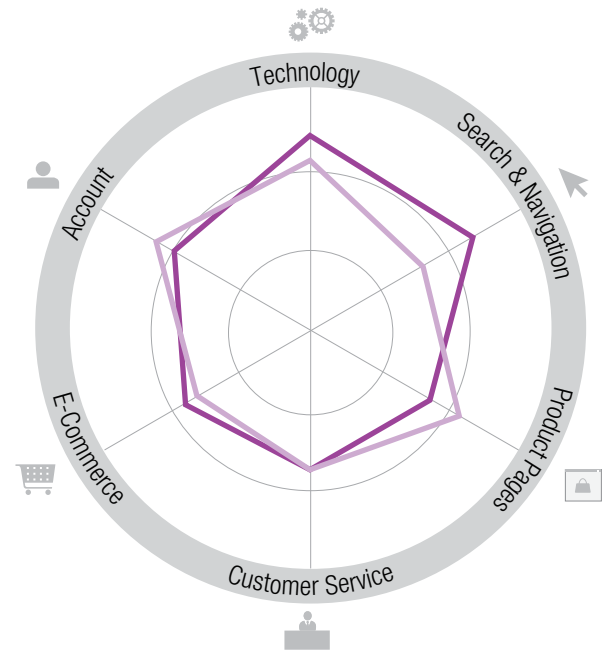
Gucci  
2010-2014 ■ Site Percent Rank ■ Sales Growth



### E-Commerce Agility: Site Performance Comparison

Gucci vs. Bottega Veneta

2014 ■ Gucci ■ Bottega Veneta



	GUCCI	BOTTEGA VENETA
Q3 2014 SALES	€851M	€286M
Q-ON-Q GROWTH	-1.6%	+10%
PLATFORM TYPE	IN-HOUSE	ON-PREMISE
2014 SITE SCORE	82 <sup>nd</sup> PERCENTILE	89 <sup>th</sup> PERCENTILE

Source: The Wall Street Journal, "Kering Revenue Rises 3.3% Despite Drop in Gucci Sales," October 23, 2014

## Aging Platforms Have Hurt High-Growth Brands

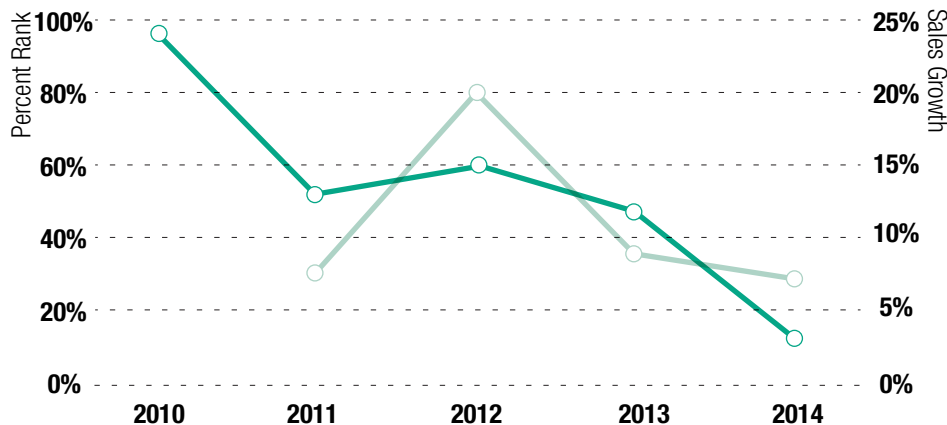
### CASE STUDY: J.CREW

J. Crew's site has drifted from an asset to a liability over the years. The brand's high ranking in 2010 was powered by early adoption of navigation features like autocompleted search terms and the ability to filter collection pages by size, price, and featured products. However, the J.Crew in-house platform has begun to show its age, declining precipitously in recent years. Without swift adoption of emerging features like in-store inventory, user reviews, and content integration, J. Crew's site ranking has fallen to the 13th percentile in 2014 from the 96th percentile in 2010 – showing the importance of being agile in an era of increasing consumer expectations.

The dated platform infrastructure hurt J.Crew in L2's most recent Digital IQ Index®: Specialty Retail, in which the brand was a "Biggest Loser," falling 36 percent in overall digital sophistication year-on-year. Worth noting is the inclusion of Tiffany & Co. in the Biggest Loser list—another brand hamstrung by its dependence on a legacy in-house platform.

### Site Ranking vs. Sales Growth

J-Crew  
2010-2014 ■ Site Percent Rank ■ Sales Growth



## E-Commerce Agility: Biggest Losers in L2 Digital IQ Index® Specialty Retail

November 2014

-42%	TOPSHOP	GIFTED → AVERAGE Mobile investments fail to keep up with benchmarks set by peers; lackluster Facebook programming delivers low fan engagement
-42%	TIFFANY & CO.	AVERAGE → AVERAGE Major ad campaigns seen in 2013 not matched in 2014, site investments continue to show indecision between retail and luxury mentality
-40%	Pier1 imports	GIFTED → AVERAGE Lacks dexterity on visual platforms, particularly Instagram
-36%	J.CREW	GIFTED → AVERAGE Dated platform holding back otherwise competent site, email marketing lacks table-stakes features and any personalization
-36%	WHITE HOUSE   BLACK MARKET	GIFTED → AVERAGE Inconsistent email marketing went dark the entire month of July; generic #hashtag campaigns register as background noise

### Finding Success on Customized Platforms

A handful of retailers with sufficient dedicated capital and a strategic focus on digital have been able to find success on customized platforms, leveraging bespoke solutions to offer unique digital experiences and outpace rivals from an innovation standpoint. Macy's and Nordstrom are examples of brands drawing on extensive cash reserves and doubling down on targeted investments to remain in the upper echelon of digital retailers.

E-commerce success relies on capital and strategic allocation decisions. The median retailer in this study has cash flow per share of \$3.51. Well-capitalized companies such as Macy's (with cash flow per share of \$12.22) and Nordstrom (\$6.68) can invest heavily in the infrastructure of innovation.

