

# Ulta Brings Makeup to the Masses Through Promos, Selection, Locations

Companies: AMZN, COST, CVS, EL, EPA:MC, EPA:OR, JCP, JWN, M, SBH, SKS, TGT, ULTA, WAG, WMT

August 18, 2011

## Research Question:

**Will Ulta continue its same-store sales growth and discount levels through the remainder of 2011?**

## Summary of Findings

- Ulta Salon, Cosmetics & Fragrance Inc. ([ULTA](#)) is well-positioned to expand further and grow sales through year's end, particularly during the holiday season. Ulta should continue to benefit from popular loyalty [programs](#) and aggressive discounts and promotions, which often are partially supported by its suppliers.
- The company's convenient locations, broad selection, one-stop shopping and comparable pricing appeal to a broader demographic.
- Ulta continues to expand its selection to attract additional customers. It recently added the [Laura Geller Make Up Inc.](#) line and reportedly is partnering with L'Oréal SA's (EPA:OR) [Lancôme](#).
- Ulta's efforts to expand and promote its [men's section](#) are timely and will take advantage of the burgeoning men's market.
- Ulta faces a threat in [Target Corp.](#)'s (TGT) expanding beauty section as well as from Sephora's (LVMH Moët Hennessy Louis Vuitton S.A./EPA:MC) [partnership](#) with J.C. Penney Co. Inc. (JCP). One Ulta customer now shops for Sephora items more often given their availability at J.C. Penney.

## Silo Summaries

### 1) SUPPLIERS

All four sources expect Ulta's sales growth and promotional activities to continue through year's end thanks to its strong management, excellent supplier relationships, aggressive promotions and loyalty programs, the rapidly growing men's market, convenient locations, one-stop beauty shopping convenience and strong online sales. Sources indicated that they are sometimes asked to participate in Ulta promotions. Sources did not comment on competitive or market-related threats for the company.

### 2) CUSTOMERS

Seven of 10 sources said Ulta has been able to acquire loyal customers who spend between \$30 to \$80 on each visit. The other three sources preferred Sephora, but still admitted to occasionally shopping at Ulta. Customers are driven to Ulta by value pricing, convenient locations, wide-ranging products, an appealing loyalty program, and frequent promotions and discounts. No source uses Ulta's in-store salon services, but Ulta's midtier position between drugstores and higher-end cosmetic retailers should allow the company to continue its same-store sales growth. The seasonal increase in traffic and sales at Ulta locations also should benefit the company.

### 3) INDUSTRY SPECIALISTS

All three sources expect Ulta's sales growth and promotions to continue through this year and possibly into 2012. Its large, diverse and ever-expanding product selection, competitive prices, professionally trained staff, growing men's department and in-store salon are driving the sales growth. Two of the three sources commented on the success of Ulta's in-store salons. One source said Sephora's partnership with J.C. Penney will allow it to enter more doors and continue to dominate the market.

### 4) COMPETITORS

All six sources said overall cosmetics sales are on the rise and should experience a robust fall and holiday season. Ulta is a midtier retailer with price points suitable for a wide range of customers. Two sources expect Ulta's growth to continue, and praised the company's brand portfolio, promotions and discounting. A department store source indicated that the consumer has spoken and they prefer the Ulta and Sephora shopping model compared to the individual counter model of her store.

### 5) ULTA STORES

One of these three sources directed Blueshift to corporate for information, but the other two shared that sales are strong and growing thanks to selection, price, discounts, and new items. One source said Lancôme products were coming to Ulta. Blueshift observed strong traffic and numerous markdowns and promotions, including a BOGO.

	Ulta Well-Positioned for Sales Expansion	Promotions Will Continue to Drive Business	Product Selection Compared to Competitors
Suppliers	↑	↑	↑
Customers	↑	↑	↑
Industry Specialists	↑	↑	↑
Competitors	↑	↑	→
Ulta Stores	↑	↑	↑

# Ulta Salon, Cosmetics & Fragrance Inc.

## Background

Sources in Blueshift's [May 26 Ulta report](#) expected the company's growth to continue through the summer because of its loyalty programs, affordable prices and store expansion. Questions were raised regarding the sustainability of Ulta's discounting practices. In June, Ulta's [first-quarter net sales](#) increased 20.6% and same-store sales rose 11.1% year to year. Ulta expects FY2011 and 2012 earnings to continue to increase.

## CURRENT RESEARCH

In this next study, Blueshift assessed whether Ulta's same-store sales growth will continue through year's end and if its discounting and promotion practices are sustainable for the long term. Blueshift employed its pattern mining approach to establish and interview sources in six independent silos:

- 1) Suppliers (4)
- 2) Customers (10)
- 3) Industry specialists (3)
- 4) Competitors (6)
- 5) Ulta stores (3)
- 6) Secondary sources (3)

Blueshift interviewed 26 primary sources and included three of the most relevant secondary sources focused on the beauty and makeup industry.

## Silos

### 1) ULTA SUPPLIERS

All four sources expect Ulta's sales growth and promotional activities to continue through year's end thanks to its strong management, excellent supplier relationships, aggressive promotions and loyalty programs, the rapidly growing men's market, convenient locations, one-stop beauty shopping convenience and strong online sales. Sources indicated that they are sometimes asked to participate in Ulta promotions. Sources did not comment on competitive or market-related threats for the company.

