

Sales Growth for Ulta, Industry Should Continue This Summer

Companies: CVS, EL, EPA:MC, JCP, JWN, M, PG, REV, RGS, TYO:4452, ULTA, WAG, WMT

May 26, 2011

Research Question:

Will Ulta maintain same-store sales growth for summer 2011?

Summary of Findings

- [Ulta](#) Salon, Cosmetic & Fragrance Inc.'s (ULTA) revenue and popularity should continue to grow this summer through the company's [customer loyalty programs](#), product selection, affordable prices, store expansions and marketing. Also, Ulta sets itself apart from competitors by offering salon services.
- Ulta sources and their competitors expect overall industry sales to improve this summer.
- A competitor reported overhearing her customers say they would wait to buy products at Ulta based on its prices.
- One supplier said Ulta's 3Q11 orders rose year to year.
- Two sources, both industry experts, questioned the sustainability of Ulta's discounting practices.
- Ulta customers, industry specialists and competitors all concurred that Ulta is not as high-end as [Sephora](#) (LVMH Moët Hennessy Louis Vuitton S.A./EPA:MC).
- A Sephora store reported placing makeup in the back of the store so that customers would see the skin care products on their way to the makeup section.

Silo Summaries

1) ULTA STORES

All three stores said second-quarter sales have met or exceeded expectations, and expect growth to continue this summer. Sources credited the company's expansion, customer loyalty programs and services such as in-store salons.

2) CUSTOMERS

Three of five customers said Ulta will gain in popularity while two said the company's status will hold steady. Sources praised Ulta's selection, prices and loyalty programs but said Sephora offered better-trained staff and that department stores had better promotions. Two said they do not often make online cosmetics purchases because of the inability to test products.

3) SUPPLIERS

Three suppliers said their own sales have been good and that Ulta will maintain its recent growth through its marketing efforts, discount programs and location expansion. One supplier said Ulta ordered more products year to year. This source also said Ulta holds varying discount policies with suppliers.

4) COMPETITORS

Four of five competitors reported healthy sales, including one Sephora source whose sales had improved 30% to 35% quarter to quarter. These sources also expect summer sales to be higher year to year. The fifth source, representing Dillard's, said sales have been steady quarter to quarter but likely will decrease this summer. Sephora associates discussed their company's reward programs and one said skin care had been moved in front of stores to entice customers walking toward the back for makeup. A MAC salesperson for a department store said sales have exceeded expectations and should outpace summer 2010. This source also believes Ulta will further gain share, and has overheard customers saying they will wait to buy products at Ulta based on price.

5) INDUSTRY SPECIALIST

Two of these four sources expect Ulta to gain share through its expansion plans while two others said the company's share will hold steady this summer. Two sources said Ulta's discounting levels are unsustainable and, for one, even a negative for the company's image. One source said Sephora's staff is more knowledgeable while another said Sephora and department store staff are more engaged with their customers.

	Ulta's Summer Sales	Ulta's Loyalty Program	Industry's Summer Sales
Ulta Stores	↑	↑	↑
Customers	↑	↑	→
Suppliers	↑	↑	↑
Competitors	→	N/A	↑
Industry Specialists	→	N/A	→

Ulta Salon, Cosmetic & Fragrance Inc.

Background

Ulta's [FY4Q09 results](#) (ending Jan. 29, 2011) were 19.5% year-to-year revenue growth, 10.4% same-store sales growth and a margin improvement of 110 basis points. As shoppers' financial conditions improve, so does their discretionary spending ability. However, now consumers face higher gas and living costs. Ulta not only offers a wide variety of beauty products but also discount and loyalty programs for the price-conscious customer. Ulta has 389 stores in 40 states while Sephora, its closest competitor, has more than [900 stores](#) in more than 20 countries. Ulta intends to expand to over 1,000 stores in the United States.

CURRENT RESEARCH

Blueshift assessed whether Ulta can maintain its sales growth for summer 2011. Blueshift employed its pattern mining approach to establish and interview sources in six independent silos:

- 1) Ulta stores (3)
- 2) Ulta customers (5)
- 3) Suppliers (3)
- 4) Ulta competitors (5)
- 5) Industry specialists (4)
- 6) Secondary sources (3)

Blueshift interviewed 20 primary sources and included three of the most relevant secondary sources focused on comparing cosmetics sales growth to prerecession levels, Sephora's customer service advantage over Ulta, and an example of how improved discretionary income benefits cosmetics companies like Ulta.