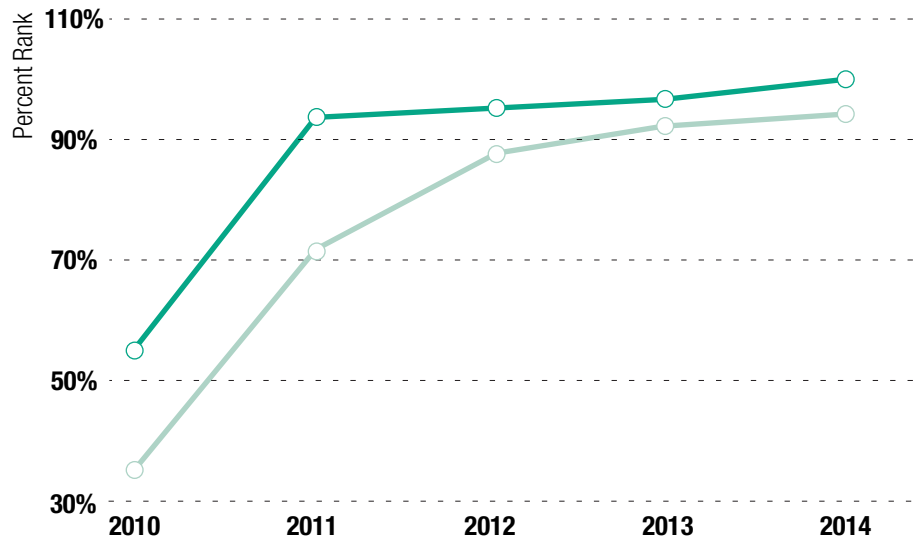
Whereas retailers in the study devoted a median 4.4 percent of sales to CapEx, Nordstrom far exceeded that figure at 5.9 percent. Macy's only recently began to devote a greater portion of its spending to e-commerce efforts, which has allowed the retailer to catch up quickly on both navigational and omnichannel fronts.

#### E-Commerce Agility: Site Percent Rank Comparison



Macy's vs. Nordstrom

2010-2014 ■ Macy's ■ Nordstrom

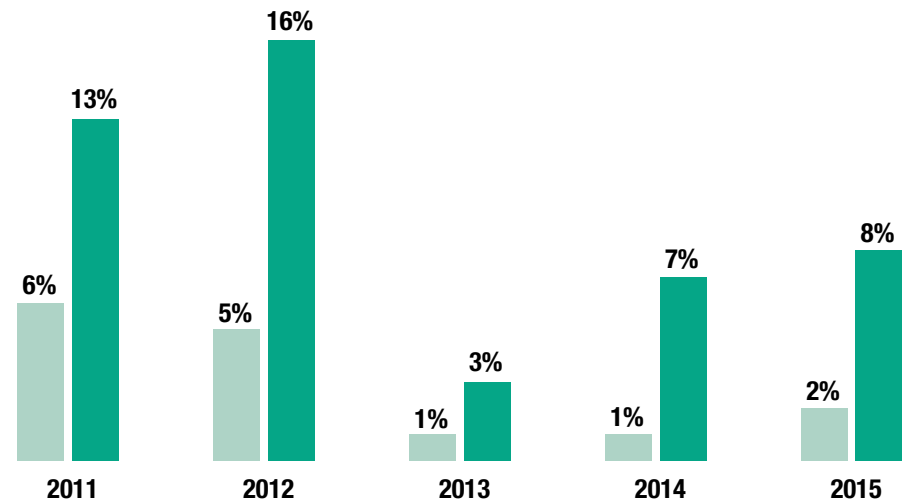


#### E-Commerce Agility: Sales Growth Comparison



Macy's vs. Nordstrom

2010-2014 ■ Macy's ■ Nordstrom



## Finding Success on Customized Platforms

### CASE STUDY: MACY'S

Macy's has long emphasized its digital presence, and in the past two years has made powerful improvements to site navigation and omnichannel capabilities. Though Macy's stopped reporting online sales separately in 2013, the e-commerce channel grew by 41 percent in 2012 (representing 11 percent of total sales).<sup>1</sup> Furthermore, aggressive rollouts of omnichannel functions – such as buy online/pick up in-store (2013), in-store inventory visibility (2014) and filtering stores by product category or service (2014) – are boosting offline sales.

In addition to providing a bespoke set of category-specific sorts and filters, Macy's custom site navigation, also allows consumers to filter by local store availability. Furthermore, the ability of consumers to select and save a local store (added in 2014) reinforces the departments store's accelerating omnichannel orientation. With plans to “hyperlocalize,” or tailor the product assortment at each of its 800 stores to the needs and wants of local customers over the next few years, Macy's in-house platform will be crucial to executing its differentiated approach.



Macy's custom-built search filters are designed to help the consumer quickly home in on the desired product, down to the last detail.

1. "Macy's Boosted Sales by Making Stores Distribution Centers," Laura Lorenzetti, Quartz, October 9, 2013.

Macy's rolled out in-store pickup and ship-to-home in July 2014. Shipping can be fulfilled from the warehouse or direct-from-vendor thereby speeding up the delivery process.





## Free People Leading the Digital Innovation at Urban Outfitters, Inc.

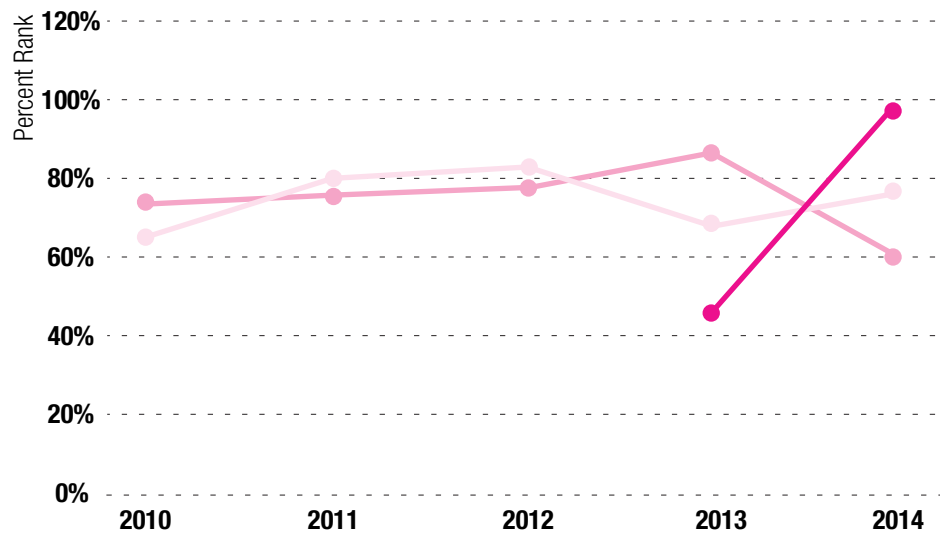
Urban Outfitters, Inc., the parent company of Urban Outfitters, Anthropologie, and Free People, has an enterprise-wide commitment to digital. The company recently announced a \$160 million relocation of its primary fulfillment center from South Carolina to Pennsylvania, underscoring an aggressive omnichannel focus and paves the way for a rapid fulfillment strategy capable of quickly reaching more consumers in the densely populated Mid-Atlantic and Northeast regions. Across the enterprise, digital efforts have paid off – all three brands posted comparable-store sales increases in Q4 2014, including struggling flagship, Urban Outfitters.