#### ► Executive vice president of sales and marketing, international nail product company

Ulta's growth will continue because of strong management, a recession-proof business model and a proven format, among many other strengths. Ulta is taking advantage of the current real estate market to continue its expansion, but has control over the pace of its growth based on its strong financial position.

- "[Ulta] has a recession-resistant business model and has incredible expansion opportunities in the current real estate market. They have proven that their format works, and continue to come to market with brands and programs that, in my opinion, broaden their base of customers."
- "They also do a very good job of advertising and were focused like a public operation before going public. I also think they are in a very good financial condition to move as quickly or slowly as needed."
- "[We] have worked with and enjoyed a great relationship with Ulta for over [10 years], through their salon merchandising team and [more recently with a newer] line with their mass merchandising team."
- "We have worked with their senior management very closely over the years, and feel that with the current CEO [\[Chuck Rubin\]](#) and support teams they have a very bright future and are a unique one-stop beauty destination."

[Ulta] has a recession-resistant business model and has incredible expansion opportunities in the current real estate market. They have proven that their format works, and continue to come to market with brands and programs that, in my opinion, broaden their base of customers.

*Executive VP of Sales & Marketing  
International Nail Product Company*

# Ulta Salon, Cosmetics & Fragrance Inc.

## ➤ Men's product supplier

Ulta's growth will continue to be strong through the remainder of 2011 because of the holidays and the company's ever-increasing popularity, store expansion and good press. Orders more than double during the holidays for this supplier, and Ulta is its most consistent distributor. The men's section will benefit Ulta's sales as it is a rapidly growing market segment. Men increasingly are buying products for themselves year-round while women drive men's sales during the holidays.

- "[Ulta] is going to be very, very prosperous—nowhere but up during the remainder of 2011. [Ulta orders] at least double during the holidays."
- "Ulta is gaining [in popularity] because of numerous locations. ... There are stores everywhere, and they get great press."
- "We have a great relationship with [Ulta], and orders are coming in regularly. They normally order weekly. ... Ulta is our most consistent [distributor]."
- "During the holidays last year I noticed [Ulta] offered certain promotions, but the 20% or so came off their margin."
- "Planned reduction in inventory could explain the decline in recent orders."
- "Ulta's dedicated men's section will be great. It's a rapidly growing industry segment."

## ➤ Men's product supplier

Ulta's sound business practices will allow its sales growth and discounting practices to continue during the remainder of 2011. The company has avoided pitfalls associated with rapid growth, leading to strong, professional relationships with suppliers. Ulta's sales of this source's products have increased by at least 30% year to year, thanks to overall brand awareness and a growing product category.

- "As far as their operations and how they are run, growth will continue for remainder of 2011. They are fairly well run, operationally sound."
- "We've had tremendous growth [in Ulta]. We're tracking fairly significant growth since we've been with them—over 30% [year to year] overall. ... There are different flows with discounts and seasonal [sales]."
- "I assume they can maintain [the level of discounting]. They've been successful in the past, and they are continuing to grow as a company."
- "[Ulta] does a buy two, get one free ... with a lot of their brands. ... They ask the vendors to help support the promotion program."
- "Ulta seems to be on top of the purchasing side. ... We've had no issues with their supply chain."
- "Men's products as a category are growing. If they can have it stand out more, their customers will realize the products are there."
- "With products like ours, Ulta's biggest competitor is probably [Beauty Brands \[Inc.\]](#) out of Kansas [City, MO]."

[Ulta] does a buy two, get one free ... with a lot of their brands. ... They ask the vendors to help support the promotion program.

*Men's Product Supplier*

## ➤ Marketing and public relations professional, makeup company

Ulta is the No. 1 chain retail account for this source's company, followed by two retail stores that target the 18- to 34-year-old demographic. The source company's sales are higher from Ulta's Web site than from its own, but in-store sales still are higher by far. Ulta has the potential to stay on top because of a wide product range at good price points.

- "Ulta is our biggest chain retail account and our No. 1 chain store."
- "Ulta has the potential to maintain their growth."
- "Ulta carries a lot of brands in a good price range. ... They may not carry every color [we offer], but they carry a little bit of everything—eye shadow, lipstick. ... They offer more options and discounts online, which drives traffic to the site."

## 2) CUSTOMERS

Seven of 10 sources said Ulta has been able to acquire loyal customers who spend between \$30 to \$80 on each visit. The other three sources preferred Sephora, but still admitted to occasionally shopping at Ulta. Customers are driven to Ulta by value pricing, convenient locations, wide-ranging products, an appealing loyalty program, and frequent promotions and

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discounts. Sources expect to spend the same amount of money or more in the upcoming months. No source uses Ulta's in-store salon services, but Ulta's midtier position between drugstores and higher-end cosmetic retailers should allow the company to continue its same-store sales growth. The seasonal increase in traffic and sales at Ulta locations also should benefit the company.

## ➤ Middle-aged male, frequent Ulta shopper, Chicago

Ulta feels more upscale than chain drugstores, and this source's Ulta purchases are not driven by discounts. He has noticed Ulta's quick expansion in outlying suburban areas.