Silos

1) ULTA STORES

All three stores said second-quarter sales have met or exceeded expectations, and expect growth to continue this summer. Sources credited the company's expansion, customer loyalty programs and services such as in-store salons.

➤ Manager, Chicago

Sales have been meeting expectations and should exceed last summer's figures. The store is extremely busy on the weekends and weeks prior to a holiday. ["Ultamate Rewards"](#) customers receive coupons and earn points with every purchase, redeemable for free gifts. This source said Ulta's in-store services and wide range of products make it more appealing than Sephora, Ulta's biggest competitor.

- "Sales are good. We are doing as well as expected. We are always busy. I expect this summer will also be busy and successful—probably better than last summer. The weekends are crazy here. You have to be on the top of your game on the weekends because there are so many customers here, asking for assistance. We also do really well when there is a holiday—the weeks leading up to it."
- "We don't really have a lot of sales. We send coupons to our Ulta card members through the mail. ... Customers have been getting the same amount of coupons as they have been. I am not seeing any new or different coupons."
- "Ulta card customers can also build points through their purchases to get free gifts. Points accumulate with every purchase. Customers really like that they can choose which gift they want, depending on the level of points they are redeeming."
- "Most of our promotions are associated with the holidays. We just came off of Mother's Day, and we had a lot of events and promotions that did well. Now we are getting ready for Father's Day, so our promotions will be more geared toward men."

Here you can get your hair done, your nails done or your brows done. You can't do any of that at Sephora.

*Manager, Ulta Store
Chicago, IL*

Ulta Salon, Cosmetic & Fragrance Inc.

- “Sephora is our biggest competitor, but we offer a lot more than Sephora. Sephora does not offer any services. Here you can get your hair done, your nails done or your brows done. You can’t do any of that at Sephora, so it is limiting. Sephora does offer some great makeup but they just don’t have the services and range of products like we do. We are a much more well-rounded store and have more to offer the customers.”

Reporter Observations: Blueshift observed three purchases, all made by middle-aged women, during our 40-minute visit on a Sunday afternoon. Several other women ages 25 to 60 were browsing in the store. Staff included a security guard near the entrance, two people working the registers and another three or four associates on the sales floor. The store was well-organized and clean.

➤ Sales associate, Wilmington

This source expects sales to exceed plan and to continue to grow quarter to quarter and year to year. Summer sales will get an extra boost from tourists. Promotions and discounts have increased year to year. This source said Ulta offers more of a selection than Sephora.

- “We expect to exceed our goal for the second and third [calendar] quarters.”
- “Summer is very busy for us because we are a beach town.”
- “We have not been impacted by the economy. A woman will never give up beauty. She may buy less expensive products, but she will always need mascara and lipstick.”
- “We have more variety than Sephora.”

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*Sales Associate, Ulta Store
Wilmington, NC*

Reporter Observations: Fifteen to 20 shoppers and six associates were in the store. Two customers had hair appointments. This Ulta store was very well-organized and offering a lot of great deals. [Benefit Cosmetics LLC](#) products were front and center in the store. The second tier of displays featured buy two, get two free on [Ulta products](#). Many major brands were on sale during May. The checkout associate encouraged each customer to become an Ulta card member, and offered three months of *In Style* magazines as an incentive.

➤ Sales assistant, Southern California

Ulta is continuously expanding, carrying out events and offering promotions. The source said the store benefits from being between two popular vacation destinations, and said summer sales should be good. Sephora is Ulta’s only real competitor because it carries similar brands. Beauty supply stores and department stores cannot compete with Ulta’s wide variety. She said customers spend \$40 on average per visit.

- “[Ulta] must be doing well. They are constantly building, expanding.”
- “People spend about \$40 on average.”
- “We do [events] several times a year: one in spring, one in summer, one in fall. We don’t need one around Christmas because there is so much traffic. The line is out the door.”
- “In January it’s dead. People are shopped out.”
- “This summer will be really busy, a lot of vacationers. We’re right between two beaches, and this is the only store.”
- “We had a change in management, and they’re doing different stuff to bring people in.”
- “We have ads each month promoting something new. There’s something every few weeks.”
- “Our promos exclude the center section [high-end makeup] and fragrances but include hair dye, makeup remover, more mass brands.”
- “Sephora [has] the same products for the most part. They are a little different. We don’t have [Make Up For Ever](#); it’s not one of our brands, and people ask for that a lot. Our stores ... are bigger and carry more brands.”

Reporter Observations: About 25 women ranging from 20 to 50 in age were in the store, mostly in the low- to midrange makeup sections. Three women were having their hair done in the salon, and about five women were making purchases. Staff included nine women and one man. Several promotions were being offered.

