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Sephora Direct: Investing in Social Media, Video, and Mobile

Julie Bornstein, senior vice president of Sephora Direct, glanced through Sephora USA Inc.'s (Sephora) latest set of social media metrics as she waited for the elevator in the lobby of her company's headquarters in San Francisco, California. It was late in October of 2010, and she was heading up to the 32nd floor to meet with David Suliteanu, President and CEO of Sephora USA. Sephora was the largest prestige beauty specialty retailer in the world with nearly \$2 billion of revenues from the company's stores in U.S and Canada as well as the Sephora.com website. Started in Europe in 1969, the company entered the U.S. in 1998, selling a wide range of cosmetic, fragrance, hair, and skin care products. Sephora was known for its vibrant stores that encouraged trial and experimentation.

As Bornstein stepped out of the elevator into the black and white striped hallway, she thought about the upcoming budget meetings with Sephora's parent company, Louis Vuitton and Moët Hennessy (LVMH). The Sephora Direct group was responsible for all of Sephora's direct marketing and digital initiatives, including Sephora.com and the Sephora Beauty Insider loyalty program. In 2008, Bornstein's team began to experiment on Facebook and with online videos, and in 2009 the team began making plans for mobile applications. By the summer of 2010 Suliteanu had authorized the creation of a new group within the Sephora Direct organization to focus on these new initiatives. Bornstein was hoping to double her budget in social media, video, and mobile for 2011, and she wanted Suliteanu to back up her requests for close to an additional \$1 million dollars of funding. Suliteanu conveyed that he would support more funding if Sephora could "win" in this space, but it was up to Bornstein to determine what winning would look like for the company. Along those lines, Bornstein was contemplating how Sephora should measure the success of its digital efforts.

As Bornstein walked to Suliteanu's office, she glanced again at the weekly metrics sheet. She noted the rapid growth of Sephora "fans" on Facebook and the thousands of recent downloads of Sephora's new iPhone app. Bornstein felt good about the company's efforts to date, but she knew more opportunities lay ahead. Just last week she and her team talked about expanding their mobile offering, participating in social shopping programs, creating more videos, and increasing presence on Twitter. They also had the opportunity to pitch a promotional program for a new Jennifer Aniston fragrance launch using a variety of new media platforms. Bornstein thought about all of the directions they could pursue, focusing both on how to have the biggest impact and how to measure

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that impact to support additional funding. But even with additional funds, her team had only limited time and energy to dedicate to each of these programs, so they had to choose carefully. The meeting with LVMH was in ten days, and Bornstein was eager to discuss her ideas with Suliteanu.

Company Background

History

Sephora was started in France by Dominique Mandonnaud in 1969 as a single perfume shop. In 1979 Mandonnaud expanded to several stores, which were designed so customers could try multiple brands in an “assisted self-service” environment. Mandonnaud’s retail concept represented a stark break from the traditional cosmetics retail model in which each prestige brand would commission its own sales representatives to push products onto shoppers, often in a department store setting at brand-dedicated counters. In 1993, Mandonnaud teamed up with investors to combine his stores with a perfume chain acquired from British retailer Boots PLC. Mandonnaud rebranded the combined set of stores under the Sephora name, derived from the Greek word for pretty (sephos) and the Biblical name Zipporah (Moses’ beautiful wife). Mandonnaud continued expanding the chain, and several years later Sephora operated 54 perfume stores throughout France, representing 8% of the total French retail perfume market.¹ Sephora attracted the attention of luxury product group LVMH, which bought the company for \$262 million in 1997.

U.S. Expansion

Under LVMH’s ownership, Sephora expanded beyond perfume into other cosmetics and opened its first U.S. store in New York City in 1998. For the first few years, Sephora had difficulty getting products from Clinique, Estee Lauder, and Prescriptives, which were owned by Estee Lauder Companies and comprised 44% of the prestige beauty market in 1999.² These companies perceived Sephora as a niche player and would not distribute to Sephora stores located near department stores carrying the same lines. According to William Lauder, president of Clinique Laboratories and a board member of Estee Lauder Cos, “People will continue to shop at department stores because they offer trained salespeople who are knowledgeable about each brand.”³

Given the reaction by some of the established brands, Sephora relied on less well-known brands to fill its shelves, and the company built relationships with hundreds of small cosmetic manufacturers. Sephora encouraged customers to try products in the stores, and multiple brands of similar product categories (e.g., lipsticks, eye shadow) were placed side-by-side to encourage experimentation. Sephora hired non-commissioned employees to guide consumers and answer questions, and over time, these employees were trained on all the different products.

All Sephora stores had a similar “look and feel” with black, white, and red as the dominant color theme for walls and displays, and employees (“cast members”) dressed in these colors as well. (See **Exhibit 1** for store photos.) The stores played a combination of pop and alternative music that contributed to creating a fun, party atmosphere. The company attracted younger, hipper customers (referred to as “clients”) than department stores. Suliteanu explained, “We told young women that it was OK to come in and try on make-up without buying anything. This was a new concept for cosmetic retailers, and it allowed us to grow the pie with customers who had never shopped for cosmetics before.” Within several years of opening stores in the U.S., the bigger prestige cosmetic companies such as Estee Lauder and Clinique started supplying product to all Sephora stores. Suliteanu noted, “Over the years, the large public cosmetic companies like L’Oreal and Lauder have become much bigger supporters as our brand has grown both in size and credibility.”

Sephora USA in 2010

By 2010, Sephora had nearly 1,000 stores in 23 countries, of which 450 were in the U.S. and Canada. Sephora had a retail presence in 36 states, with the majority of the stores in metropolitan areas and shopping malls. In 2006, Sephora entered into a retail partnership with JC Penney (a large chain of mid-range American department stores) in which Sephora became the exclusive beauty retailer inside JC Penney department stores. Approximately 200 of Sephora's U.S. stores were located within a JC Penney location. The company's headquarters were located in San Francisco where Bornstein managed a team of 75, organized into seven functional areas: customer relationship management, social media, acquisition and retention marketing, analytics, e-commerce, dotcom merchandising, and the company's call center. "Traditional" marketing and merchandising was run by Sharon Rothstein, senior vice president of marketing, who was based in Sephora's offices in New York City. (See **Exhibit 2** for management biographies.)

Sephora offered 288 brands, representing over 20,000 products, ranging from classic lines such as Lancome and Clinique to emerging brands such as Urban Decay and Too Faced. Sephora's products were considered prestige brands, which were perceived as more upscale than the mass market brands (e.g., Revlon, Maybelline) found at drug stores and supermarkets. Sephora carried nearly every large prestige brand except for Chanel and MAC Cosmetics. Sephora's pricing was often identical to that of department stores because U.S. beauty retailers tended to price prestige products at the manufacturer suggested retail price (MSRP). Promotions typically involved offering samples rather than discounting, although Sephora did offer two discount events each year to its loyalty card holders. Sephora also carried a host of private label products in nearly every category, some of which were priced below the prestige brands. Sephora's target market in 2010 was 25-35 year old women, many of whom "grew up" with the company. Bornstein noted, "This age group had an aspirational element, as the teenage girls looked up to this cohort and older women wanted to look 25-35 again."

Competitive Landscape

The U.S. beauty and personal care market was approximately \$58.9 billion in 2009.⁴ Sephora primarily competed with department stores such as Macy's and Nordstrom as well as single brand prestige beauty stores (e.g., MAC Cosmetics) and multi-brand specialty stores (e.g., ULTA Beauty). ULTA was the closest competitor to Sephora, as it operated nearly 400 retail stores in the U.S. Most of ULTA's stores were in "off-mall" locations (i.e., strip malls with 8-10 stores and easy parking), and included a full-service salon. The ULTA chain was started in the 1990s with an emphasis on discounted mass-market products, but the company added several prestige lines during the 2000s and positioned itself as a "beauty superstore" by the end of the decade boasting 21,000 products. In 2009, ULTA reached sales of \$1.2 billion with \$40 million of net income; analysts estimated 18% revenue growth for 2010 over 2009.⁵ ULTA introduced an updated e-commerce site (ulta.com) in 2008, and had seven million members in its customer loyalty program in 2009.⁶ ULTA did not have a distinct mobile offering in 2010. Bornstein described ULTA as a "fast follower" of Sephora. According to Karen Grant at NPD research, "The two chains go head to head among 25- to 34-year-olds, 29 percent of whom shop at Ulta, 30 percent at Sephora."⁷ (See **Exhibit 3** for an article about ULTA.)