All three portfolio brands previously sat on the same on-premise e-commerce platform, but in 2013 Free People switched to another on-premise solution. Since the transition, Free People has outpaced its larger sister brands in terms of site sophistication. Between 2013 and 2014, Anthropologie dropped in site rank (from the 87th percentile to the 60th percentile), and Urban Outfitters saw only modest growth (68th to 76th percentile). Over the same period, on the back of the replatforming, Free People exploded out of the bottom half of the Specialty Retail Index to become the top-performing brand site in the category.

### E-Commerce Agility: Site Percent Rank Comparison



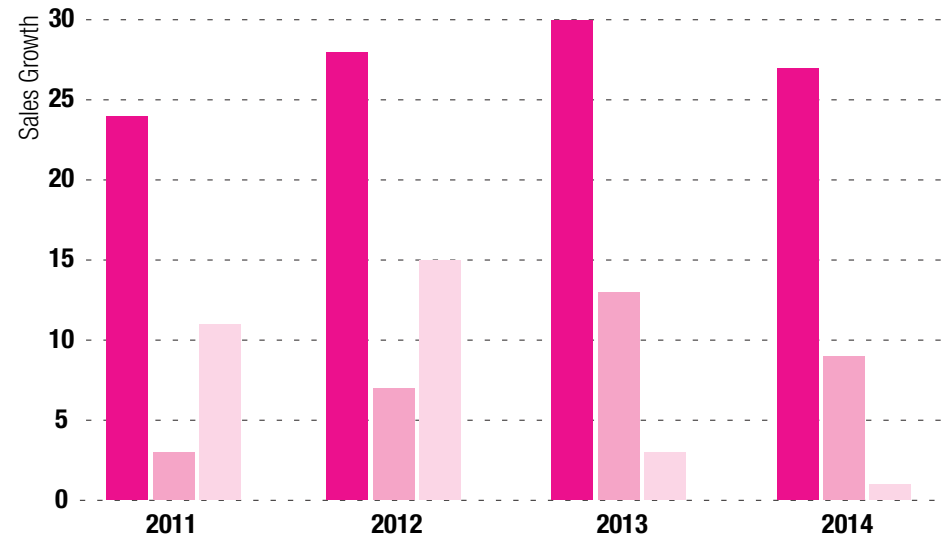
2010-2014 ■ Free People ■ Anthropologie ■ Urban Outfitters



### E-Commerce Agility: Sales Growth Comparison



2010-2014 ■ Free People ■ Anthropologie ■ Urban Outfitters



Urban Outfitters Inc.'s aggressive pursuit of e-commerce is manifested through its FreePeople subsidiary, whose site ranking shot past both anchor brands.

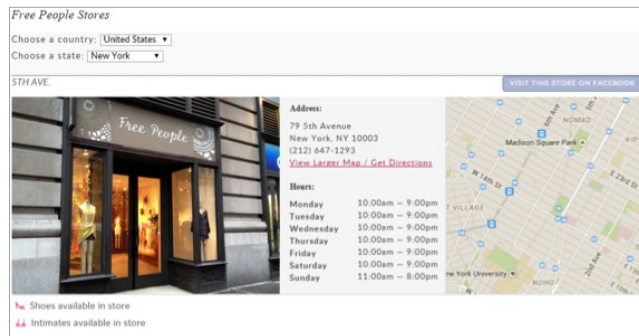
## Thinking About the Enterprise

### CASE STUDY: URBAN OUTFITTERS, INC.

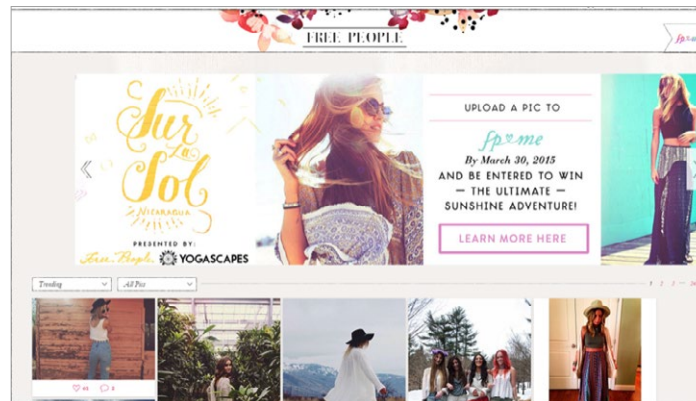
Free People's site fluidly combines high-quality content with commerce, featuring shoppable looks in its "Trends" section and producing shoppable videos to accompany seasonal lookbook releases. User-submitted photos feature prominently on the site, an investment that has since spread to the Urban Outfitters site (the company mentioned the #UOonyou campaign's success as a catalyst for Urban Outfitters' resurgence in a Q4 2014 earnings call). Although sister brands Anthropologie and Urban Outfitters have adopted some of Free People's cutting-edge features, a full-scale enterprise-wide implementation is not in place. In part, this can be attributed to the fragmented platform system, which hinders the rapid dissemination of successful strategies (in contrast to the built-in scale enjoyed by enterprises on cloud solutions).

In Free People, Urban Outfitters, Inc. has a perfect test kitchen for strategic digital experimentation. The younger brand has generated outside returns, with revenue growing between 24 percent and 30 percent every year from 2011 to 2014 (its larger counterparts had growth rates fluctuating between 1 percent and 14 percent).

free people



Free People added key omnichannel features during its re-platforming in 2013, including live in-store inventory, auto-location, and buy online/return in-store.



Free People launched "FP Me" on its website in January 2014, allowing consumers to browse a curated selection of the most popular FP Me images (replacing typical model shots).



Shoppable videos were added to accompany seasonal lookbooks in 2014.

## Thinking About the Enterprise

### CASE STUDY: WILLIAMS-SONOMA, INC.

West Elm is part of the Williams-Sonoma, Inc. portfolio, which maintains an in-house platform. Though sister brands, Pottery Barn and Williams Sonoma have consistently ranked in the upper echelons of site scoring over the past five years, West Elm's site ranking shot up from the 52nd percentile in 2010 to the 96th in 2014, surpassing both anchor brands. West Elm's digital success has been one factor contributing to sky rocketing sales growth (up 27 percent), compared with Pottery Barn (up 7 percent) and Williams Sonoma (up 1 percent) over the past

four years. By leveraging the enterprise in-house platform, West Elm has been able to keep pace with, and even exceed, the innovation exhibited by much larger organizations and brands (in FY14, West Elm had \$699M in sales, compared to Pottery Barn's \$2.0B)<sup>1</sup>