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2) ULTA CUSTOMERS

Three of five customers said Ulta will gain in popularity while two said the company's status will hold steady. Sources praised Ulta's selection, prices and loyalty programs but said Sephora offered better-trained staff and that department stores had better promotions. Two said they do not often make online cosmetics purchases because of the inability to test products.

➤ 40-year-old Chicago woman who shops at Ulta and Sephora

Ulta is always busy and should have good traffic this summer. Sephora is Ulta's top competitor. This source shops at both stores a few times a year but said Ulta is more conveniently located. She typically spends \$20 per trip. She would shop more often at Ulta and Sephora if they offered gifts with purchase rather than points toward gifts.

- "Every time I come to the store, it is busy. I don't see that changing this summer."
- "I think Ulta is very popular. I know several friends that shop here and they spend some serious cash. My mom even shops here for hair products."
- "I come to Ulta a couple times a year. ... I have bought makeup, hair products and hair brushes here for at least a decade. I spent about \$20 per trip. Today, I spent a little more, but I expected to for what I was getting."
- "I am making the same number of trips as two months ago. I had not been in since Christmas."
- "I shop at Sephora as often as I shop at Ulta—a couple of times a year. I don't see that changing. I might be at one or the other once later this summer."
- "Not getting gifts-with-purchase promotions is one of the main reasons I don't purchase more often at Ulta or Sephora. You don't really get any samples or gifts when you spend your money, unless you decide to redeem points. Building points can be annoying; I would rather have my bonus on the spot."
- "I have used Lancôme products for years. I always buy it during promotion."
- "It was hard to walk out of here with only one thing, but since I just spent a few hundred dollars on Lancôme makeup and skin care, I had to restrain myself."
- "At Sephora, I mostly buy eyeliners there. I love their private-label eyeliners. I probably have at least 20 of them. They cost anywhere from \$6 to \$10 a pop, and they last for years."

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*Customer, Ulta
Chicago, IL*

➤ Middle-aged man who shops at Ulta for his hair care products, Chicago

This source expects Ulta to maintain sales this summer as he said it is more of a year-round niche store for personal care products. He appreciates Ulta's prices on hair care products. His wife and he shop at Ulta quarterly and have had the same spending habits in the last year.

- "Ulta will maintain sales this summer. ... People need personal care products year round, every day. That is not going to change, so I don't see why Ulta sales would go down."
- "I feel Ulta fills a niche market. They have everything you need—a great selection of hair care products, brushes and combs and makeup. My wife and I really like Ulta and we have been shopping there for at least a decade."
- "For what you are buying, Ulta has a great selection. It's like they are taking two popular categories, putting them together in the same store and as a result, they have a really strong assortment of both categories."
- "I go to Ulta three to four times a year. It just depends on when I run out and need something. I know my wife sometimes goes shopping at Ulta on her own, too."
- "Compared to a year ago, we are buying the same products we have always bought at Ulta. And we are spending the same the amount of money at Ulta as we always have."
- "There are always a fair number of people every time I am in there. It is always two to three deep when I go to check out. I always have to wait in line, so I would say that is a good sign for business."
- "I guess Ulta's biggest competitor is a salon. ... A salon is limited in selection, so I prefer Ulta."
- "I feel like I get more bang for my buck at Ulta compared to a salon. I can't get the economy size at a salon. ... Sometimes, Ulta even has a bonus special ... where you get both the shampoo and conditioner. You can't get that at a salon."

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➤ Ulta customer, Wilmington

Ulta is becoming more popular because of its selection and prices, but this source reported having better experiences at Sephora because of its superior staff. She shops at Ulta three or four times a year and spends close to \$50 each time. She has not noticed increased promotions at Ulta.

- “The prices at Ulta are cheaper than Sephora, and Ulta has more of a selection of products.”
- “I usually only buy hair care products from Ulta. I buy my makeup at [Wal-Mart \[Stores Inc./WMT\]](#) just cause it’s cheaper and I don’t really use a lot of makeup.”
- “My shopping experience at Sephora has always been better than at Ulta. I think the staff is better trained and more helpful than at Ulta.”
- “Ulta always has some great promotion going on. I like that I save money at the checkout from points that have added up from my last visits.”

The prices at Ulta are cheaper than Sephora, and Ulta has more of a selection of products.

*Customer, Ulta
Wilmington, NC*

➤ Ulta customer, Wilmington

This source believes Ulta will become even more popular because of its prices and product selection. She admits she always buys more than she plans to when shopping at Ulta. She uses Ulta’s coupons, enjoys benefits such as reduced rates on magazine subscriptions through Ulta, and appreciates the opportunity to buy sample sizes.