- "I am spending the same on my trips to Ulta as I have been in the six months. I average \$30 to \$35 a trip."
- "Best selection and best price value are the reasons I prefer Ulta."
- "They have the biggest selection of personal and hair care products and makeup at a reasonable price."
- "Ulta's popularity has risen in the last six months. ... There are a ton [of Ulta stores] in my area now whereas there were none five to 10 years ago. [Supervalu Inc.'s/SVU] [Jewel-Osco](#) was the only thing out here for years."
- "Ulta will continue to grow this year just based on how many locations they have. Every time I am there, the store is pretty busy. There is also great growth opportunity in the far suburban and more rural areas."
- "I like that Ulta feels a little upscale versus an [Costco \[Wholesale Corp./COST\]](#) or [Walgreen \[Co./WAG\]](#)."
- "Ulta's biggest competitor is Target, but Target does not offer as much. You go to Ulta because they have a great selection and great prices."
- "No one in my family has used the salon services."

## ➤ Loyal Ulta shopper, Chicago

Ulta can grow because of its broad appeal. This source shops monthly at Ulta and Sephora. Although both companies offer similar pricing, their inventories and store environments differ greatly. She spends \$50 on each trip to Ulta, and her purchases are driven more by selection than by price. She also prefers Ulta's store locations over shopping in a mall. Because of a recent move, she probably will shop at Ulta more often in the next six months.

- "Ulta can grow and get bigger. I feel like they bring products to the mainstream whereas to go to Sephora, the products are more specialized in a way. Anyone can go to Ulta and find something—men and women. I feel like they are bringing products to a broader base of people."
- "Sephora has more higher-end products. But the thing I like about Ulta is I can find products that I can't find anywhere else. They have a face wash I use that no other stores carry."
- "Ulta has more hair care products than Sephora. They have [L'Oréal's] [Pureology](#), which is a high-end hair brand. Ulta definitely trumps Sephora when it comes to hair stuff."
- "Sephora is more glamorous than Ulta. Ulta feels like a Clinique counter. Sephora is more Chanel. When you walk in there, it's more chic looking than a Ulta store."
- "I shop at Ulta because they have what I need. They are nice store and have good stuff. I love it there."
- "I can't walk out of Ulta without spending \$50."
- "I don't go to Ulta because of the prices. I think the prices are expensive for the environment. They have the same prices as Sephora. I go to Ulta for the big selection and the brands or lines they carry."
- "I go to Ulta because I buy a lot of makeup and beauty products, and it is one of the top destinations to go to for those things."
- "It is more convenient to shop at Ulta than at a department store. I don't have to go to the mall."
- "The whole rewards program is fun. I like building the points for free stuff."
- "I don't pay attention to the sales. I know they send fliers, but I don't check my mail often. But if they have a sale on something I use, I will get a few. I do like it when they have sales on the Ulta [name-brand](#) makeup."

Anyone can go to Ulta and find something—men and women. I feel like they are bringing products to a broader base of people.

*Loyal Ulta Shopper, Chicago, IL*

## ➤ Older female, Chicago

Consumers' increased interest in skin care coupled with a great product selection will help Ulta to grow. Sephora is its biggest competitor. Since Sephora's introduction into J.C. Penney stores, this source is browsing Sephora products more often than six months ago. Ulta's quarterly direct-mail sale catalog drives her into the store. She would shop at Ulta more often if a location were closer to her home.

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- “Ulta can continue to grow because they offer some really good skin lines. More people are taking care of their skin, so I think there are a lot of customers out there to reach. They seem to be a very good, level-headed company that should be around for a while.”
- “I think Ulta is more popular this year than last. With the bad economy, people don’t want trendy stuff. They are sticking to the basics, and they want the best value. Ulta offers them that.”
- “They have a lot of new products and a lot of old products. Going to Ulta is a very nice shopping experience.”
- “I like the little sale [catalog](#) they send out. It drives me to go into the store. I get one in the mail about every three months.”
- “I spend about an hour there each trip.”
- “I go to Ulta once every four months or so. I would go more often if there was one closer to my house. It is a 30-minute drive each way, but the area is also very congested.”
- “I average \$30 to \$40 per trip to Ulta. I usually just get stuff I need. The most I ever spent there was right before my daughter’s wedding. I spent at least \$150 on that trip alone.”
- “Sephora is their biggest competitor because they sell, on some levels, the same stuff. After Sephora, I would be [Sally Beauty Holdings Inc.’s/SBH] [Sally Beauty Supply](#). But there isn’t really any other store like Ulta.”
- “I [make more purchases] at Ulta rather than Sephora because Ulta offers me more choices.”
- “I go to Sephora more often than Ulta, mostly because of convenience. Now that there is one in the nearby J.C. Penney’s, I am going more than I was six months ago. I am not necessarily buying something every time, but I look around the Sephora area every trip.”
- “Sephora is a little more youth-oriented than Ulta. My daughter gets way more from Sephora than I do.”

I like the little sale catalog they send out. It drives me to go into the store. I get one in the mail about every three months.

*Female Customer, Chicago, IL*

## ➤ Female in her mid-30s, North Carolina

Utilizing the coupons from mailers, this source shops at Ulta once or twice a month. She will spend more at Ulta in the next six months to keep up with the beauty trends for the fall and the holidays. Ulta offers better selection and pricing than drugstores and salons. She occasionally shops at department stores, salons and local boutiques for brands Ulta does not carry or is out of stock. The source has never used Ulta’s salon services because she prefers a more upscale experience.