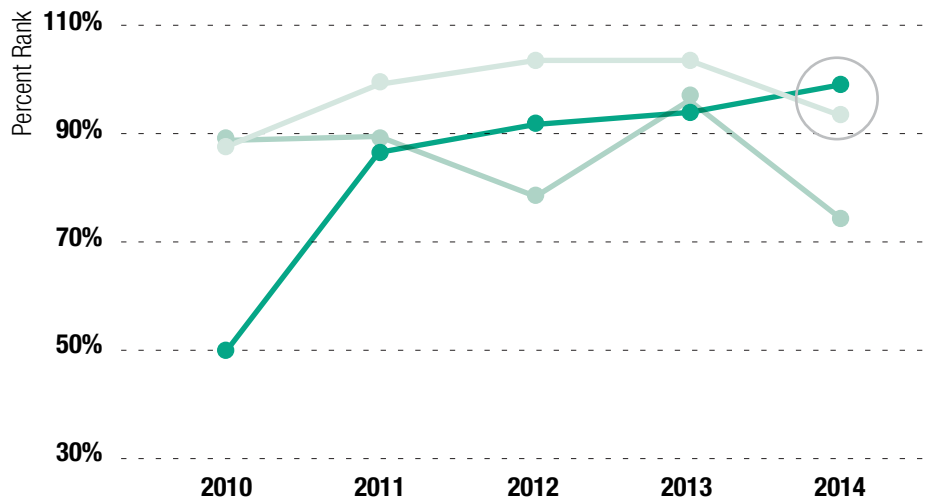
1. Williams-Sonoma, Inc., "2014 Annual Report,"

### E-Commerce Agility: Site Percent Rank Comparison



Williams-Sonoma Portfolio

2010-2014 ■ West Elm ■ Pottery Barn ■ Williams-Sonoma

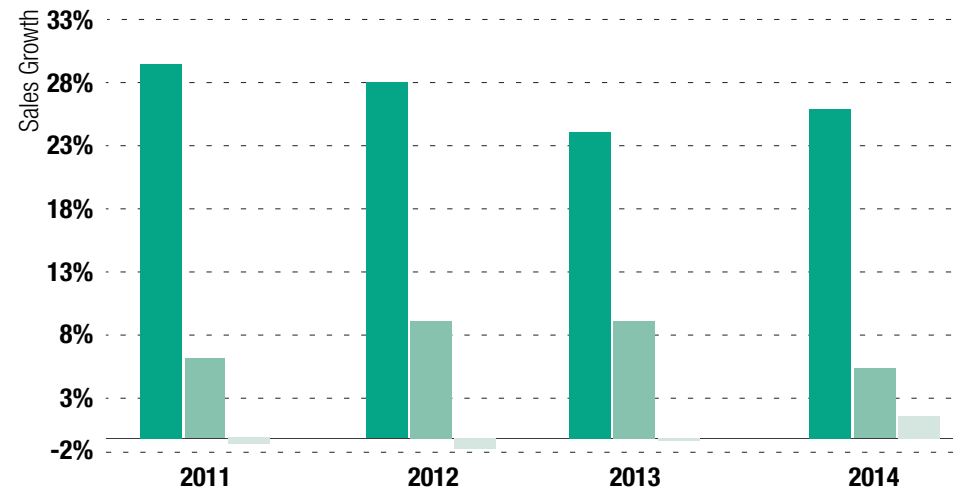


### E-Commerce Agility: Sales Growth Comparison



Williams-Sonoma Portfolio

2010-2014 ■ West Elm ■ Pottery Barn ■ Williams-Sonoma



## Entering New Markets

As the e-commerce channel begins to mature in developed markets, expansion into emerging markets is an established strategy for tapping into new pockets of growth.<sup>1</sup> Building an online presence is a low-risk way to test new markets or complement an existing store footprint.

Platform choices can aid a brand's efforts to expand globally. Data reveals that brands on cloud are more enabled to adopt an e-commerce approach—60 percent of cloud brands operate sites in the emerging markets (compared with 40 percent of on-premise brands).

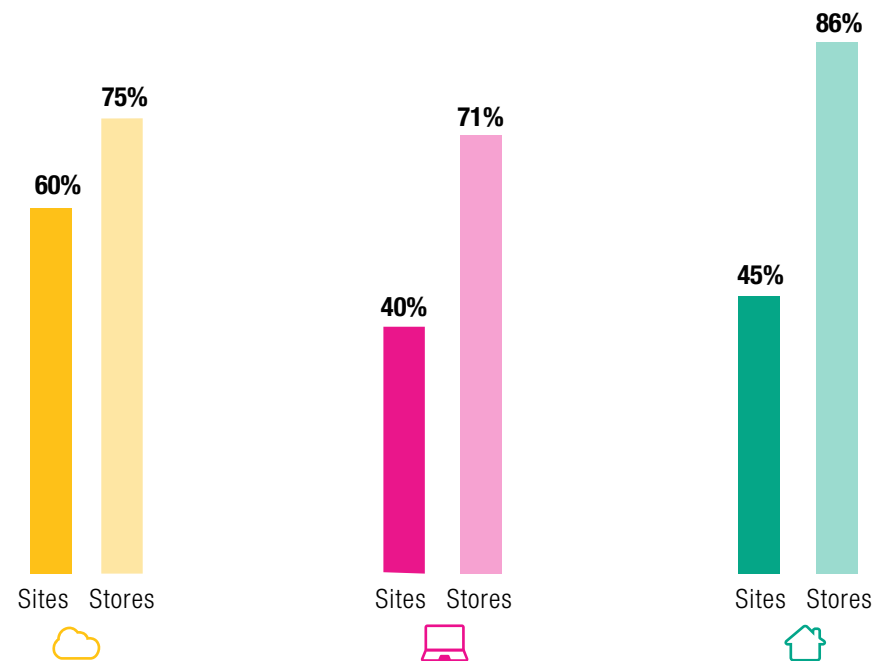
While 86 percent of brands on an in-house platform (generally, more mature organizations with an established retail strategy) have physical stores in emerging markets, only 45 percent have an e-commerce presence in these regions—a disparity that underscores the limitations of in-house brands' speed-to-market on the e-commerce side.

By virtue of using standardized software, cloud allows brands to build and launch regional sites more quickly. In contrast, customized in-house or on-premise platforms require significant infrastructure investments in order to be deployed globally, necessitating a longer development time frame.

## E-Commerce Agility: Percent of Brands with an Emerging Markets Presence

2014, n=82 Brands

■ Percent of Brands with Emerging Markets Presence (Sites) ■ Percent of Brands with Emerging Market Presence (Stores)



**ROB GARF**  
Vice President, Industry Strategy  
and Insights, Demandware

“The internet’s extensive reach enables every brand to become a global one. The key is getting there, building the awareness, and giving every potential customer the same level of engagement that your existing customers enjoy.”

1. “E-Commerce is the Next Frontier in Global Expansion,” ATKearney, June 2012.