- “I think Ulta will continue to gain popularity. It is one-stop shopping, and they have great deals and products.”
- “I always look through the mailer and keep the coupon for my next visit. If I know it’s going to expire soon I usually make a trip for just one item to get the savings even if I don’t really need it.”
- “Today I signed up for three months free of *In Style* magazine, and it has a \$5 off a \$10 or more purchase coupon. I am already thinking about what I want.”
- “I spent more today than the last time. I always buy more than I plan on here.”
- “I sometimes buy the sample size of a product if they have it and end up coming back to buy it if I like it.”

➤ Sephora and Ulta customer in her 40s, New York

Ulta’s popularity has risen, but Sephora does a better job of offering new products. This source does not have access to an Ulta store and has bought less Ulta merchandise online in the past few months because she likes to see and touch products. She does like Ulta’s prices, which determine most of her purchases. She expects to buy more Ulta products throughout the summer if she can find better deals online than at Sephora and other brick-and-mortar cosmetics stores.

- “I shop for hair care mostly at Ulta. But I go [to Sephora] much more often since there are stores in the city.”
- “Ulta doesn’t seem to have a lot of new products. It’s always the same thing, just a different version of it.”
- “I shop around for the best price. If I see something I really like at Ulta, I will buy it off their Web site.”
- “Sephora has new [little ‘try me’] packages ... that are given away for free. That’s appealing to me because it means they’re not trying to suck every dollar out of me.”

3) SUPPLIERS

Three suppliers said their own sales have been good and that Ulta will maintain its recent growth through its marketing efforts, discount programs and location expansion. One supplier said Ulta ordered more products year to year. This source also said Ulta holds varying discount policies with suppliers.

➤ Ulta account manager for a large, trendy makeup company

The source expects Ulta’s growth to continue during the summer. Her company’s sales have increased steadily since becoming one of Ulta’s suppliers, and Ulta’s third-quarter orders have risen year to year. Her company benefits when Ulta offers promotions such as 20% off or friends-and-family specials, which affect Ulta’s own margins. Her company does not offer discounts on its products.

- “Our business is trending very well through Ulta.”
- “We have experienced a steady increase in sales in the [more than five years] we’ve been with Ulta.”
- “We don’t take a hit on our end, so the 20% off or friends-and-family discounts affect their margins, not ours.”
- “Sephora has done really well for [J.C. Penney \[Co. Inc./JCP\]](#). It’s a great initiative.”

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➤ Brand manager for a makeup company

Ulta is gaining in popularity. This source's lines are doing well in Ulta stores; the companies are working closely to continue that growth. Ulta's marketing, promotions and locations contribute to its success. Sales of her company's products are strong during promotional events like [21 Days of Beauty](#).

- "We work very closely and have in our plans to grow with them. All of our lines are doing well [at Ulta]."
- "[The promos] are great tools. I don't know if people are waiting for those [to buy products] but so far it's great for sales growth. In general, [Ulta's] events cause significant growth."
- "[Ulta] has changed a lot since I was a consumer. I didn't get it then. ... Their marketing is great. ... The locations are convenient. Sephora gives you a headache; the music is too loud. [But] they have a different level of expertise."
- "Sephora is younger. [Its customers] will splurge on [its products]. They are willing to spend money."

[Ulta] has changed a lot since I was a consumer. I didn't get it then. ... Their marketing is great. ... The locations are convenient. Sephora gives you a headache; the music is too loud. [But] they have a different level of expertise.

Brand Manager, Makeup Company

➤ Sales and marketing, makeup company

This source's company is expecting strong sales at Ulta stores this summer, during which it will host its own promotional events.

- "It's difficult to say [if Ulta 3Q11 will continue to be strong]. There is a lot of travel in the summer months, so it would depend on where the store is located. [Ulta stores] are in a lot of suburban areas, not a lot of tourist areas."

4) ULTA COMPETITORS

Four of five competitors reported healthy sales, including one Sephora source whose sales had improved 30% to 35% quarter to quarter. These sources also expect summer sales to be higher year to year. The fifth source, representing [Dillard's Inc.](#) (DDS), said sales have been steady quarter to quarter but likely will decrease this summer. Sephora associates discussed their company's [reward programs](#) and one said skin care had been moved in front of stores to entice customers walking toward the back for makeup. A [MAC](#) (The Estée Lauder Cos. Inc./EL) salesperson for a department store said sales have exceeded expectations and should outpace summer 2010. This source also believes Ulta will further gain share, and has overheard customers saying they will wait to buy products at Ulta based on price.