Sephora also competed with several large online merchants such as Amazon.com and Beauty.com, as well as hundreds of smaller sites. Two newer online companies included Birchbox, which delivered a curated box of samples to consumers each month in return for a monthly membership fee of \$10, as well as Gilt Groupe, one of several growing companies that offered a limited set of luxury products at deep discounts during a short time window (known as "flash sales"). Sephora.com was the largest online prestige beauty website, capturing roughly 30% of the U.S. online market.

Sephora's Marketing Plan

Shortly after Rothstein arrived at Sephora in 2009, she worked with Bornstein to build a marketing plan for 2010. Key elements of the 2010 marketing mix included: store window merchandising, 32-page print catalogs sent to a portion of Sephora's Beauty Insiders three times a year, print advertising in magazines, a few direct mail pieces sent to Beauty Insiders, two major sales/promotions (one in April and one during the holiday season), and free gifts for Beauty Insiders. Rothstein and Bornstein talked regularly to coordinate messages, particularly around "animation" themes for the windows and Sephora's homepage. Rothstein explained, "Animations are one of the most important components of our marketing mix, they represent themes that form the basis of how we build our calendar. Our store window designs and site homepage bring our stores to life. Our CEO believes that our marketing image should start with the store experience, both offline and online." (See **Exhibit 4** for sample store window designs and print ads.)

In addition, Sephora spent millions on online search advertising (e.g., Google AdWords) by buying thousands of keywords for brands, products, and beauty related terms. Search advertising represented the single largest component of Sephora's marketing budget and was the largest source of new traffic to the Sephora website. Sephora was also looking into purchasing more online display advertising on sites such as Facebook. Email marketing to Beauty Insiders was also a key element of the marketing mix, and although the emails were not particularly expensive to send, Sephora spent millions on the entire Beauty Insider program. The 2010 plan had a modest amount of money (just shy of \$1 million, representing under 5% of the total marketing budget) designated for social media, mobile and video, and those were the categories Bornstein hoped to double in funding in 2011. (See **Exhibit 5** for a breakdown of total media spending.)

Sephora Direct - Sephora.com and Beauty Insider

Sephora.com

Sephora.com was launched in 1999 with 100 brands, and within several months expanded to include all of the brands sold at any of the Sephora stores. The e-commerce site grew quickly into a sizeable business for Sephora, and it was projected to generate 15-20% of Sephora USA sales in 2010. The company appreciated the growth in online sales, as Sephora.com offered higher margins than a typical store due to lower overhead costs.

Approximately 3 million unique visitors came to the site each month, making Sephora one of the top 50 retail sites in the U.S. According to Comscore, on average in 2010, Sephora.com had 310,000 visits each day, and 11 page views per visit. The Sephora website offered sophisticated search functionality along with details about every product the company sold. (See **Exhibit 6** for Sephora.com trends from 2000-2010 and data about online beauty shoppers.) Sephora encouraged site visitors to purchase online by offering free shipping for orders over \$50 and three free samples with every order. Suliteanu summarized, "Our web presence became an important part of our strategy. Our young clientele were going online and we needed to be there. The Sephora brand had been primarily about the physical experience, but we started to see the importance of the Internet as a forum where our customers could discover and learn."

Sephora Beauty Insider Program

Sephora USA introduced its Beauty Insider customer loyalty program in 2007. Suliteanu explained the rationale, "We wanted to know more about our customers, so we thought it would be helpful to

introduce a CRM [customer relationship management] program. Most of these programs were set up around discounts, but our goal was to build our program around perks. We offered free samples to our Beauty Insiders and gave them “first looks” at new products. The program exploded and we had millions of sign-ups within the first year.”

Clients were invited to join the Beauty Insider program when they made a purchase in the store or online, and all that was required was an email address, although clients were also asked for their birthdays. Bornstein commented, “Our store cast members [employees] get great training, and they really believe in this program. I’ve been in many stores and I have never seen a client buy anything without being asked to join our Beauty Insider program.” Sephora offered one point for each \$1 spent in stores or online. Clients could redeem points for a free gift at 100 and again at 500 points. Some opted to hold their points, hoping to redeem thousands of points for bigger gifts in the future.

Beauty Insiders typically received emails from Sephora once or twice a week, and a special offer on their birthday. Customers who spent more than \$350 in a year were designated Very Important Beauty Insiders, also referred to as VIBs. VIBs were invited to special events at stores, received “deluxe” gifts and were given early access to products. VIBs were identified with a small icon when they posted questions or answers on the Sephora.com website.

By 2010, 15 million customers had signed up for the program; with 9 million considered “active members” (purchasing something from Sephora in the last 12 months). Approximately 80% of Sephora’s sales came from Beauty Insiders. Bornstein commented: “One of the reasons the program works so well is that the beauty category lends itself to sampling, and our clients love to experience new products! We also make it really easy to join, and our clients see quick benefits. The program gives us a way to communicate frequently with our clients using our low cost email platform.”

Sephora Direct - Social Media

Ratings and Reviews

Sephora’s initial forays into social media began by enabling users to post product ratings and reviews on Sephora.com. In early 2008, Bornstein pushed to add this feature to the company’s website even though there was internal concern about the implications of negative reviews. The direct team believed it was worth the risk because clients were asking for the feature, and research had shown that most people went online to rave about products rather than complain. In addition, the direct team believed that ratings and reviews could lead to desirable outcomes: improving site conversion from shoppers to buyers by providing confidence in a product’s results, increasing traffic from online search results, keeping clients for longer durations on the site, reducing returns, lowering call center visits, and encouraging repeat visits. Moreover, other e-commerce sites such as Amazon.com already had active review boards, and some of Sephora’s customers were posting reviews on these sites for products they had bought at Sephora.

Sephora contracted with a third party to build software that could be integrated into Sephora’s website, and in September 2008, Sephora opened its ratings and reviews boards. The company publicized this new feature by emailing its Beauty Insiders, and within 24 hours Sephora had 32,000 ratings and reviews posted. Bridget Dolan, vice president of direct, recalled:

We were not sure what to expect when we opened the doors, and we were a little concerned that making reviewers sign in to our site would create a barrier to usage. However, within 24 hours we were flooded. Our clients were dying to talk with us and each other. Our

third party contractor, Bazaarvoice, said they had never seen a response like this before. At first we thought we would need to read all the reviews before they went up on the site, but then we realized that would take months. We ultimately decided that our readers would let us know if there was an inappropriate review posted. So we did some basic electronic screening for inappropriate language and then let the reviews go up as written.

By September 2010 there were over 1 million product reviews posted, with an average rating of 4.2 stars (out of five). Dolan commented, "Some popular products have over 10,000 reviews. Initially I was surprised when someone wanted to write the 10,001th review, but I've learned that our clients love to share their personal experiences, particularly with a product they are passionate about."

Facebook

Sephora's experience with ratings and reviews gave the company confidence to expand its presence in other areas of social media. By late 2009, consumer behavior online had shifted, with 16% of all online time spent with social media,⁸ representing exponential growth in a category that was practically nonexistent just three years earlier. Facebook was the largest and fastest growing social media site with over 500 million worldwide users and 53% reach in the U.S. in February 2010. In late 2008 Sephora created a Facebook "fan page" for its clients who wanted to follow Sephora and communicate with the company and each other online. Cathy Choi, director of social media, moderated the page and used Facebook's tools to add graphics and links. (See **Exhibit 7** for representative postings on Sephora's Facebook page.) Choi commented:

From the beginning, our clients were spending hours on our Facebook page, talking to each other and sharing their passion for make-up. We found that our clients were also talking directly to us through Facebook and they expected answers. Initially Julie, Bridget and I were spending our evenings and weekends reading all the posts and responding, until we formally pulled in some help from Sephora's call center support team. When clients asked questions about products, we often let other Facebook members answer. Sometimes we feel like we are playing the role of party hostess. We have super-users who are constantly responding to others, and we occasionally send them surprise gifts or emails to say "thanks." Many of the super-users are also our VIBs, and spend thousands of dollars at Sephora each year.