## Entering New Markets

### CASE STUDY: KATE SPADE

Kate Spade's aggressive global expansion has been powered by the strategic use of e-commerce to drive brand awareness in new markets. After launching its first e-commerce site in 2004, the brand had enabled shipping to 13 countries by 2012. In 2013, Kate Spade supported the launch of a new line (Saturday) by deploying sites in Japan, China, Brazil and the U.S. and also began a brick-and-mortar Joint Venture in China.

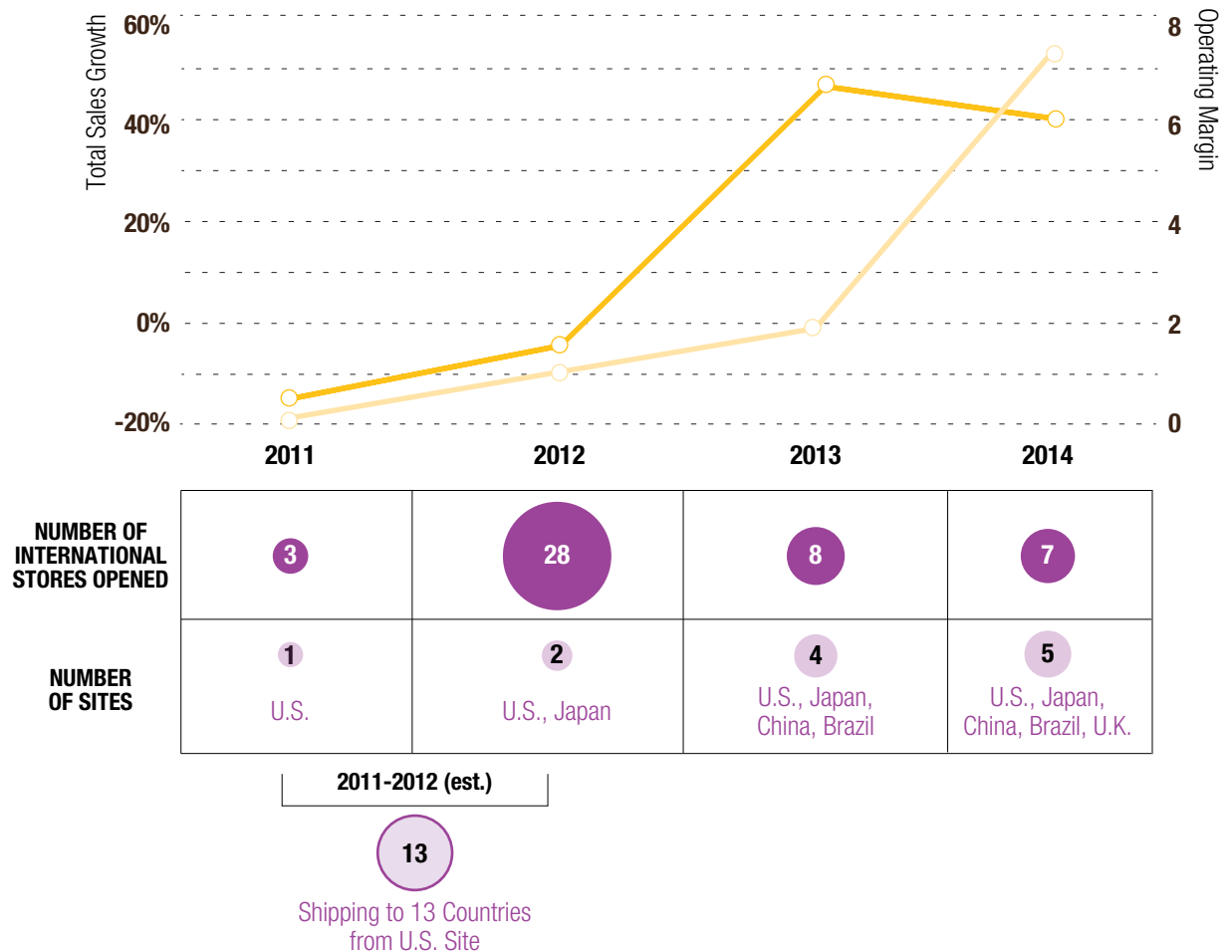
By 2013, the brand operated 20 stores in Mainland China, 14 in Southeast Asia, and six in the Middle East. In 2014, Kate Spade opened outlets in Hong Kong, Macau and Taiwan. The rapid expansion drove strong sales growth of 47 percent in 2013 and 41 percent in 2014 and even significant leap in operating margins (from 0 percent in 2011 to 7 percent in 2014)<sup>1</sup>.

A key factor facilitating the brand's global expansion is aggressive capital investment, which has supported the development of both physical and digital infrastructure – Kate Spade dedicated a bold 9 percent of sales to this effort compared with the median capital allocation in this study of 4 percent. At present, country sites exist for markets in the US, Japan, Brazil, China and the UK; an e-commerce site for France is scheduled to launch in the second half of 2015. The use of cloud infrastructure has been a critical component of the global site rollout, enabling Kate Spade to quickly make decisions around priority markets and subsequently execute on expansion plans.

## E-Commerce Agility: Global Retail & E-Commerce Expansion

Kate Spade

2011-2014 ■ Total Sales Growth ■ Operating Margin



1. Kate Spade & Company SEC filings.

CLOUD

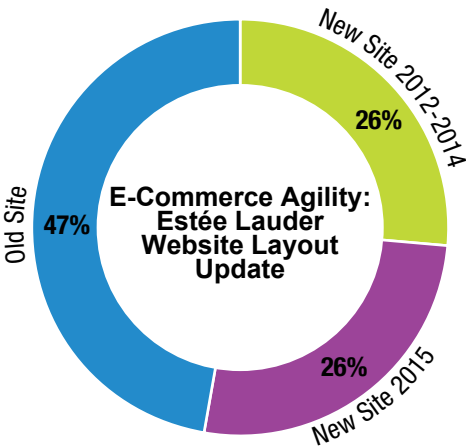
IN-HOUSE

ON-PREMISE

Entering New Markets

CASE STUDY: ESTÉE LAUDER

The appeal of a cloud platform lies in its flexibility and seamless implementation across various domains. Making changes on custom platforms is more difficult. While Estée Lauder operates websites in 38 countries, consumers do not get the same online experience due to lengthier roll-out timelines for the brand’s recently relaunched site.



OLD SITE			NEW SITE		NEW SITE
Argentina	Japan	South Africa	Australia	U.S. Canada Czech Republic Denmark Hungary India New Zealand Philippines Singapore Taiwan	
Belgium	Malaysia	South Korea	Austria		
Chile	Mexico	South Spain	France		
China	Netherlands	Thailand	Germany		
Colombia	Poland	Turkey	Greece		
Italy	Russia		Hong Kong		
Israel			Middle East		
			Portugal		
			Switzerland		
			U.K.		