➤ Manager and sales associate at a Sephora store in the Chicago area

Sales have been good this year and should benefit this summer from increased foot traffic and warmer weather. Ulta is this store's biggest competitor. These two sources said Sephora is more of a boutique store, for customers who like artistry and high-end brands, while Ulta is more like a drugstore. Sephora does not have sales or newspaper coupons like Ulta; rather, they encourage customers to sign up for their loyalty card to receive special offers and promotions.

- "Sales are good. We have a positive outlook and we anticipate foot traffic to increase revenue even further this summer. We are trending really well right now. It really picked up last week when we had good weather. Overall, we are expecting a good summer."
- "I think our store will always do well, especially with the crowd that likes makeup. Our lines are mostly artistry brands, unlike Ulta. A lot of makeup artists shop here, and most of our customers like the real glam and trendy makeup."
- "Ulta is our biggest competitor, but we are more of a boutique store than Ulta. Ulta feels more like a drugstore to me. We carry more high-end cosmetics and fragrances."
- "You can get some things at Ulta that you could also buy at [CVS](#) [[Caremark Corp.](#)/CVS]. Nothing in our store can be found at CVS. Our products are more unique or more specialized than Ulta's selection."

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*Manager & Sales Associate, Sephora
Chicago-area*

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- “I know Ulta offers coupons in fliers sometimes, like in the Sunday paper, but we never do.”
- “We don’t really have sales. Most of our promotions come through customers who sign up for a Sephora loyalty card. Members get e-mail offers, notices about events and occasionally a coupon to print out. You also get a point for every dollar you spend, and then you get free gifts. Once you reach a certain level, you get 15% off everything in the store and some customer who spend a lot eventually get 30% off. Most people that are at that level are in the business, working as makeup artists or TV/movie production people.”
- “Today is considered a little slow, and we are all still busy assisting customers. The weekends can be an absolute zoo here, especially now that summer is coming. We did have some dead days in the winter.”

Reporter Observations: During Blueshift’s 45-minute visit, all five sales associates were assisting customers either at checkout or on the floor. The store was very clean. We witnessed several purchases by women ages 30 to 60. One purchased a [Laura Mercier](#) (Altacor Inc.’s Gurwitch Products LLC) blush for \$40 while another purchased some private-label makeup for \$25. Both women were Sephora card members; one redeemed 100 points for a trio of travel-size gifts.

➤ Sephora sales associate in the Chicago area

Sales were great last year, including the holiday season, but dropped off at the beginning of 2011 because of gas prices. May has been the store’s best month this year, and the source expects increased foot traffic and sales this summer. Competition comes not from Ulta stores but from [Nordstrom Inc.](#) (JWN) and [Bloomingdale’s](#) (Macy’s Inc./M) because of their similarly trained associates and product lines.

- “Last year, our sales were phenomenal. We had an incredible 2010. And we had a great Christmas last year too. The sales were through the roof. But everything has changed since this January.”
- “Once 2011 hit, it was like a total drop-off. The sales just stopped. The only thing I can see that is causing it is the increase in gas prices. ... It was eerie how fast it dropped off—almost overnight. ... Folks just stopped shopping, but they are slowly coming back.”
- “It is incredible how much the increase in gas prices have affected our sales this year. It is scary, and nobody knows what will happen or how high they will go. I think people were just being cautious with their spending. I really hope they open their wallets soon!”
- “Sales are picking up now. During the course of this year, it has been just OK. Things have really slowed down this year compared to last year.”
- “This month has been the best month we have had this year so far. Traffic has picked up. Now that summer is approaching and now that tourist season will be in full swing, we hope to get back to the numbers we saw last spring and summer.”
- “We don’t really consider Ulta our competition. Here, our competition is more Nordstrom’s or Bloomingdale’s, where guests have access to trained representatives and makeup artists. Those retailers also carry most of same brands that we do, such as Laura Mercier, [L’Oréal S.A.’s/EPA:OR] [Lancôme](#), [Estée Lauder’s] [Clinique](#) and so on. Ulta is more like a [Walgreens \[Co./WAG\]](#). You can buy [Revlon \[Inc./REV\]](#) at Ulta but not here. We don’t carry lines that you can find at Walgreens.”
- “Everyone who works at Sephora goes through intensive and special training at what we call [Sephora University](#). ... You don’t get that kind of expertise and service at Ulta. Everyone on the floor at Sephora knows what they are doing. They don’t at Ulta. You would be lucky to find someone who knows anything about the products they carry.”