Dolan added:

We try to respond to questions directed to us, and we read all the client complaints and feedback. Clients use Facebook to let us know when we are out of products or if they had a bad experience at a store. Once we did an in-store promotional event and ran out of the tote bag give-aways. Our clients were not shy about using Facebook to express their frustration and it gave us a chance to respond in real-time to make it right! It is critical that we monitor our page carefully, or spammers can take over. Consumers can tell when a company's Facebook page is actively managed, and we are very careful about maintaining a consistent tone in our postings.

By late 2009 Sephora attracted over 300,000 fans to its Facebook page. The Facebook page also served as a forum for Sephora to do consumer research and get client feedback. In addition, early on, Sephora ran contests and occasionally offered promotions such as: "become a Facebook fan and get 10% off your next purchase." The company introduced a "Sephora Claus" sweepstakes for the 2009 holiday season that granted a product wish each day to one Sephora fan. Over 50,000 clients shared their wishes virally during the one month sweepstakes. Sephora tracked sales among contest entrants (through the use of a promotion code) and estimated the Sephora Claus program influenced over \$1 million of sales. The sweepstakes also resulted in Sephora gift purchases from friends and relatives

who could see the Sephora “wish list” of each entrant. Dolan estimated that Sephora incurred approximately \$50,000 of direct costs to run the promotion, as well as staff time from various departments. The prizes were donated by brands that Sephora carried.

Sephora expanded its Facebook presence throughout 2010 and had nearly 900,000 fans by September 2010. (See **Exhibit 8** for fan growth). One industry analyst valued each Facebook fan at \$3.60 based on the average number of messages a typical fan received and comparing that to the amount of paid online impressions needed to reach the consumer with the same number of messages.⁹ Sephora teamed up with Facebook to participate in the launch of a new Facebook feature that allowed people to indicate what they “like” by clicking a “thumbs up” icon, and Sephora tracked its “likes” as a way to indicate client engagement. Bornstein’s team constantly sought out fresh content and asked questions designed to elicit response. For example, Sephora posed questions such as “What color nail polish are you wearing right now?” and “Chocolate or Mascara, if you had to choose one, which would you give up?”, many of which generated thousands of Facebook “likes” and comments. Bornstein’s team was planning a new Facebook promotion for the holiday season in 2010 that had the potential to spread virally while also influencing sales. (See **Exhibit 9** for excerpts from a recent Sephora weekly dashboard highlighting client engagement on Facebook.)

Beauty Talk

Although the Sephora Direct team was pleased with its ability to engage with clients on Facebook, Bornstein, Dolan, and Choi expressed frustration with the lack of archival capacity on the platform. Dolan commented, “We find that clients ask the same questions over and over again, and there is not an easy way to save and query responses. Facebook is all about ‘recency’ – posts appear in the order they were logged.” In addition, it was difficult to ask potentially embarrassing questions on Facebook because there was no way to mask a client’s identity. Dolan described, “If a client has a question about acne or wrinkles, would she really want that question broadcast on Facebook under her real name?” Sephora did a survey in 2009 and found that 24% of respondents said they would be “very interested” in a central place to ask beauty questions of other Sephora shoppers on Sephora.com.

Consequently, the Sephora direct team decided to build its own question and answer forum with strong search functionality. The vision was to have a safe and private environment where clients could anonymously ask personal questions and get quick responses from Sephora experts or other members of the Sephora community. Dolan explained, “We asked ourselves, ‘How can we make a more organized version of Facebook? How can we help users add more context to their questions?’”

Sephora contracted with a third party to design the Q&A engine as part of the Sephora.com website, and it was launched as a beta site called Beauty Talk in September 2010. With a few weeks of data, the Q&A forum showed promise, but it raised additional questions about the appropriate role of Sephora employees in moderating the discussion and answering questions. Dolan explained, “We struggle with finding the right balance between letting the clients share their own answers versus providing an expert Sephora opinion that could be perceived as biased.”

Facebook did not make it easy to recognize “superusers” who answered a lot of questions. In contrast, Sephora encouraged Beauty Talk members to respond to queries by creating a “leaderboard” with 35 different levels. Users who posted frequently had a symbol identifying them as a “beauty master” or “beauty maven”, while newer users might have a symbol labeling them as a “newcomer.” VIB clients had a “VIB” symbol next to their names. Dolan explained:

We found that our active responders like the recognition, and that was difficult to do on Facebook. We suspect that about 200 superusers will contribute the vast majority of the content

in our Beauty Talk forum, often posting on a daily basis. We couldn't possibly afford to staff up to supply all the answers provided by this group. We have other visitors that post a few times each month, but most of the visitors on Beauty Talk are passive viewers that benefit from the input of our superusers – they can read what is already there and get inspired to purchase.

The Sephora Direct team believed that Beauty Talk could become a key part of the Sephora experience; however it was unclear how to promote the forum and blend it with the Facebook site. Viewers could view and search among previously posted questions and answers on Beauty Talk; but that required leaving the Facebook site or using the two sites simultaneously. The direct team wondered how much they should try to move visitors from one site to the other, and any additional work on Beauty Talk would require more funding. Sephora found that early usage of Beauty Talk was not as high as the initial interest in ratings and reviews. Bornstein believed this was due, in part, to Beauty Talk being a more in-depth and less well-understood experience.

Twitter

Sephora started using Twitter in 2009. Anyone registered with Twitter could sign up to receive short (<140 characters) postings (referred to as "tweets") sent out by Sephora or anyone else that wanted to post on the Sephora news feed (referred to as "#Sephora"). By September 2010, approximately 100,000 users were "following" Sephora on Twitter. Sephora tended to use Twitter to spread news about promotions, contests, events, and other timely information. For example, Twitter was used as a communications channel during the Sephora Claus sweepstakes. Sephora clients also tweeted about Sephora when they came across a great product or a new promotion, or if they simply wanted to share thoughts about Sephora or make-up in general. (See **Exhibit 10** for sample Tweets.)

Online Video – YouTube

YouTube was the largest video sharing site in the world with 466 million users watching 73 billion minutes of video in 2009. Sephora began uploading videos to YouTube in 2007 and found that tens of thousands of users were watching its "how to" videos on topics such as "How to Get Perfect Brows" and "How to Curl Your Lashes." The most popular video – "How to Get Smokey Eyes" – attracted over one million views. In 2009, Sephora brought all company-produced videos together on an "official" Sephora YouTube channel that had nearly 100 videos that generated over 3 million views. In 2010 Rothstein's team added high-quality, professionally-produced videos into the mix about hot trends, and also produced short segments by founders of up and coming cosmetic companies.

A quick search for Sephora on YouTube in September 2010 also uncovered hundreds of user generated content (UGC) videos, many of which were filmed by Sephora clients in amateur settings. The topics of these videos ranged from makeup tutorials to showcasing recent shopping "hauls" (armfuls of products) from Sephora stores. Some of the UGC videos attracted as many viewers as the Sephora-produced pieces, which raised the question as to how Sephora should integrate the user content with its own professionally-produced videos. Dolan commented:

Our Sephora videos help reinforce our positioning as an expert advisor, but professional videos can cost over \$20,000 each to do well. We are evaluating our overall video strategy. What are we trying to accomplish? Should we mainly create functional "how to" pieces, or focus on brand-building? Are we using videos to broaden the Sephora community? How do we integrate our own videos with UGC segments? Our CEO would like to see us "own" the video category for personal care products, and we are trying to figure out what that means.

Rothstein added, "Like all aspects of marketing, videos are not formulaic, and it's difficult to predict which videos will take off. We always hear, 'Make something that goes viral.' That is easier said than done - it requires great content and ideas that are well-executed. We need to build enough videos to be noticed, but we can't be too scrappy as that doesn't fit our brand image."