- “I use their coupons from the mailers, and they push me to go there before they expire. The reward points are nice, when I redeem them, but a lot of the time I don’t purchase what the rewards are for.”
- “They have better hair products, more choices of makeup and better quality than the drugstores and better prices than at the salons for hair products.”
- “As long we don’t get a Sephora here, Ulta will continue to be successful.”
- “Even though we don’t have a Sephora here, I think they are Ulta’s biggest competitor.”
- “I shop at [Ulta] once or twice a month and spend between \$20 and \$50 each time.
- “I will spend more going into the next six months. Fall and the holidays are coming; beauty is very important.”
- “I shop at some salons, small boutique places and department stores for cosmetics and hair products sometimes because Ulta doesn’t carry some of the brands I like.”
- “Sometimes Ulta has been out of a [Redken](#) [L’Oréal] hair product that I use. They said to wait about a week for it to come in, but when I went back it was still out. I had to find it somewhere else.”
- “I don’t use the salon at Ulta. I like a more upscale salon feeling. It looks out in the open to shoppers, and that is not appealing to me. They probably have really good prices though.”

## ➤ Female in her mid-40s, North Carolina

This source expects to spend more at Ulta in the next six months. She prefers Ulta over drugstores based on price, selection and staff. Her trips to Ulta are driven by coupons and points. She does not think her husband would shop at Ulta, but she may purchase items for him.

- “Ulta will continue to be successful. It is a great place to shop.”
- “They have a great selection under one roof. I can get it all here and then some. I always end up buying more than I plan.”

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- “The coupons are consistent. Both the coupon and the points work great at getting me in to use them. There is always something new I want or something I need more of.”
- “I like that they have BOGOs and a lot of promos on products. The quality of product and variety make it better than the drugstores and department stores.”
- “Sometimes something is a dollar less here than at [CVS \[Caremark Corp./CVS\]](#) or Walgreens.”
- “The staff is helpful and always lead me to the product I am looking for. I like that I can ask someone and they know about the products.”
- “I shop here at least every two months and spend \$100 to \$150 each time.”
- “Fall and winter, I probably spend more because of events and the change of season.”
- “I have never considered using [Ulta’s] salon. I don’t think about it, and I’m not sure I know anyone who has.”

Both the coupon and the points work great at getting me in to use them. There is always something new I want or something I need more of.

*Ulta Customer, North Carolina*

## ► Female in her 30s, San Diego

Ulta lags behind Sephora and Target in popularity, and occupies a low to midrange position in the market. Ulta’s pricing is about average—helped by discounts and the loyalty program—but the source goes to Ulta only twice a year.

- “I go to Ulta a few times a year, maybe twice. Otherwise, I go to Sephora three or four times a year, [Estée Lauder’s] [MAC](#) store, [Origins](#) and Target, and I do some online shopping at [Amazon\[.com Inc./AMZN\]](#) for the free shipping.”
- “Convenience is key; I don’t usually have a lot of time. [Ulta has] easy-to-understand layouts. They have a loyalty program, there’s a benefit to that. I think I have a card. I’ve never tried their [private-label] products.”
- “Ulta has a lot of different products, a good range. It’s not super high-end, not super expensive, not super cheap. The pricing is OK; the discounts help. [Ulta] isn’t like a department store where I’d expect to pay more.”
- “[Ulta and Sephora] have different positioning. Ulta is a lower, midrange. ... They are in strip malls.”
- “Ulta is the place between pampering and getting what you need.”
- “Sephora and Target are the most popular. I see Target as a place where women are pushing a shopping cart with kids hanging off and grab things while walking by. When you go to Sephora, you are shopping with a purpose.”
- “A men’s section might be good. I think I’ve seen it in one of the stores. Most women still pick up stuff for their husbands.”

Ulta is the place between pampering and getting what you need.

*Sephora Customer, San Diego, CA*

## ► Female in her 30s, Las Vegas

This source said Ulta has unhelpful staff, a complex rewards program and average pricing. She also held a negative view of Ulta’s private-label products, and is not lured in by its promotional activity. Still, she reluctantly shops at Ulta once or twice a month because of its convenient locations, which she said are the source of Ulta’s success. Sephora carries higher-end products with a better in-store experience, but the [location](#) on the Strip is not convenient.

- “I go to Ulta once or twice a month. They are different to Sephora—which is more high-end—but they’re still rather expensive. I reluctantly go to Ulta, really. I’m blowing astronomical amounts of money.”
- “Ulta does well because of the convenient locations. ... There are three or four locations in Las Vegas, in shopping malls and suburbia. ... The hours are good ... and they carry a little bit of what everyone wants.”
- “If you don’t know what you’re looking for, the [Ulta] associates are not helpful. I had one who was quite rude. ... I keep shopping there because the locations are convenient and I can get my shampoo, moisturizer, whatever in one place.”
- “[Ulta] stores are very organized.”
- “Ulta has crazy promos—buy two, get one free—but you can’t mix and match. ... From a supplier’s perspective, I’m sure that’s great, but I’d prefer a buy one, get 50% off the second.”
- “I’ve heard Ulta’s line is really bad. The nail polish chips, and a friend had a reaction on her face [to one of Ulta’s products]. I wouldn’t buy Ulta eye shadow. ... Yet they have an elaborate Ulta display.”