Our competition is more Nordstrom’s or Bloomingdale’s, where guests have access to trained representatives and makeup artists. ... We don’t carry lines that you can find at Walgreens.

*Sales Associate, Sephora
Chicago-area*

Reporter Observations: Blueshift visited this store shortly after it opened, so only a few customers were present. One woman in her 40s purchased foundation and mascara and used her Sephora loyalty card. Four associates were assisting guests, tidying up the displays and covering the register. This urban store was large, clean and lacking in sale items.

➤ Sephora sales associate, New York City

Second-quarter sales have increased roughly 30% to 35% quarter to quarter, and sales should continue to grow this summer, which is typical for this location. This source said her store was achieving roughly \$30,000 in sales per day on weekends.

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- “We’ve been really busy lately. ... Second-quarter sales were probably better than in the first quarter ... maybe about 30%, 35% better.”
- “This summer’s sales will definitely pick up from what it is even now. ... It will get busier here.”
- “Lots of Sephora stores are moving skin care products to the front because they know women will walk to the back for makeup. We’re going to put skin care toward the front in the next couple weeks. Fragrance will be front and center.”
- “We’re doing about \$30,000 in sales per day on a weekend.”
- “The spring is typically busy, but it always gets busier this time of year. People are outside more, so skin care and fragrance products take on more importance. Women go out more at night, and they want to look good.”
- “We sell 70% makeup, 30% skin care. That’s basically the case for all Sephora stores.”
- “It cools off at the end of summer but picks up again near the holiday season—about late November through Christmas.”
- “We gets lots of local guys who come here for skin care and cologne.
- “It’s probably 60:40 tourists-to-locals, but we do get a lot of office workers during their breaks and after work.”

Lots of Sephora stores are moving skin care products to the front because they know women will walk to the back for makeup.

Sales Associate, Sephora
New York, NY

Reporter Observations: In Blueshift’s 20-minute visit, 40 to 45 women were in the store, and half of those made purchases. Few made their way to the back of the store, where the skin care products were located, and few perused the men’s skin care and fragrance products.

➤ MAC associate, major department store, Wilmington

Sales for the cosmetics and fragrance departments have been great, and are expected to grow this summer. Ulta is this department store’s biggest competition, and should continue to have success and gain popularity this summer.

- “All brands are meeting their goals.”
- “At MAC, we are trending high. We exceeded our goal for the second quarter, and we expect to exceed for the third quarter too. We always plan up from last year.”
- “We have been consistent in our growth here at MAC.”
- “I think Ulta is our biggest competition locally. They are all an encompassing beauty store.”
- “Ulta is really popular around here. They have a great location.”
- “I hear people say they will ‘just buy it at Ulta’ when looking for a cheaper alternative to, say, our brushes.”

I hear people say they will ‘just buy it at Ulta’ when looking for a cheaper alternative to, say, our brushes.

Sales Associate, MAC
Wilmington, NC

Reporter Observations: This major department store was running a gift-with-purchase promotion. The cosmetics and fragrance sections were neat and well-staffed. Six shoppers and four sales associates were in the department.

➤ Dillard’s sales associate, Wilmington

Sales have been steady quarter to quarter, but are expected to fall slightly this summer year to year. [Belk Inc.](#) is Dillard’s biggest competitor because they carry the same cosmetics and fragrance brands.

- “Sales always drop slightly during the summer.”
- “Sales have been pretty good, the same from the first quarter to the second quarter so far.”
- “Our gift-with-purchase promotions really drive sales. A lot of shoppers wait until we have a promotion. ... Also, the free sample products that come in the gifts get customers using our products.”

Reporter Observations: The cosmetics section was filled with brand signage, current promotion signage and product displays. Aisle displays featured products not associated with major counter brands. Three staff members were standing around ready to assist customers. Three customers purchased items during our visit.

Ulta Salon, Cosmetic & Fragrance Inc.

5) INDUSTRY SPECIALISTS

Two of these four sources expect Ulta to gain share through its expansion plans while two others said the company's share will hold steady this summer. Two sources said Ulta's discounting levels are unsustainable and, for one, even a negative for the company's image. One source said Sephora's staff is more knowledgeable while another said Sephora and department store staff are more engaged with their customers.

➤ Former head of a hair product company

Ulta's revenue growth is sustainable as long as the company can continue to offer numerous products, use savvy advertising and promotional campaigns, and open new stores in attractive locations. Ulta faces competition from companies like [Regis Corp.](#) (RGS), [Beauty Brands Inc.](#) and Premier Salons Ltd.'s [Beauty First](#), but is gaining in popularity and market share.