Sephora Direct - Mobile

The proliferation of smart phones - phones with Internet and computing functions - gave retailers an opportunity to offer a rich mobile consumer experience. Bornstein noted the substantial increase in the number of users visiting Sephora.com from their phones in 2009. She also tracked data published by leading research companies that showed high projected levels of growth in both mobile usage and spending. According to comSCORE, mobile shopping rose from \$396 million in 2008 to \$1.2 billion in 2009, and was projected to reach \$2.4 billion in 2010. Morgan Stanley projected that more consumers would access the Internet through mobile devices than personal computers by 2014. Bornstein was excited to capitalize on these shifts, "I started building a case for a Sephora mobile offering in 2009, and pushed even harder in early 2010 when I saw how mobile usage was taking off. We have an amazing website and amazing stores - I envisioned a mobile app that could serve as a bridge between the two." She believed a mobile app could help clients while shopping in stores by giving them the information they needed such as ratings and reviews to make purchasing decisions. In fact, Sephora had research showing that 25% of shoppers with smartphones used them during the buying process in 2009.

Bornstein spearheaded two major mobile initiatives in early 2010. The first was creating a version of the Sephora.com website optimized for mobile users (known as a "WAP" or "wireless application protocol"). The site could detect when a user tried to access Sephora.com from a smartphone, and that user would be shown a WAP version designed for a smaller screen. The WAP was launched in August 2010, and within days the team saw an increase in purchases from mobile phones.

The second project was the introduction of a custom-built Sephora iPhone application ("app") that users could download for free from Apple's App Store. Apps were platform specific and had to be downloaded, but then they remained on the user's device. Many apps enabled faster performance than a WAP and leveraged existing phone features such as camera and GPS functionality. The Sephora team opted to focus on building an app for the iPhone platform (instead of Android or Blackberry/RIM) because research indicated that iPhone penetration was highest among women, and Sephora's own data showed that over 90% of clients that accessed Sephora through their mobile devices in 2009 were using an iPhone or iTouch product.

Bornstein and her team created app specifications in early 2010 and hired a third party to build the iPhone application. (Third party prices for high-end apps ranged from \$100,000 to \$200,000.) Bornstein had a strong feel for what to have in the app based on her own experiences interacting with Sephora clients online and in stores. For example, she believed in-store users would appreciate the ability to look up their past purchases when replenishing cosmetics, and she thought shoppers could benefit from easy access to ratings and reviews. She believed a good mobile app would increase in-store purchases by providing instant answers to burning questions.

When designing the app, the Sephora Direct team noted the trade-off between functional elements such as a store locator feature, and playful brand-building elements such as interactive games. The direct group had some experience with an interactive app that had been designed for the Toki-Doki brand at Sephora. While users found it fun, it didn't seem to change purchasing behavior. This experience, and the desire to increase sales, led the team to launch the app with a focus on making shopping easier. When introduced in September 2010, the app had 12 primary areas: shop, shopping

list, past purchases, new products, today's obsession, mobile offers, store locator, videos, ratings & reviews, gift registry, beauty advice and Beauty Insider. The app also let users scan the UPC codes of products in stores to learn more about them. (See **Exhibit 11** for an image of the Sephora app.)

Once the app was available through the Apple App store, users still had to find and download it. Bornstein commented, "Some retailers find it challenging to get their customers to download a specialized application, but we think our loyal clients will find us and be willing to download our app. We are fortunate that we have a way to reach our clients through our Beauty Insider program." Bornstein's team was also planning cross-promotions with Sephora stores, and the January window displays would showcase an image of the iPhone app in a custom designed black and white striped iPhone case. Users who downloaded the app would be eligible to receive a free iPhone case.

The early data seemed promising with 100,000 downloads of the iPhone app in the first few weeks. Bornstein hoped to have over 300,000 downloads by the end of the year, and estimated Sephora would generate several million dollars of sales through mobile devices in 2010. As soon as the app was available, consumer feedback started flooding in through Sephora's Facebook page, most of which was positive. A number of clients complained, however, that some of the app's features were slow to download. Clients also questioned Sephora's decision to focus solely on the iPhone and inquired when Sephora would have an app for Android and Blackberry/RIM devices. (In August 2010 it was announced that more Android phones were sold in the U.S. than iPhones, but iPhone still had higher penetration with women.) In addition, Apple had just introduced the iPad, a popular tablet computer, and Sephora was considering developing an app optimized for that format as well. Each of these apps would cost \$100,000- \$200,000 upfront, plus another \$20,000-\$30,000 of annual maintenance. The Sephora Direct team was weighing investments in these new mobile apps against adding more features to the current iPhone app or using the funds for other new opportunities.

New Opportunities in an Emerging Landscape

Sephora's early traction in social media, video, and mobile drew the attention of a broad spectrum of new media companies that wanted to partner with it. Bornstein explained, "We have been asked to participate in a number of online or mobile shopping platforms, and we are willing to do some experimentation if we can see the value for our clients." Some of the companies Bornstein considered partnering with included: Shopkick (a mobile platform to help consumers shop at multiple retailers through a single app), ShopSocially (a social shopping site where "friends help friends shop"), Foursquare (a mobile app to show friends where you are physically at any point in time), and Groupon (a group discounting site). (See **Exhibit 12** for details about these companies.) The Sephora direct team did trials with several of these companies, but it was not clear if any of the early partnerships would amount to anything, and there were so many start-ups attempting to play in these spaces. Bornstein commented, "I could see why a smaller retailer might want to use one of these new sites to generate traffic and sales, but we need to think hard about how much discounting we are willing to do for a program like Groupon, which typically requires products be discounted by 30-50%, or whether we want to spend the time and money to be part of group e-commerce apps if we can get a sizeable percentage of our clients to download our own app."

Many companies in the beauty industry also reached out to Sephora seeking cross-branding opportunities such as polls, surveys, and sweepstakes to be conducted through Sephora's Facebook site. Some of the companies offered to pay, but Sephora still found that it didn't have the resources to accommodate most of these requests. Dolan explained, "Each program we do involves, at a minimum, a designer, a writer, a programmer and a project manager. We are a small team and simply don't have time to work with all of the different brands that we sell at Sephora. We only want

to pursue cross-promotional opportunities that drive traffic to our site and stores, and encourage consumers to purchase through Sephora. We have specific criteria to decide which programs we should or shouldn't do, but we also try to be opportunistic."

One interesting opportunity surfaced during the previous week. The actress Jennifer Aniston was planning to introduce a new fragrance in the coming months and was considering giving Sephora the exclusive rights to launch it in exchange for a high level of promotion. The direct team was intrigued by this opportunity, as they believed Aniston would appeal to their Beauty Insider community, but there was a lot that could be said for a more traditional campaign. Bornstein explained:

We can propose a launch involving video, email, Facebook and Twitter. We are thinking of adding a donation to Jennifer's favorite charity each time someone indicates they "like" the new fragrance on Facebook. That said, Jennifer Aniston herself is not known for personally having embraced digital platforms, she does not have a Facebook page nor does she tweet; she is likely to be very familiar with traditional vehicles such as print and in store merchandising.

Conclusion

Bornstein was excited by all the opportunities these new technology platforms offered. Her team had experimented with different initiatives and had embraced Suliteanu's desire to "ensure they had enough in the petri dish to see what can work." As Bornstein prepared for the upcoming budget review, she had to plan her allocation among the different categories for 2011. (See **Exhibit 13** for a list.) But Bornstein realized it was also time to think more strategically about all of their programs. She was starting to craft a three year strategic plan for Sephora Direct – an effort that proved to be particularly challenging given the rapidly changing landscape in digital media. It was hard to predict which start-ups would gain substantial traction over the next year or two and how they would evolve, and new digital e-commerce ventures were being funded on a daily basis.