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- “[Ulta’s rewards program] is complex. It’s based on how much you spend. I just got something saying I have a level-two gift. There are nine options: Eight of them are for the Ulta brand, and the other is for [L’Oréal’s] Maybelline mascara. I don’t want Ulta [junk], so the gift doesn’t do anything for me. It’s not cash back or a shopping spree.”

## ➤ Female in her early 30s, San Francisco Bay Area

This source shops at Ulta only when convenient. Ulta’s selection and variety attract high- and low-end consumers, who can mix and match products at reasonable prices while getting a cosmetics store experience. Target is quickly becoming a strong competitor because of its expanding cosmetics section and favorable prices.

- “Ulta resonates with customers because they have both sides of the industry covered. They have specialty high-end products comparable to Sephora, but they also have the affordable everyday stuff that you find at Target. People shop at Ulta because they can pick and choose what they want. They can mix and match at both pricing and quality levels.”
- “Ulta appeals to the middle consumer who doesn’t want to pay as much as Sephora but wants the experience of a beauty store and salon rather than a Target or [Wal-Mart \[Stores Inc./WMT\]](#).”
- “Target is starting to carry more salon products, hair care products, higher-end shampoos, more nail polishes. Target is a growing competitor for Ulta. They have better deals on general beauty and everyday cosmetics.”
- “Location is the biggest factor for me with Ulta. If I’m shopping nearby, I’ll go there. If not, I’ll go somewhere closer. They don’t have a clear enough advantage for me to go across town to shop there.”
- “Ulta doesn’t separate themselves from competitors with their pricing or loyalty program. And their staff is less knowledgeable on the beauty side. Smaller shops are more attractive and have a more knowledgeable staff.”

Ulta resonates with customers because they have both sides of the industry covered. They can mix and match at both pricing and quality levels.

*Ulta Customer,  
San Francisco Bay Area*

## ➤ Female in her early 30s, New York

This source shops at Ulta a handful times per year and said her opinion of the company is swayed by the lack of a New York City location. She prefers to shop at brick-and-mortar stores rather than online.

- “I don’t shop at Ulta that often. There aren’t any stores [in New York City], so I go there only when I’m on Long Island and have time. That’s maybe a handful of times per year—five or six.”
- “Ulta doesn’t have any high-end brands. They also don’t have as good a selection of products as Sephora.”
- “I don’t spend a ton every time I come [to Sephora]. Sometimes I’ll spend \$70 or \$80, and other times it’ll be just one or two products. But I try to make it at least a couple times per month.”
- “I’ll spend less at Ulta than I would on a normal trip here—so, less than \$50 [per visit at Ulta].”
- “The discounts at Ulta don’t matter to me because I rarely get out to their stores.”
- “I don’t really shop online because I’d rather try the products I buy, especially makeup.”

## ➤ Female early 40s, New York

This source spends roughly \$30 to \$40 at Sephora during her monthly or bimonthly visits. She is aware of Ulta only from the infrequent visits she makes to a store located near her parents’ house. She does not shop at Ulta’s Web site, and said her friends are largely unaware of Ulta and its products.

- “I know Ulta has a Web site, but I think most women—at least my friends and I—like to buy our makeup and skin [care] products in person.”
- “I’m not sure how popular Ulta is. My parents live near one in Long Island, so I stop by that sometimes when I’m home. My friends here don’t shop there.”
- “I usually will go to Ulta when I’m home just for convenience. I can’t name one product there that I prefer over Sephora and especially over some of the booths at the [department] stores.”
- “I really would only choose Ulta over [Sephora] or a department store for convenience.”
- “I don’t think I would use Ulta’s salon just because I like my own salon [in Manhattan].”
- “I spend usually \$30 to \$40 every time I buy stuff at Sephora. I’d say I stop by here at least a couple times per week, but I might actually buy products once or twice per month.”

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## 3) INDUSTRY SPECIALISTS

All three sources expect Ulta's sales growth and promotions to continue through this year and possibly into 2012. Its large, diverse and ever-expanding product selection, competitive prices, professionally trained staff, growing men's department and in-store salon are driving the sales growth. Two of the three sources commented on the success of Ulta's in-store salons. One source said Sephora's partnership with J.C. Penney will allow it to enter more doors and continue to dominate the market.

### ► Vice president for a hair care product manufacturing company

This source believes Ulta's fourth-quarter sales will outpace its third-quarter sales and that the company will benefit from carrying Paul Mitchell Systems Inc.'s [Mitch](#) line in the future. Ulta's largest competitor is Sephora, but Ulta likely is more popular than Sephora and department stores because of its prices and broader selection.

- "Ulta will most likely continue its same-store sales growth and discount levels for the remainder of this year."
- "Rumor has it [that Ulta's salon services] are doing well."
- "Ulta uses Pro Beauty [tools and products] to draw in customers, and due to higher margins [those levels of discounts] certainly are sustainable."
- "Ulta is more popular than Sephora due to the price and selection, especially in Pro Beauty."
- "Customers choose Ulta over department stores because they offer more selection over department stores. Ulta offers more convenience over Sephora."
- "Ulta will benefit greatly with the new Mitch brand coming from Paul Mitchell."