- "As Ulta expands their footprint and consumer shopping experiences, they are able to maintain a loyal base of shoppers. I believe they are getting more popular and gaining share."
- "Ulta is a very popular destination for beauty consumers. The salons attract customers who are looking for a salon experience and convenience of the big-box retailer/salon combination. Cross-promotions and extensive advertising along with selection drive consumers in."
- "Customers choose Ulta over a department store or Sephora because of easy access, better assortment, better prices, better experience."
- "Ulta's discounting levels are high comparatively. I do not see those levels sustainable long term, especially the buy two, get one free [offers]."
- "Management has done a nice job overall, and they are a good retailer to work. They work with vendors very well to drive growth."
- "From a salon product's perspective, Ulta faces competitors like Regis on a national level and ... businesses like Beauty Brands and Beauty First ... regionally."
- "Sephora has a very good selection of products that are exclusive to Sephora. In addition, the staff is more knowledgeable for cosmetic advice and the quality of the products is better in many cases."

Ulta's discounting levels are high comparatively. I do not see those levels sustainable long term, especially the buy two, get one free [offers].

Former Head of Hair Product Company

➤ President of a family-owned makeup company

Ulta's store expansion will facilitate continued revenue growth, but this source believes the company will "hit a wall" because of brands that are in dual distribution. Although discounting helps drive business, he believes too much discounting hurts Ulta's image. He noted Ulta's brand selection and salon services as positives.

- "Ulta is doing very well. It seems like they are expanding and carrying the right kinds of brand, but I think they are going to hit a wall because they are carrying a lot of brands that are in dual distribution. Ulta is not just competing with the salon industry but competing with the mass market industry—and it will create problems."
- "Ulta is becoming more popular than Regis and probably more popular than Sephora, only because Ulta has more locations."
- "Long-term discounting should work, but I think it affects their image. It's a negative on their image. It's the same problem Regis is having; they discount so much for so long that people only buy when it's discounted."
- "[Sephora offers] an upscale image [in comparison to Ulta]."
- "The department stores' brands are through Sephora or through a salon association."
- "Ulta has a salon so they do services, and some of the recommendations they give are based on use of the products."

➤ President and owner of a salon supplies and services company in the Pacific Northwest

Ulta's salons are becoming more popular, but the company's revenue growth will not be sustainable unless it can create a stronger infrastructure with its staff of ownership. Ulta's main competitors are Beauty First, Sephora, department stores and beauty supply companies; currently, Ulta is maintaining its share. Customers choose Ulta because of discounts, but the company's level of discounting cannot be maintained.

- "[Ulta's salons are] neutral but increasing in demand from the consumer. Ulta is building out in the Pacific Northwest just recently."

Ulta Salon, Cosmetic & Fragrance Inc.

- “[Sephora offers] staff that is very engaged and enthused about the product line [and an] environment in supporting the clients.”

➤ Executive of an international hair product company

Ulta is gaining share through expansion, and the company’s revenue growth is sustainable as long as it can keep an eye on the competition. Sephora offers a more chic place to shop while higher-end department stores offer a wider variety of premium brands. Customers sometimes choose Ulta over a department store or Sephora because of its convenience or its customer relationship management programs. He expects Ulta to continue to discount its professional hair care products.

- “Because of Ulta’s expansion I would believe they are gaining market share.”
- “Ulta will maintain same-store sales growth for summer 2011.”
- “Higher-end department stores may offer a little more selection of premium brands, [but] I don’t see this being an issue at all [for Ulta].”
- “Ulta salons are more popular for the brands they retail than for services provided.”
- “Ulta’s largest competitor for retail is probably J.C. Penney salons as well as Sephora, but [I am] not sure the Sephora customer is a regular shopper at Ulta.”
- “Ulta is perceived as a lower-price retailer and I believe they will continue to heavily discount pro hair care.”

Secondary Sources

A Kline study showed an increase in cosmetics sales growth above prerecession levels. Feedback posted on Facebook to an Ulta store manager’s request was overwhelmingly in favor of Sephora for its more knowledgeable staff and overall better customer service. Meanwhile, a blog post exemplified how Ulta benefits when a consumer’s discretionary income increases.

➤ May 4 Drug Store News article

Cosmetic sales in 2010 grew 2.4% compared with 2009, according to research firm Kline. Skin care, makeup and nail polish all contributed to overall growth. Mall-based stores saw the most growth while professional offices saw the lowest overall increase.