Bornstein thought about the priorities for her group and maintained that a core tenet of Sephora's strategy should involve deepening the company's connection with its Beauty Insiders. She explained:

We know our clients shop at multiple stores, and we want to increase our share of their wallets. To do that, we need to make our brand come alive and inspire clients to buy more. Beauty is an affordable luxury, and theoretically there is no limit to the number of beauty products a client can own. We don't drive demand by frequent discounting, so we need to be more fun and innovative than our competitors. We have an opportunity to provide a wealth of expert advice through Beauty Talk. We are the number one beauty website, and we want to be the number one online destination for anything beauty related. We can see that clients who engage with us through Facebook and other channels purchase more than those who don't.

Bornstein believed that social media played an important role in helping Sephora listen to its clients. As Rothstein explained, "With the advent of Facebook, marketing has become a two way conversation." At times, Sephora specifically posted questions on Facebook under the headline: "Sephora Asks." While it was difficult to measure the effectiveness of using social media to hear from clients, Bornstein believed that it was always better to get feedback directly from clients – even if negative. Suliteanu commented, "We have learned that clients won't do anything they don't like." It thus made sense for Sephora to be in constant dialogue with its clients to find out what they *do* like.

A third aspect involved using these new technologies to acquire new clients. There were many regions in the country that did not have a Sephora store, so Sephora's online presence served as the

primary way to invite new clients. Bornstein wondered if they should be doing more advertising through Facebook and YouTube to reach women who were not already part of Sephora's client base.

In addition to articulating the strategic goals for her team, Bornstein also thought about the ways she wanted to measure success. Her team tracked engagement level metrics such as number of Facebook comments, Twitter followers, and Beauty Talk posts. They also looked at the mobile usage data and noted where consumers tended to spend their time when using Sephora's iPhone app. Although these measures provided some sense of how well the social media initiatives were performing, Bornstein was still trying to identify the best way to calculate a more traditional return on investment (ROI). She reviewed various ROI frameworks proposed by industry experts and academics to enhance her own thinking on the matter. (See **Exhibit 14** for a sample framework.)

Nevertheless, both Suliteanu and Bornstein believed that ROI alone was not an adequate metric. They wanted to create a balance between building the brand and driving sales. Suliteanu explained, "Measuring success with these new media platforms only in terms of ROI would be putting us in handcuffs. Our social media initiatives help us create an emotional connection that is difficult to quantify. Our time horizon is long, and we are focused on the sensory experiences we create for our clients. For example, Sephora is opening a store in what used to be the meat packing district in NYC. It might seem crazy, but it helps keep our brand new and edgy." Bornstein expanded, "I see it as a win when Sephora gets invited to speak at top digital conferences or when we get mentioned as a social media leader in a news article. But these wins are meaningless if our efforts don't create more loyalty with our existing clients, allow us to acquire new customers, enable us to develop new value-add services, and ultimately help us to increase our sales."

The difficulty in calculating ROI made it challenging to determine optimal investment levels. Bornstein was hoping to double her budget for 2011, but it was unclear where that money would come from, and how the money if shifted to digital should be allocated. Rothstein shared her insights:

We have already reduced the number of new animations each year from 18 to 13, but stores remain the center of the Sephora experience. In recent years we have scaled back circulation of our catalogs to accommodate the new digital elements of our marketing plan. Should we further scale back our circulation and perhaps the length of our catalogs? At what point do we stop printing and mailing altogether? Everyone loves our catalogs. They showcase Sephora as a trend-setter and an expert, but can our videos do that as well? Media spending is not a perfect science, and both traditional media and new media play an important role.

As Bornstein sat down to talk with Suliteanu about her plans, she asked herself, "Are we thinking big enough?" Bornstein considered some recent remarks Suliteanu had made:

Sephora is big now, and the key word is balance. We have been watching companies like Starbucks, and it's clear that at some point the counterinsurgency they once embodied becomes the establishment, and we are conscious of that. The flip side of becoming more mainstream is that it's hard to be as cool and innovative. I feel a kindred spirit with brands such as Apple and Nike. We spend more time on how to be unique and unexpected than almost anything else. We have a wonderful set of loyal clients, but we don't want to be complacent. We have to stay one step ahead of Mrs. Jones. We recognize that our clients can go anywhere else at any time, and the minute we stop providing a special experience we risk losing them.

She realized that simply pouring more money into various digital avenues was not necessarily the right answer. It was important to first articulate her team's objectives with respect to these new communication platforms and then come up with effective ways to achieve and measure them.

Exhibit 1 Sephora Store Photos

Source: Sephora.

Exhibit 2 Sephora Executive Bios

David Suliteanu, President and CEO of Sephora USA. Suliteanu joined Sephora in July 2000 from Home Depot, where he was Group President/Diversified Businesses from 1998 to 2000. In that position he was responsible for the Expo Design Center, Home Depot's upscale remodeling and décor showrooms, and Villager's Hardware, smaller-format hardware stores. Prior to that, Suliteanu spent seven years at Macy's East, the largest division of Federated Department Stores. Before that, he held several retail positions, including: Senior Vice President/General Merchandise Manager of Foley's in Houston; Regional Vice President of Stores at Sanger Harris in Dallas; and Vice President/Store Manager at Macy's West in LA. Mr. Suliteanu received a B.A. in economics from Stanford University.

Julie Bornstein, Senior Vice President, Sephora Direct. Before joining Sephora in 2007, Bornstein served as the general manager of Urban Outfitters Direct where she led the growth of the web and catalog division into a highly productive and profitable direct business. Before Urban, Bornstein served as vice-president of ecommerce for Nordstrom from 2000-2005, joining as Nordstrom launched its first website to grow the business from \$12M to over \$350M, and overseeing merchandising, marketing, creative and customer experience for the website and catalog. Bornstein started her career in merchandising at DKNY, and also worked in business development at Starbucks. Bornstein received her BA and MBA from Harvard University.

Sharon Rothstein, Senior Vice President, Marketing. Rothstein joined Sephora in May 2009. Prior to Sephora, Rothstein served as Senior Vice President, Global Marketing and Merchandising at Godiva Chocolatier, the world's leading super premium chocolate brand. Prior to Godiva, Rothstein was Senior Vice President, Global Marketing with Starwood Hotels and Resorts. In earlier roles, she served as Chief Executive Officer of WorldSpy.com, an e-commerce retailer, and Senior Vice President, Marketing and Entertainment of Discovery Zone. Earlier in her career, Rothstein worked at both Nabisco and Procter and Gamble. Rothstein earned her Bachelor of Commerce (Honors) from University of British Columbia and her MBA from the Anderson School of Business at UCLA.

Source: Sephora.

Exhibit 3 Excerpts from News Article about Ulta from *The New York Times* (2009)

Can Ulta Muss Up Sephora's Makeup?

Until recently, Alessandra Salvatore, 27, happily made a beeline to the nearest Sephora when she craved an \$18 lip plumper of her favorite scent, Giorgio Armani's Emporio She. But because Sephora with its Parisian pedigree doesn't sell drugstore makeup, Ms. Salvatore required another stop to grab a \$7.29 Maybelline Full N' Soft mascara. That was before she moved from Briarcliff Manor, N.Y., to Charlotte, N.C., and discovered Ulta, a national chain of beauty stores that brings together designer fragrances, drugstore staples, salon-only hair products, as well as a growing selection of prestige cosmetics like Benefit and Smashbox. Cavernous enough for 21,000 products and cut-and-color hair salons, Ulta stores are often in strip malls, a convenience she appreciates.

Sephora may have pioneered the concept of glitzy stores as playgrounds where women could dab and smear prestige lipsticks and face creams. No longer was a salesclerk a gatekeeper to the makeup, nor a cheerleader for the single brand that paid her commission. Instead, roving experts helped as needed. Now Ulta, with 331 stores nationwide, is trying to go Sephora one better. It offers inexpensive beauty staples found at the likes of Target, along with easy access to prestige treats that used to be trapped behind glass. There are also hair salons in each Ulta store and stylists to help navigate the rows of professional hair products. Lyn P. Kirby, Ulta's chief executive, likes to call the company a "category killer," as if she wants to tear down the walls segregating L'Oréal in pharmacies from high-end skin care in department stores and beauty chains.