Customers choose Ulta over department stores because they offer more selection over department stores. Ulta offers more convenience over Sephora.

*VP, Hair Product Manufacturing Co.*

### ► President/owner of a salon services and supply company

Ulta's revenue growth is sustainable thanks to its good business plan. Its sales are expected to be higher in the fourth quarter than in the third. Ulta is doing well on several fronts: Its marketing is effective, and it offers top-notch education to its associates, who often have cosmetic backgrounds. Ulta stores also employ licensed professionals, and are cleaner than Sephora stores. Sephora remains Ulta's biggest competitor.

- "Ulta's revenue growth is sustainable. They have a good business plan by offering services and a diverse product range."
- "We expect Ulta's fourth-quarter sales to increase because of their growth potential."
- "[Ulta has] a steady, expected growth pattern by adding new locations."
- "[Ulta is] more focused on cosmetics over diversifying themselves. They also have a great sales associate education, and their employees are either licensed professionals or have a cosmetic background."
- "[Ulta] is getting more popular because they offer professional services with well-informed associates."
- "Ulta's discounting levels draw in customers, and those levels of discounts are sustainable because they are not extreme discounts and due to their marketing plan."
- "Ulta's salon services are faring well. They are doing a good job of marketing to the consumer to make them aware that they offer professional services. They have gained in popularity in the last three years due to being newer in our markets."
- "I've seen a decline in [Ulta's] inventory. In order to maintain growth potential, this needs to be addressed."
- "[Ulta stores] are cleaner than Sephora and have licensed professionals and brands."
- "Sephora [is Ulta's biggest competitor]."
- "I like the idea of a men's only section. It takes out the confusion ... and allows [customers] to locate everything they would need in one location. This will increase sales due to it being easily accessible and focused just for them."

Ulta's discounting levels draw in customers, and those levels of discounts are sustainable because they are not extreme discounts and due to their marketing plan.

*President/Owner  
Salon Services & Supply Company*



# Ulta Salon, Cosmetics & Fragrance Inc.

## ➤ Marketing coordinator, salon products distribution company

Ulta is losing ground to Sephora but still can continue its same-store sales growth and discounting levels for the rest of the year. Ulta's in-house services are necessary for maintaining growth levels. This source expects Ulta's sales to rise either in the fourth quarter of 2011 or in the first quarter of 2012. Ulta is smart to focus so heavily on its men's line since men's products will dominate the market this fall.

- "Ulta is a forward-seeking company and will do well with inventory additions and marketing initiatives. They are seeing the need for change and answering that need."
- "[Ulta's] growth is sustainable. The public is becoming more aware for quality salon products and services."
- "I expect an increase in [Ulta] sales if not in the fourth quarter, then in the first quarter of next year."
- "Ulta has a strong inventory of professional-level products."
- "Sephora is dominating. Their partnership with J.C. Penney has offered them an opportunity to be seen by more people. Ulta needs to be in more indoor malls."
- "I have not seen an Ulta in the Midwest. The last one I saw was in Phoenix."
- "Someone would choose Ulta over department stores and Sephora because they can receive services while shopping. The in-house services are the niche Ulta needs to continue growth."
- "Customers are seeking a reason to be brand-loyal. With continued discounts, customers are more brand-aware."
- "Men's lines are dominating the market this fall. Ulta is doing right by offering this to the expanding male market."

Men's lines are dominating the market this fall. Ulta is doing right by offering this to the expanding male market.

*Marketing Coordinator  
Salon Products Distribution Company*

## 4) COMPETITORS

All six sources said overall cosmetics sales are on the rise and should experience a robust fall and holiday season. Ulta is a midtier retailer with price points suitable for a wide range of customers. Two sources expect Ulta's growth to continue, and praised the company's brand portfolio, promotions and discounting. One even admitted to shopping at Ulta. A third source, who works at a Lancôme counter, said her brand reportedly will become available in Ulta stores. A department store source indicated that the consumer has spoken and they prefer the Ulta and Sephora shopping model compared to the individual counter model of her store.

## ➤ Sephora sales associate, outside Chicago

Sephora's sales have grown, and Ulta should be able to follow suit. This location usually meets sales goals even though it is a smaller store. Traffic is consistent. The source expects fall sales to grow once seasonal makeup collections are released. Ulta and [Nordstrom Inc.](#) (JWN) are competitors to Sephora, but [Macy's Inc.](#) (M) is not a threat.

- "Ulta can expand their base. If our growth is any indication, they should do OK."
- "We have had a good summer. Traffic has been consistent. It almost always is at this store. Weekends are our busiest time."
- "The fall should be good. We always do really well in the spring and fall when the new color collections come out."
- "I consider our competitors to be Ulta and Nordstrom, but not Macy's. They have huge counters, a large client base, and they offer promotions that we don't."
- "Ultas are not as nice as our stores. They look more like a CVS."
- "Ulta carries some brands like we do like [Estée Lauder's] [Smashbox](#), but we have the exclusive rights to others so that gives us an advantage."
- "We don't really have sales. We have a [member's program](#) that you build points. You get a point for every dollar you spend. Then, you get a free gift at certain levels like 100 points, 500 points and so on. You also get a free surprise on your birthday."