E-Commerce Agility: Select Site Features ESTÉE LAUDER

2014 Features	Estée Lauder U.S.	Estée Lauder U.K.	Estée Lauder France	Estée Lauder Germany	Estée Lauder Japan	Estée Lauder Korea
Link to Blog						
Quick View						
Compare Product						
User Reviews/Ratings						
Sort by Rating/Reviews						
Sort or Filter by Best Seller						
Recently Viewed Items						
Cross-Selling						
Persistent Cart						
Search Results Include Thumbnails						
Diagnostic Quiz						
Video Tutorials						
Shoppable Video						
Award Badging						
Auto-Replenishment						
Live Chat						



### Financial Correlation

L2 found that brands with greater demonstrated e-commerce agility also yielded greater financial growth. This correlation underscores the importance of keeping up with changing consumer behavior in the e-commerce space. On average, high-growth brands (>10 percent sales growth) added 18 new features to their sites and grew sales by 15 percent over the prior year. Steady-growth brands (1-9 percent sales growth) added an average of 15 features to their sites and grew sales by 5 percent. Brands with declining sales had implemented an average of just 10 new site features year-over-year – suggesting that in challenging financial climates, these brands are potentially exacerbating their losses by pulling back on critical e-commerce investments.

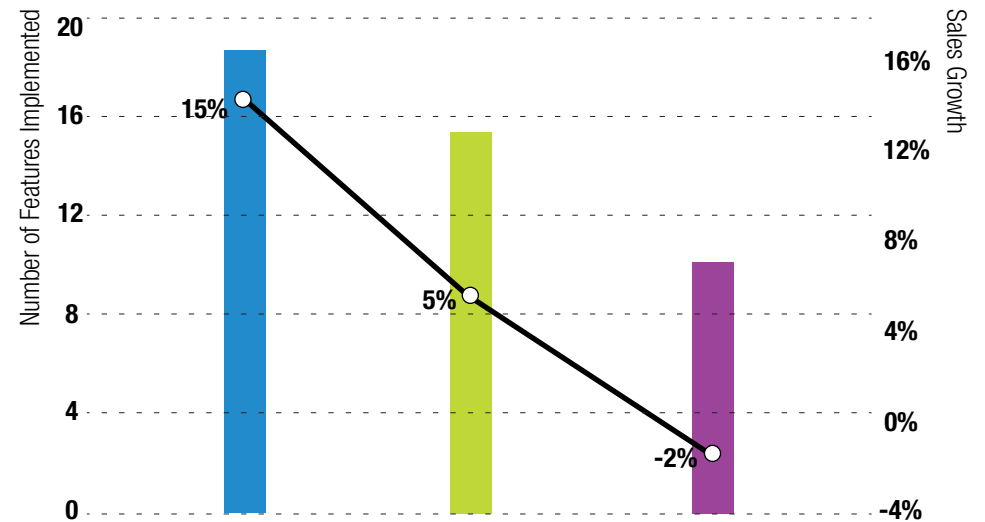


**ELANA ANDERSON**  
Senior Vice President,  
Worldwide Marketing,  
Demandware

“There should be a purpose behind the pursuit of agility. Cloud enables increased agility but retailers must focus on clear business objectives, cross-functional alignment, and culture of change and innovation.”

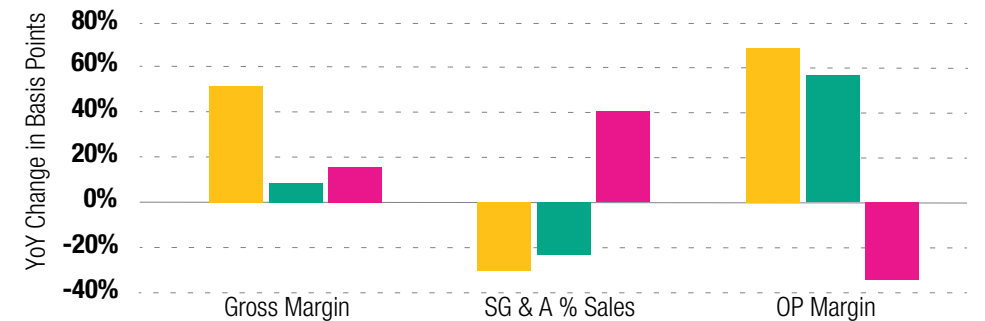
### E-Commerce Agility: Average Number of Features Implemented vs. Sales Growth

2013-2014, n=82 Brands ○ Sales Growth  
High-Growth Brands, n=30 Steady-Growth Brands, n=30 Brands with Declining Sales, n=13



### E-Commerce Agility: 2014 Growth Margin & Operating Margin

2014 n=10 n=21 n=32





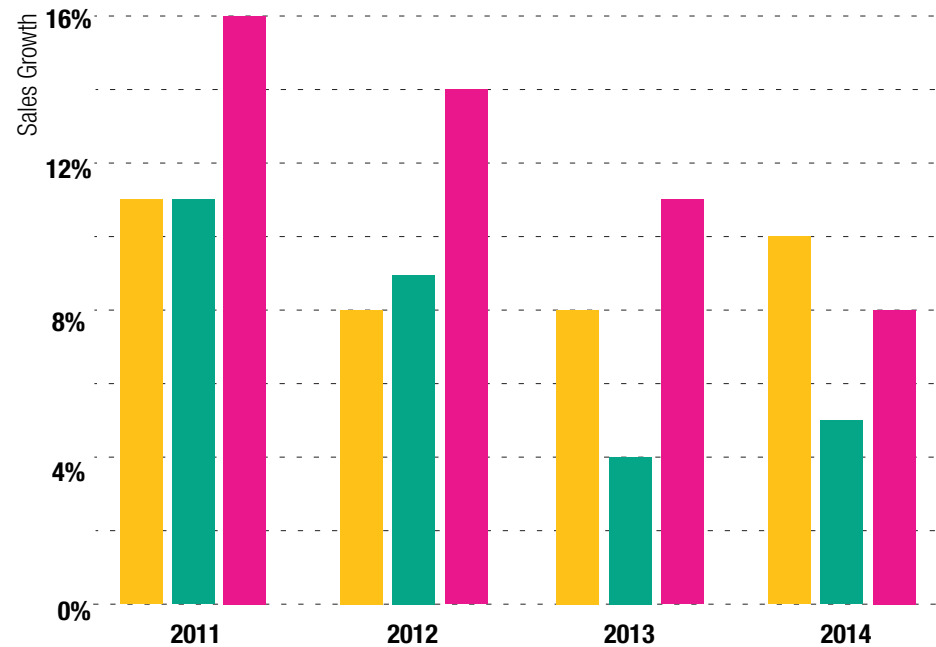
### Financial Correlation (Cont'd)

Financial performance and site rankings have moved in lockstep over the past five years. Further, those choosing to implement a cloud-based e-commerce solution have, on average, outperformed those on customized platforms in terms of sales, operating margins, and earnings in 2014. While platform plays a key

role in helping brands to grow sales, the correlation runs both ways – cloud platforms tend to attract high-growth because they are optimized to help brands execute on a strategic agenda of aggressive expansion and innovation.