"They have a critical mass of prestige brands," said Liz Dunn, an analyst at Thomas Weisel Partners, adding: "Part of the off-mall appeal is convenience. They're trying to target the time-starved woman who wants an easy shopping experience." Critics say Ulta is hardly within Sephora's universe. Until Ulta stores offer beloved standards like Clinique Dramatically Different lotion and more adventurous niche makeup brands, they say, it cannot be considered one-stop shopping.

Ulta, which used to be a discount retailer with a schlocky look, has added sleek stores at a clip. It opened 65 stores in 2008, including its first urban locations, a four-floor showpiece in Chicago and a behemoth in Miami. Although luxury brands can be leery of being sold under the same roof as, say, CoverGirl, Ulta is having some success luring them. Lorac, a fresh-off-the-red-carpet cosmetics line created by the makeup artist Carol Shaw, has been in Sephora. Lorac arrived at Ulta in 2008. When Ulta came courting, David Hirsch, part of the senior management team at Lorac, said they worried about "downmarketing" the brand. But he soon grew convinced that women don't enjoy their high-end splurges any less just because Maybelline is sold a section over. "It's sort of like a Baskin-Robbins," he said. "There's nonfat yogurt but there's the good stuff, too." For some, convenience is paramount. "When my wife walked into Ulta for the first time, she thought, 'I can knock off a couple of things here, which you can't do at Sephora.'"

Many beauty shoppers are fickle when it comes to store allegiance, said Karen Grant, the vice president for beauty at NPD, a market research firm. The two chains go head to head among 25- to 34-year-olds. Meanwhile, Ulta has an edge with women older than 44, who "tend to be more loyal," Ms. Grant said, because "Ulta rewards that loyalty" with savings. After landing a deal on a curling iron, Emily Veitia wrote a customer review on Yelp.com: "Ulta, you are Sephora's nemesis!"

But in a telephone interview, Ms. Veitia lamented that Ulta "felt a little bit like a beauty supply store." She would rather "save up some money and go to Sephora" she said, because "it's more on top of the times." Some of Sephora's niche brands include Living Proof No Frizz hair care, Tarte cosmetics, Make Up For Ever and Josie Maran. None of which Ulta carries.

Ulta's personality is best described as "approachable and in style," Ms. Kirby said in an interview. "We are not about intimidating. Sephora's black and white isn't approachable." The peachy color of Ulta's awnings and bags is an expression of that sentiment.

Annie Vazquez, a freelance journalist in Miami, likes that she can get two of her Matrix Biolage color care shampoos for \$20 at Ulta, whereas elsewhere she has paid \$25 a bottle. She is not yet ready to make the store her one-stop beauty destination, not until it carries the Laura Mercier tinted moisturizer she can't go without. For now, her allegiances are divided. "Sephora, it's not that it's pretentious or anything like that," she said, "but Ulta is more down to earth, and sometimes when you're on the go, and we all are, you just want to get there, get what you need, and go."

Source: Catherine Saint Louis, "Can Ulta Muss Up Sephora's Make Up," *The New York Times*, July 23, 2009, <http://www.nytimes.com/2009/07/23/fashion/23Skin.html>, accessed April 29, 2011.

Exhibit 4 Sephora Sample Window Designs and Print Advertisements

Sample Store Fronts

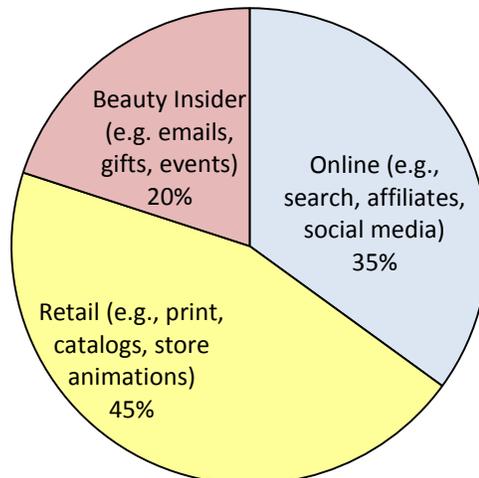


Sample Print Advertisements



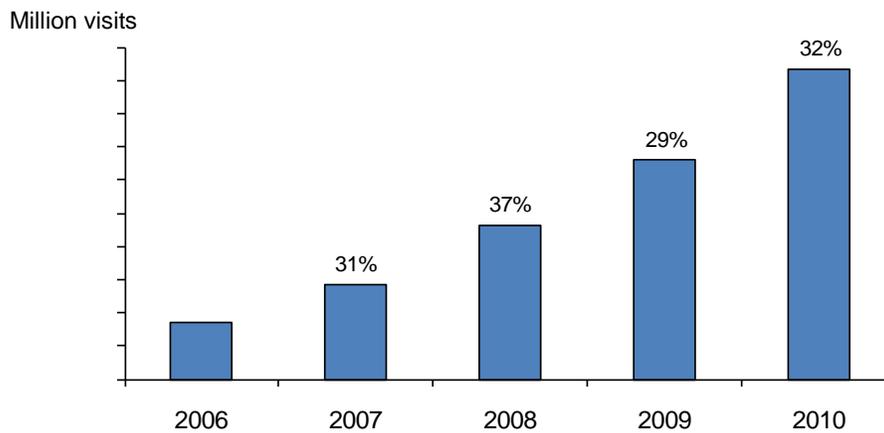
Source: Sephora

Exhibit 5 High Level Break-down of Sephora Media Spending

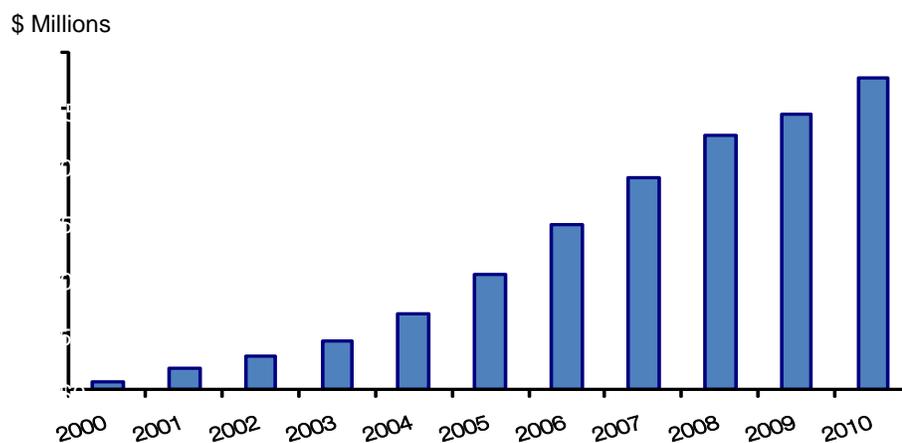


Note: Search advertising represented the bulk of the online category.

Source: Sephora.

Exhibit 6 Sephora.com Website Statistics and Online Beauty Shopping Trends**Sephora Website Visits (% represents growth in visits over previous year)****Net Sephora.com Sales Growth Trend (\$)**

Bars represent growth trend in \$ sales in 2000-2009 and estimated sales for 2010.

**Online Beauty Shopping Trends: Who are online beauty shoppers?**

- 43% are between the ages of 25-44 (vs. 37% for non online shoppers)
- 50% have a household income above \$60K (vs. 46% for non online shoppers)
- 20% use 6 or more different brands of beauty products (vs. 10% non online shoppers)
- 48% use the web to research beauty products at least once a month
- 60% spend more than \$25/month on beauty products (vs. 40% among consumers who don't shop online)
- Each month 20% use search engines to shop for and research beauty products
- **Twice** as likely to read beauty magazines

Source: Sephora and Google and Compete Beauty Webinar, "Searching for Beauty Shoppers," May 5, 2009.

Exhibit 7 Sephora Sample Facebook Page Postings



Ashley Klitzke
 A lot of my friends who are VIBS or Beauty Insiders have received a card in the mail for a free bare essentials sampler with 25 dollar purchase. I did not receive one and I'm a VIB, will I be able to simply mention this offer at the counter and receive the samples?
 4 hours ago · Like · Comment

Brande Patterson likes this.