Ulta can expand their base. If our growth is any indication, they should do OK.

*Sephora Sales Associate  
Outside Chicago*

# Ulta Salon, Cosmetics & Fragrance Inc.

## ➤ Sephora sales associate, New York

Store traffic and sales have exceeded plan and have been more robust year to year and compared with the first quarter. This source also expects growth during the third and fourth quarters. She was unaware of Ulta and said department stores are Sephora's primary competition.

- "Our traffic this time of year has surpassed what it was this time last year. We have these internal goals that we measure year to year, and we're ahead of where we were last year."
- "We will have as much traffic coming up the next few months as we've been having."
- "Women really like our samples. We want them to try our products."
- "I don't know if we've had more discounts, necessarily. We do have our Beauty Insider customers. Those are regulars who receive e-mails for 10%, 15% off products. But that's really all we do [for discounts]."
- "Our biggest competitors are department stores—[Saks \[Inc./SKS\]](#), [Macy's] [Bloomingdale's](#)."
- "[Jack Black \[LLC\]](#) and [Anthony \[For Men\]](#) are popular brands for our men's skin care."

## ➤ Sephora sales associate, New York

Sales and traffic have increased since the first quarter despite New Yorkers' summertime departure from the city. The source expects sales and traffic to increase toward the end of August.

- "Traffic is up here about 15% to 20% since the first quarter. We're still kind of slow. Sales have increased, but probably less than 15% to 20% [since the first quarter]."
- "It's probably about the same as last year from a sales standpoint."
- "It should only increase as we get back-to-school starting and the summer ending. You think about the people who are on vacation and coming back. Then there are a lot of girls who come back for college. We should get busier."
- "Our competitors are definitely the big department stores—Bloomingdale's, even Macy's, Saks, [Barneys \[New York Inc.\]](#)."

## ➤ Lancôme counter associate for an Illinois Macy's store

Bloomingdale's and Nordstrom are this source's main competitors. Ulta caters to a different clientele and has limited product lines. This source expects second-quarter sales to exceed expectations by at least 10% and said Lancôme is outselling the store's other makeup counters. She has heard rumors that Ulta may start carrying Lancôme.

- "We are doing incredibly well this summer. We are doing way better than expected. We are beating our goals by at least 10% or more."
- "We are beating all the other counters here. ... Our numbers are blowing them away."
- "We expect our business to increase further with the upcoming fall promotions. We have a gift-with-purchase next Tuesday that we are doing pre-sales for now. In October, we are doing a promotion with the St. Jude Foundation, and 10% of our sales go to help their hospitals. We have a gift-with-purchase for that event, too."
- "We don't discount our products. We have promotions quarterly or so."
- "I consider our competitors to be Bloomingdale's or Nordstrom—the more upper-end department stores."
- "I don't consider Ulta to be our competitor. We have a different level of client here."
- "Our inventory moves. Once something comes in, it sells in a week or so. Who know how long the stuff sits on the shelves at Ulta? You don't know how fresh it is."
- "Sephora has some of our line, but I don't consider them to be a competitor either because they don't have the full line. They also don't offer gift-with-purchase promotions like we do, which are very popular. And, like Ulta, I don't think their products move like ours. They might not be fresh."
- "I have heard rumors that Lancôme may be moving into Ulta's. Nothing is for sure. It is just a rumor that has been going around as of late."

## ➤ Clinique counter associate at department store, North Carolina

Ulta is one of Clinique's competitors. The company carries popular brands and always is busy when this source shops there. She said no other store offers everything that is carried by Ulta, which should help the company to grow. Clinique sales have been up quarter and quarter, and likely will grow further this fall. Still, shoppers are only buying essentials. Shoppers seem to prefer the Ulta multi-brand shopping experience as opposed to the department store brand specific counter.

- "[Clinique] sales are up in the second quarter compared with the first quarter, and I think all of the other brands are doing well. We are expecting a busy fall."

# Ulta Salon, Cosmetics & Fragrance Inc.

- “Spending has changed. Customers are buying ... the essentials or their staple products, but the extras, like eyeshades and lipsticks, have dropped for us.”
- “Ulta is a big competitor for us, especially Clinique because our demographic is a little younger and Ulta is trendy. They have the popular brands presented in a way customer seem to prefer.”
- “I shop there too. They have great hair products, and their deals are awesome.”
- “They are always busy when I shop there, and I think they will only continue to grow. No other store has everything they do.”

They are always busy when I shop there, and I think they will only continue to grow. No other store has everything they do.

*Clinique Counter Associate  
Department Store, North Carolina*

## ➤ Owner of a premier cosmetics boutique and skin care apothecary, North Carolina

Ulta should be able to sustain its considerable business because it attracts consumers from all income levels. This source’s sales have increased 25% in the last three months. She is expanding her store.

- “Ulta does a good bit of business; I think they will hold their ground here.”
- “[Ulta] makes beauty accessible to all levels of income.”
- “People don’t get their hair done there. ... It’s a chain, and a lot of people don’t trust that.”
- “I can’t compete with Ulta, but our store is more high-end. We carry brands they don’t, more like Sephora.”
- “Our sales have gone up 25% in the last three months. We are doing great business, and the expansion will only bring us more traffic.”
- “Customers are shopping locally and online more. They are also cutting out the feel-good nonessentials like candles and lip glosses.”