#### E-Commerce Agility: Sales Growth

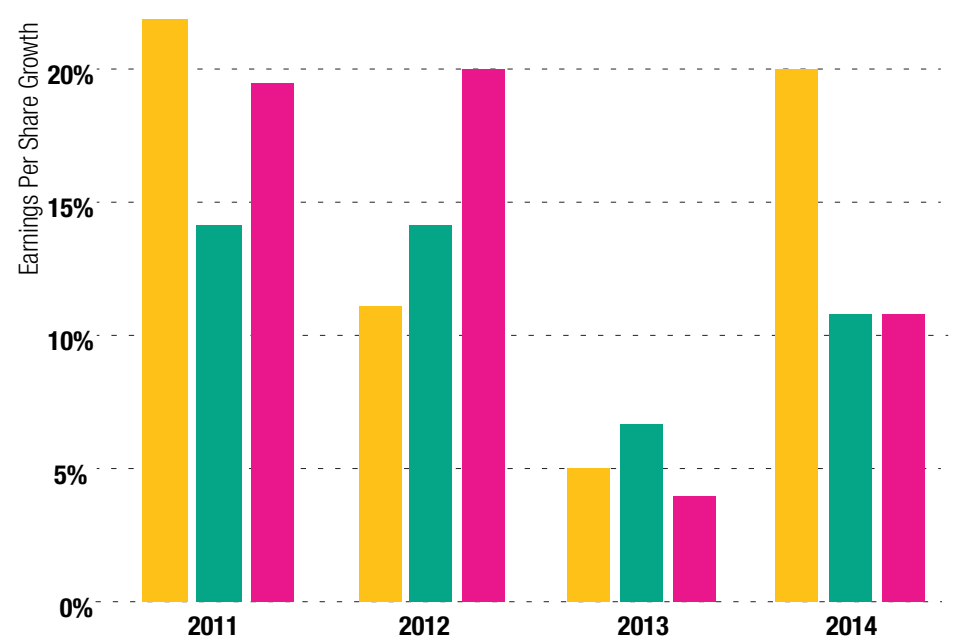
2011-2014 n=15 n=23 n=38



Note: Select date only available for publicly traded companies.

#### E-Commerce Agility: EPS Growth

2011-2014 n=10 n=21 n=32





## Financial Correlation (Cont'd)

Brands in the study were classified as high-growth, steady-growth or mature based on their strategic plan and financial performance over the past five years.

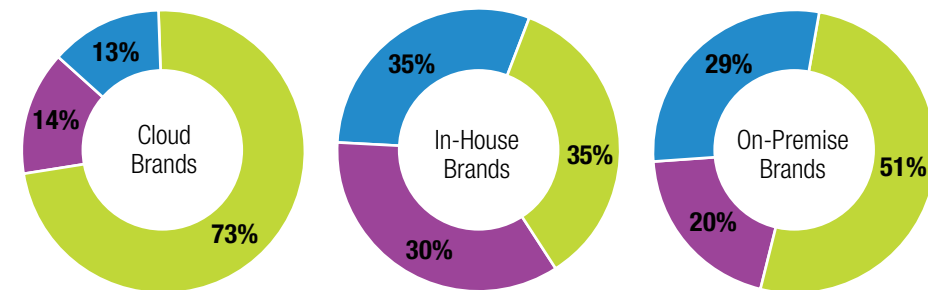
A brand generating sales and earnings growth of 10 percent or more was classified as high growth; those generating between 3 and 9 percent were considered steady-growth; and a brand growing at 3 percent or less was considered mature.

The study found 73 percent of brands on a cloud platform were high-growth companies focused on aggressive expansion over the next 3-5 years. In comparison, 51 percent of companies using an on-premise solution and 35 percent on an in-house platform were high-growth. High-growth retailers typically aim to deliver double-digit earnings growth via accelerated new store openings,

robust e-commerce sales, and international expansion. These organizations have identified cloud platforms as a critical component for achieving these aims. The highest concentration of steady-growth brands was among the in-house platform cohort (35 percent). Mature organizations were more likely to have the scale to support a dedicated IT department and the necessary resources for ongoing site maintenance. Of the brands in the study, those on cloud made the greatest number of feature changes to their sites and reported the highest sales growth rates. On average, cloud brands made 18 modifications and delivered sales growth of 12 percent. This compares with 15 feature changes and 9 percent sales growth for on-premise brands, and 13 feature changes and 6 percent sales growth for in-house brands.

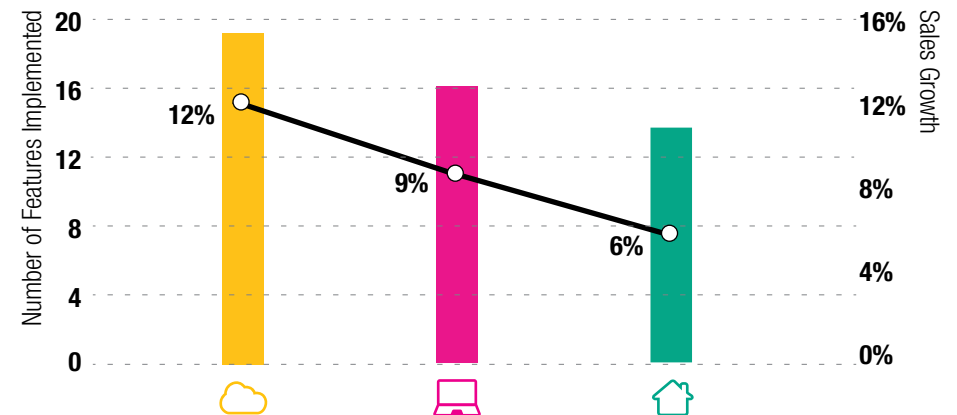
## E-Commerce Agility: Strategic Business Composition

■ Growth ■ Mature ■ Steady



## E-Commerce Agility: Average Number of Features Implemented vs. Sales Growth

2013-2014, n=82 Brands ○ Sales Growth



**Scott Galloway**

*Professor of Marketing, NYU Stern  
Founder, L2*

Professor Galloway founded L2 after developing an algorithm to assess the digital competence of brands. Scott is a Clinical Professor at the NYU Stern School of Business where he teaches brand strategy and digital marketing. In 2012, Professor Galloway was named “One of the World’s 50 Best Business School Professors” by Poets & Quants. He is also the founder of Red Envelope and Prophet Brand Strategy. Scott was elected to the World Economic Forum’s Global Leaders of Tomorrow and has served on the boards of directors of Eddie Bauer (NASDAQ: EBHI), The New York Times Company (NYSE: NYT), Gateway Computer, and UC Berkeley’s Haas School of Business. He received a B.A. from UCLA and an M.B.A. from UC Berkeley.