 **Kent N Valerie Brower** I didn't either and I've been a VIB since Jan. Not cool!
 3 hours ago · Like

 **Sephora** Hi ladies. Yes, you can take advantage of the offer by mentioning it at the store or calling  **1-877-SEPHORA**  for online orders. It is available while supplies last with a \$25 purchase. Hope that helps!
 3 hours ago · Like

 **Olga Lopez Pinar** i didnt get an email either
 2 hours ago · Like

Write a comment...



Kelly N ×
 I love the sephora lux matte bag wish they'd give it out more often. SO useful and not cheap quality.
 June 16 at 5:26pm · Like · Comment

Sephora likes this.

View all 2 comments

Write a comment...



Jodi DiBiasi
 I haven't gotten an email in a while- anyone know what promo codes are still valid right now?
 June 16 at 7:06pm · Like · Comment

 **Sephora** Hi Jodi. We just sent you a message to help fix your e-mail subscription. Click here for our current promotional offers: <http://bit.ly/mxwSuj>. Enjoy!
 June 16 at 7:39pm · Like

Write a comment...

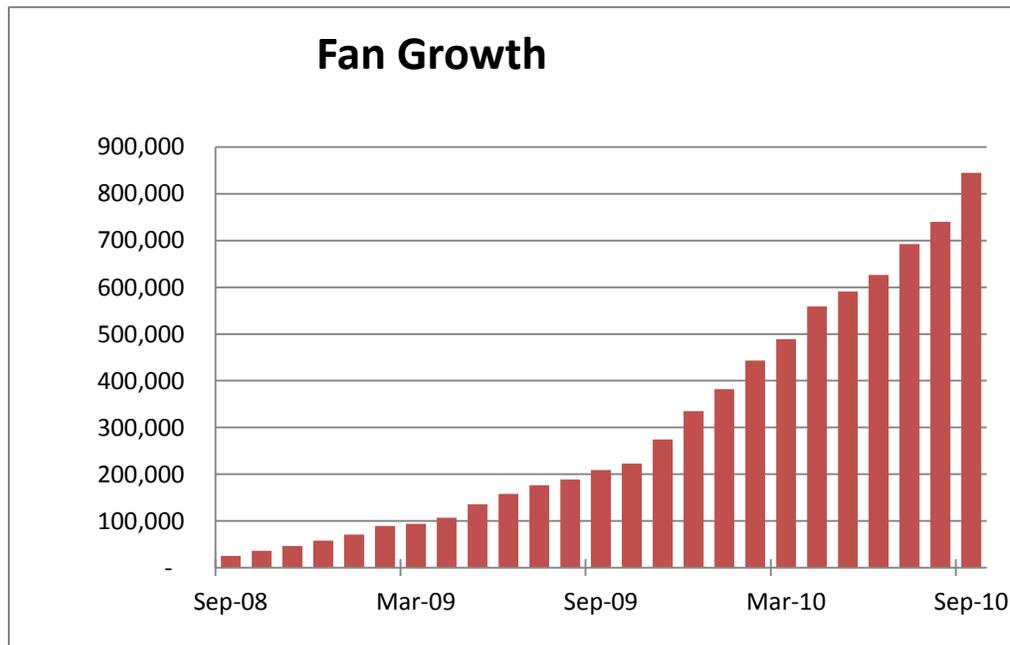


Tinker Belle
 Thank you so much Sephora for making a highlighting powder that's not yellow toned! I'm cool toned and they look funny on me. Everyone should try Sephora highlighting compact powder in rose! Gorg!
 June 16 at 2:02pm · Like · Comment

3 people like this.

View all 9 comments

Source: Sephora (from Facebook).

Exhibit 8 Sephora Facebook Statistics (September 2008 – September 2010)

Source: Sephora.

Exhibit 9 Excerpt from Sephora Weekly Dashboard (September 2010)

- **812k** Total Facebook Fans in September (month to date)
- **71.8k** new fans September month to date (47.7k new fans in Aug)
- **Best Update by Sales:** VIB offer \$10.5k
- **WEEKLY HIGHLIGHTS**
 - **1 Quick Question**
 - Lipstick or Lipgloss – which would you give up: 1734 comments, 484 likes
 - What’s your beauty obsession: 725 comments, 311 likes
 - What is your perfect red shade: 214 comments, 261 likes
 - Ask Michelle Phan a question: 194 comments, 736 likes
 - Match your eye makeup to outfit: 953 comments, 475 likes
 - **Bobbi Brown Launch**
 - **Ustream for MAKE UP FOR EVER (MUFE) boutique in SOHO**
 - First live streaming video event
 - Over 1200 Fan interactions
 - **Red Haute Mosaic FB application**
 - Clients uploaded image of themselves with red lips into photo mosaic
 - 3773 Installed users
 - Over 200 Client stories shared
 - **TEMPTU quiz**
 - Brand interaction through quiz; 738 quizzes taken

Sephora Status Update Calendar and Results for September 2010

(highlighting indicates the postings that generated the highest level of engagement)

date	topic	comments	likes	Imp
1-Sep	1QQ Red Lip	214	261	718,019
2-Sep	Bliss Rollerball GWP	55	336	712,819
3-Sep	Michelle Phan FNO	194	736	693,062
6-Sep	1QQ	953	475	770,803
7-Sep	FNO	54	480	706,168
8-Sep	Paco Rabanne	82	249	665,647
9-Sep	Stilla Smudge Stick	75	443	656,742
10-Sep	N/A			
13-Sep	Choose 1 of 6	49	173	485,410
14-Sep	New York Fashion Week	39	314	685,719
15-Sep	Temptu Quiz	120	508	683,956
16-Sep	FNO video	47	312	609,821
17-Sep	1QQ	717	312	651,092
20-Sep	Bobbi Brown	206	397	503,745
21-Sep	Murad Clean Scene GWP	38	151	476,113
22-Sep	Dior Video	67	582	779,752
23-Sep	1QQ	1734	484	666,180
24-Sep	VIB Choose 1 of 3	144	744	844,718
27-Sep	Extra VIB Appreciation Bags	88	233	563,494
28-Sep	BeautyTalk Early Access	60	414	852,918
29-Sep	YSL FNO vid	52	379	739,709
30-Sep	MUFE Boutique opening	113	828	809,576
30-Sep	USTREAM	215	52	730,020

Source: Sephora.

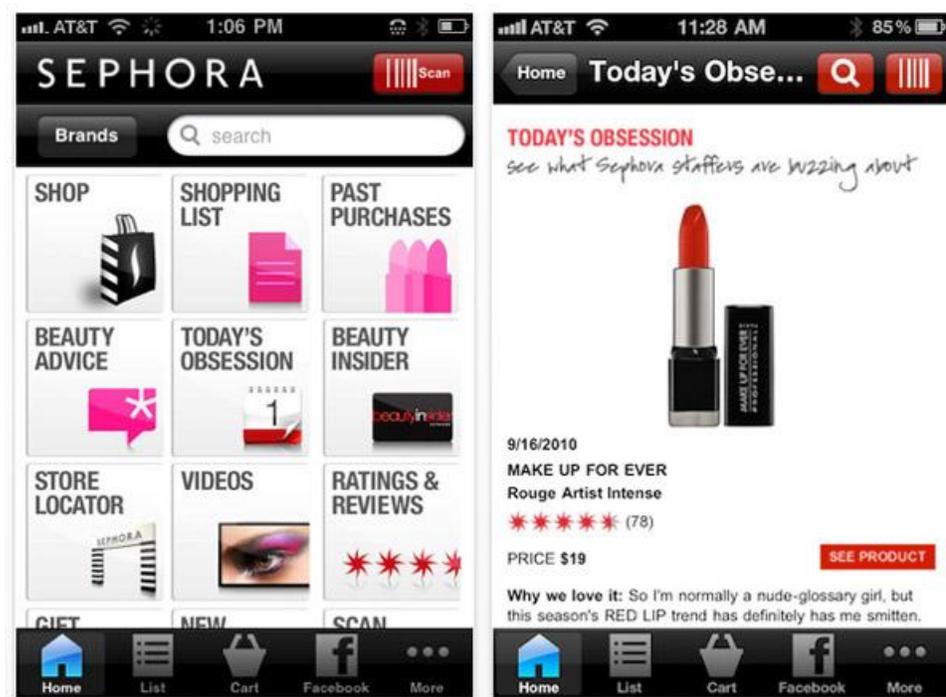
Exhibit 10 Sample Tweets with #Sephora

The screenshot shows a Twitter search results page for the hashtag #sephora. The page includes a search bar at the top with the text "#sephora" and a "Save this search" button. Below the search bar, there are four tweets displayed:

- CareyAnn05** (Carey Ann Pearce): "#UrbanDecay has a new Limited Ed #eyeshadowprimerpotion in Cult! Make sure ur a #sephora #beautyinsider 2 get latest news on newest things!" (1 hour ago)
- BrandiWiine85** (Brandi G): "#sephora" (1 hour ago)
- kay_kay2709** (Kayla Marie Mullen): "Something must be seriously wrong with me. I have had a 100 dollar gift card to #sephora since christmas and have yet to use it. #notlikeme" (2 hours ago)
- Birdette24** (Molly Ritter): "My #Sephora order just got here!" (2 hours ago)

Source: Sephora.

Exhibit 11 Sephora iPhone App Homepage Design



Source: Sephora.

Exhibit 12 Description of Mobile and Social Media Companies

Foursquare was a location-based social networking site that used software for mobile devices. The service was available to users with GPS-enabled devices such as smart phones. Users were rewarded for “checking in” at venues when using the mobile app or text messaging by receiving points or badges.

Groupon was a deal-of-the-day website for major markets in the United States. Users could sign up to receive daily emails about specific deals (typically for things to do, see, eat, or buy) that were only valid on that particular day. The company had 35 million registered users in September 2010.

Shopkick was a mobile application that gave consumers rewards and offers when they walked in to a participating store. Consumers could earn “kicks” by opening up the mobile app and “checking in” to the store or by scanning items in the store. Kicks could be redeemed for rewards.

Shop Socially (Shop Social.ly) was a social shopping platform based on the premise that buying decisions should be influenced by friends. The company helped users ask friends for recommendations when they were buying something, and users could share their own purchases and expertise to help friends shop.

Source: Casewriter research.

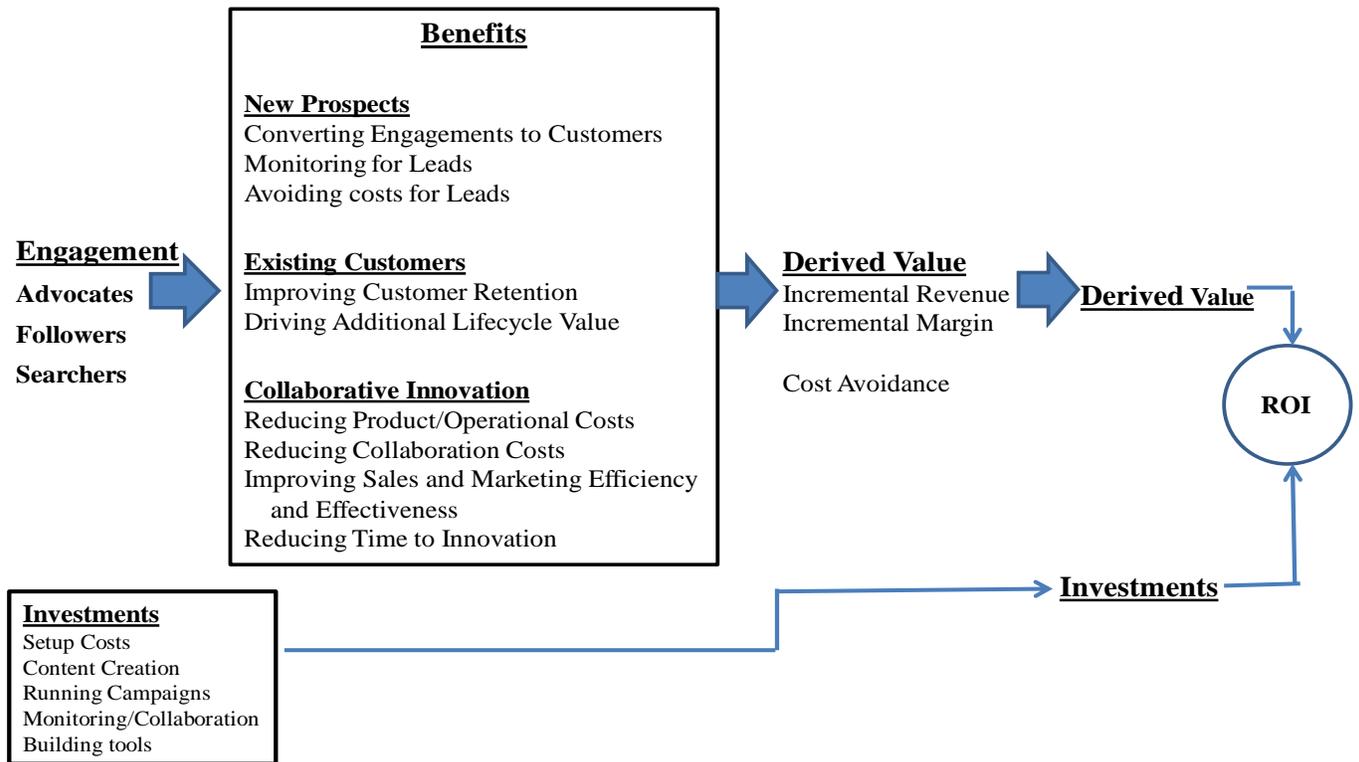
Exhibit 13 Proposed Categories for Sephora's 2011 Social Media, Video and Mobile Budget

Budget Category	Description/ Programs	2011 Budget Allocation
Video Production		
Video/YouTube Advertising		
Video Contest		
Facebook Development		
Holiday/Viral Promotions		
Social Partnerships		
Mobile		
Store Kiosks		

Source: Sephora.

Exhibit 14 Example of a Third Party Social Media Evaluation Framework

$$\text{Social Media ROI} = (\text{Derived Value} - \text{Investments}) / \text{Investments}$$



Engagement Level	Description	Typical conversion rate from a digital/social engagement to purchase*
Advocates	Actively participate in interactive threads and post comments frequently	2.25%
Followers	Registered as followers on company's social platforms (such as a follower on Twitter or Blogs, or a fan on Facebook)	1.125%
Searchers	Monitor and listen to social media streams for items of interest; scan online resources to find relevant information	0.75%

*By comparison, click through rates for online banner ads are assessed at 0.1-0.2% on average, with conversion to purchase post click some fraction of that)

Source: Adapted from Tom Pisello, <http://www.contentmarketinginstitute.com/2011/01/roi-social-media-marketing/>, accessed June 16, 2011, and Dave Chaffey, "Display advertising clickthrough rates" January 10, 2011, <http://www.smartinsights.com/blog/internet-advertising/display-advertising-clickthrough-rates/>, accessed June 20, 2011.

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² Diane Seo, "Sephora Applies a Bold Stroke to Cosmetic Sales," *Los Angeles Times*, February 11, 1999, <http://articles.latimes.com/1999/feb/11/business/fi-7008>, accessed March 24, 2011.

³ Ibid.

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⁵ Brian Tunick, Ike Boruchow, Jr., "Ulta Salon, Cosmetics & Fragrance, Inc.," J.P. Morgan, January 31, 2011. P. 3.

⁶ ULTA 2009 10-K, published March 31, 2010.

⁷ Catherine Saint Louis, "Can Ulta Muss Up Sephora's Make Up," *The New York Times*, July 23, 2009, <http://www.nytimes.com/2009/07/23/fashion/23Skin.html>, accessed April 29, 2011.

⁸ Data from Sephora, originally from a Morgan Stanley report.

⁹ Based on study by Vitruve, posted online at: <http://www.rcubed.co.za/blog/measuring-value-of-a-facebook-fan/>, accessed on June 16, 2011.