<http://drugstorenews.com/article/us-sales-cosmetics-toiletries-rise-above-pre-recession-levels>

- “Sales of cosmetics and toiletries in the United States increased 2.4% to \$36.5 billion in 2010— which is above pre-recession levels— thanks to technological advances, promotional activity and rising consumer confidence, according to worldwide consulting and research firm Kline.”
- “While the industry showed signs of recovery, consumers influenced by economic uncertainties continued to scrutinize their spending, shopped at venues with competitive pricing and sought out products on sale.”
- “In 2010, skin care remained the largest product class, accounting for 25% of total industry sales. Thanks to the emergence of high-tech facial treatment offerings, the product class also has remained one of the fastest-growing segments. The industry front-runner was makeup, which registered a 4.4% growth, according to Kline. Lending a strong hand to the success of the makeup category were nail polishes, which soared 20.4% in 2010 because of new product activity, adapted to achieving at-home salon results and easy application.”
- “All trade classes registered a certain level of growth in 2010. While the specialty trade class— which consists mainly of mall-based stores, including Bath & Body Works and The Body Shop— posted the strongest gains, providing a good sign that consumers are back out and shopping again, the professional channel— encompassing salons, spas and physician offices— registered the lowest overall increase of 1.9%.”

Sales of cosmetics and toiletries in the United States increased 2.4% to \$36.5 billion in 2010— which is above pre-recession levels— thanks to technological advances, promotional activity and rising consumer confidence.

Drug Store News Article

Ulta Salon, Cosmetic & Fragrance Inc.

➤ Facebook responses to an Ulta manager's question about Ulta vs. Sephora

Via Facebook, an Ulta manager requested comments on pros and cons of both stores and asked what Ulta can do to improve. Most comments showed a preference for Sephora because of the “more shopper friendly atmosphere,” which includes knowledgeable staff, better customer service and more samples.

http://www.facebook.com/topic.php?uid=57162292232&topic=9663#topic_top

- “I prefer Sephora as it is a much more shopper friendly atmosphere, and the staff are very knowledgeable about the products. ... Ulta staff aren't as friendly and offer very little help/advice. They also may need to reevaluate the setup as it is not easy to get into the store and test out the products.”
- “I shop at both but find that I like Sephora much better. Mainly due to the range of products they carry that Ulta does not. Sephora's setup is more shopper friendly. The baskets are not big and bulky and there are cleaning products/supplies to use when you are testing products. Ulta's baskets are too big and there are no stations to clean your hands from the swatches. Ulta's sales associates are not that helpful and knowledgeable in my opinion.”
- “Ulta is way better when it comes to customer service or at least in my opinion. My aunt used to work at Sephora and they literally told her that they had to keep an eye on people that ‘appear’ to be in their twenties or younger because they may steal stuff, so that's why you see at Sephora people hounding you every five seconds in there. I love how at Ulta, people don't stare you down and they don't ask you like every five seconds ‘can I help you get something?’”
- “I tend to like Sephora better, they have helpful and friendly sales associates, I have never been to a Ulta and had one of [their] associates even smile at me, I also like Sephora's samples they give you a sample of almost anything they have on the shelves that they can put in a sample size container, even perfume, to me that is a huge perk get to try a product a few times before I purchase a full size product and have to take it back if it doesn't work for me.”

➤ April 10 posting on the Yet Another Beauty & Fashion blog

This blogger wrote that her new job provides her with extra income to shop at Ulta. She plans to return to Ulta to use a coupon for [Maybelline](#) (L'Oréal) products. We also included a quote from this source's Twitter page about a recent online Sephora purchase.

<http://yetanotherbeautyandfashionblog.blogspot.com/2011/04/back-with-mini-ultra-haul.html>

- “I got a new job with JP Morgan Chase so with that comes a little bit more financial freedom and thus I have been able to try out some nice higher end items! Of course I will always love drugstore and other bargain finds.”
- “I went to Ulta with my brother and sister-in-law and came out with a couple things.”
- “I will probably go back soon because I have a coupon I forgot to bring and Maybelline is also 40% off. I have been wanting to try the one by one mascara after hearing Tiffany talk about it.”

[Twitter post from May 18:](#)

- “Someone just needs to block me from sephora.com. I just made another order. I even paid for shipping!”

Next Steps

Blueshift's next report will monitor Ulta's discounting and promotion levels and determine if they are sustainable. We will also monitor summer sales for both the industry and Ulta. Finally, we will monitor success of Ulta's expansion plans.

Additional research by Cheryl Meyer, Lindsay Gadsby, Erica Franklin, Kyle Stack and Tina Strasser

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