**Maureen Mullen**

*Co-Founder, L2*

Maureen leads L2’s research and advisory practice, where she helped develop the Digital IQ Index®. She has benchmarked the digital marketing, e-commerce, and social media efforts of more than 300 brands across pharma, auto, luxury, specialty retail, beauty, and CPG. Maureen also has led digital strategy consulting engagements for a variety of Fortune 1000 clients. Before joining L2, Maureen was with Triage Consulting Group and led managed-care payment review and payment benchmarking projects for hospitals, including UCLA Medical Center, UCSF, and HCA. Maureen has a B.A. in Human Biology from Stanford University and an M.B.A. from NYU Stern.

**Rob Garf**

*Vice President, Industry Strategy and Insights, Demandware*

As VP of Industry Strategy for Demandware, Rob Garf is no stranger to the industry and the challenges retailers face. As the former retail strategy leader for IBM Global Business Services and vice president of Retail Strategies Service at AMR Research, Rob’s been on all sides of the business. He currently guides Demandware’s retail and product strategy.

**Elana Anderson**

*Senior Vice President, Worldwide Marketing, Demandware*

Elana Anderson has extensive experience as a marketing software executive, industry analyst and marketing consultant with companies ranging in size from startup to Fortune 100 to her role at Demandware. Prior to Demandware, she served in a number of technology and marketing strategy roles, including VP of Strategy and Product Management of IBM’s Enterprise Marketing Management software group, VP of Products at Unica Corporation and the VP & Research Director of the marketing practice at Forrester Research, Inc.

**Claude de Jocas**

*Intelligence Group Director, L2*

Claude started her career at Educational Consulting Services, Corp. in her hometown Toronto before joining L2 in 2012. At L2, Claude has benchmarked the digital footprint of hundreds of brands across the luxury, beauty, hospitality and retail sectors, as well as led advisory engagements for a variety of members. Claude currently manages L2’s Intelligence Group, where she leads research production and strategy briefings on new topics in digital. Claude holds a B.A. in Economics and Environmental Studies from Yale University.

**Jane Thorn Leeson**

*Research Lead, L2*

Jane is a research lead at L2, with a focus on Retail. She has spent her career working in finance, beginning with investment banking at Morgan Stanley, followed by 6 plus years in equity research. Prior to joining L2 in 2014 she worked at KeyBanc Capital Markets, where she covered Specialty Retail, Footwear & Accessories companies. She has a B.A. in Economics from Boston University.

**Kevin Handerhan**

*Research, L2*

Prior to joining L2, Kevin marketed private-label LED solutions for T-Opto and managed sales support at Building Control Systems, Inc. He served on the 2014 Beauty E-Commerce Collective project and contributed to the Digital IQ Index® in Sportswear and Beer verticals. He holds a B.S. in Decision Science from Carnegie Mellon University.

**Andy Patrick**

*Research, L2*

Andy is a research analyst at L2. Before joining L2, he worked on translations and digital strategy at VICE Media and Here Media. He received his B.A. in East Asian Languages and Cultures with a focus in Japanese literature from Columbia University.

**Marielle Gross**

*Art Director, L2*

Marielle is L2’s Art Director and manages the Graphic Design team. She has worked at a diverse range of companies from corporate annual report and branding design firms to luxury advertising agencies. Marielle received a B.F.A. from School of Visual Arts.

**Rachel Kim**

*Graphic Designer, L2*

Rachel is a graphic designer specializing in data, publication design, branding, and communication design. Before joining L2, she worked as graphic designer at Graphis Inc., working with different clientele including Bill Diodato, Odin Fragnance, Penn State University and School of Visual Arts. She graduated with a B.F.A. from School of Visual Arts.

Special thanks to: **Colin Gilbert, Mariah Lamb, Olivia Reaney, and Nary Han.**

## L2 business intelligence for digital.

*L2 is a member-based business intelligence service that benchmarks the digital competence of consumer brands and retailers. We provide our member brands with actionable, data-driven insights on their digital performance relative to their peers.*



### RESEARCH

Our 50+ annual reports include:

**Digital IQ Index®:** The definitive benchmark for online competence, Digital IQ Index® reports assess the digital performance of the top 60-100 brands across 12 industry verticals and 11 geographies. Brands are ranked against their peers on more than 850 data points diagnosing their digital strengths and weaknesses.

**Intelligence Reports:** Intelligence Reports complement L2's flagship Digital IQ Index® with a deeper dive into the platforms or geographies of future growth. Critical areas of investigation include: Mobile, Video, Emerging Platforms, and Omnichannel Retail.

**Insight Reports:** Series of topical reports complementing The Digital IQ Index® reports with an in-depth analysis of specific tactics and opportunities.



### EVENTS

L2's 60+ global events are the largest gatherings of retail and consumer executives in North America. At our events L2 research leads, academic thought leaders and industry experts provide insight into digital trends, performance and tools.

**The Forum:** At L2's annual flagship TED-style conference, held each November that includes CEOs, industry experts, academics and thought leaders who speak to innovation and inspiration. Senior executives from the world's most iconic brands are in attendance.

**Executive Education Clinics:** L2's version of the one-day M.B.A, our quarterly clinics offer members an in-depth look at the issues, trends, strategies and technologies changing the face of digital.

**Research Briefings:** Held in cities across the world several times a month, these working breakfast or lunch sessions provide members with data and insights from L2's research portfolio.



### MEMBERSHIP

For membership information and inquiries: [membership@L2inc.com](mailto:membership@L2inc.com)

## Upcoming Events

### BREAKFAST: INSTAGRAM

*April 21, 2015 · London*

### BREAKFAST: E-COMMERCE AGILITY

*April 30, 2015 · New York*

### BREAKFAST: VIDEO

*May 15, 2015 · New York*

### DIGITAL IQ INDEX® REPORTS:

*Hotels: Luxury*

*Personal Care: China*

### L2 INTELLIGENCE REPORTS:

*Video*

*Personalization*

### L2 INSIGHT REPORTS:

*Cross Category: Email Marketing*

*Sportswear: Customization*



**CONTACT INFO:**

740 Broadway, 5th Floor  
New York, NY 10003

L2Inc.com  
info@L2Inc.com

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