## 5) ULTA STORES

One of these three sources directed Blueshift to corporate for information, but the other two shared that sales are strong and growing thanks to selection, price, discounts, and new items. One source said Lancôme products were coming to Ulta. Blueshift observed strong traffic and numerous markdowns and promotions, including a BOGO.

## ➤ Ulta associate, Chicago

This store’s sales jumped 5% when a Costco gas station opened nearby. Sephora is Ulta’s biggest competitor, but Ulta has the advantage of company longevity, salon services and popular promotions. The company will continue its expansion efforts. A QVC makeup line recently was introduced in Ulta stores, and Lancôme will be introduced by the end of this year.

- “I think we will definitely grow. We keep growing every year. We are opening new stores all the time. We have [\[415 stores in 42 states\]](#) stores now. We are much bigger than Sephora and have a bigger presence than they do.”
- “I think Sephora is our biggest competitor, but we are very different stores.”
- “We have much more to offer over Sephora. They are mainly known for performance makeup. Here at Ulta, we have three main areas of concentration: salon, performance makeup and mass-market products.”
- “Sephora can’t compete with us in ... selection. They are limited in their inventory.”
- “The salon business is another trademark. Sephora does not offer this either. Along with the service, we carry many professional hair care lines. This is a cornerstone of our business and has been from the very beginning.”
- “We are known for our promotions. Our customers love them, and they keep them coming back. Our promotions are one of our trademarks.”
- “Since they opened the Costco gas station a few months back, our traffic and sales have definitely increased. We now get more of what we call ‘the Costco crowd.’ They start coming in around noon or so.”
- “I bet sales are up at least 5% this quarter just from the Costco bump. We didn’t expect it. ... It has really helped our business.”

Lancôme is for sure coming to Ulta. It should be in our stores by the end of the year. I don’t know how much of their line we are going to carry, but we will start to carry it soon. We are pretty excited about it.

*Ulta Associate, Chicago*

# Ulta Salon, Cosmetics & Fragrance Inc.

- “We are starting to get some new performance makeup lines in. We just got the first rights to carry the Laura Geller line. It came in last week. A lot of our customers know her from QVC so they have been coming in and asking for it.”
- “Lancôme is for sure coming to Ulta. It should be in our stores by the end of the year. I don’t know how much of their line we are going to carry, but we will start to carry it soon. We are pretty excited about it.”

## ➤ **Ulta sales associate, San Francisco Bay Area**

Ulta separates itself from competitors by providing greater product variety as well as a one-stop shopping experience. It caters to consumers of all levels. Business has remained strong this summer. The rewards program appears to be a bigger draw than the pricing in this store.

- “What sets us apart is that we cater to a wide cross section of customers in one store. We carry the high-end stuff you’d find at Sephora or Bloomingdale’s. We have the same stuff you find at Target that provides value, but we have more of a selection of it. We have our salon. And we have lower-priced products like you’d get at CVS or Walgreens, but we have a better atmosphere for that shopper.”
- “We’re recession-resistant. It’s the [lipstick theory](#) of economics. In tough times, women want to buy something to make themselves feel good, so they buy lipstick because it is more affordable than shoes or a new dress.”
- “We’re still doing really well. Business has actually picked up in the last two weeks.”
- “Our rewards program is really popular. Customers get on our mailing list; they get coupons and advance notice on sales.”
- “Our prices are comparable to other stores, but we have really good sales.”

## ➤ **Ulta store manager, Wilmington, NC**

The manager refused an interview, but Blueshift observed considerable store traffic and shoppers of all ages. Shoppers were taking advantage of mailer coupons at checkout. Inventory was thinner but more appropriate than in our last visit. The men’s section had been expanded and was fully stocked with product.

*Reporter Observations:* Inventory looked lighter than in Blueshift’s May visit. Numerous products were on sale or marked down. All of the latest trends in makeup and cosmetics were on display and featured on end caps. Three to four staff members and approximately 30 shoppers were present. Five shoppers had a mailer or a store coupon in hand. Female shoppers ranged in age from 18 to 65. Purchased items ranged from hair care to makeup. No customers were at the salon. The men’s section had been expanded into two parts of an aisle.

## Secondary Sources

A review of beauty Web sites and blogs revealed that Ulta’s loyalty/rewards program is well-liked by shoppers. New products continue to arrive at Ulta stores, including the Laura Geller line. Mall operators are becoming optimistic about store traffic, and some operators are considering Ulta stores for their expansion plans.

## ➤ **June 8 Sepia Memory posting**

This blogger is a fan of Ulta and its loyalty/rewards program. She recently purchased an assortment of cosmetics and received an \$100 rewards discount. She encouraged readers to sign up for the rewards program and to use the spa and salon services if available. Several readers responded positively.

<http://dtan0914.blogspot.com/2011/06/why-ultra-has-best-rewards-system.html>

- “I talk very fondly about Ulta stores (US only, sorry international ladies!), especially since it’s where I get my hair done. They have great sales going on every week on top of always having a great selection. But I have more reasons to love them now.”
- “If you’ve got an Ulta store within the area you live in PLEASE join their rewards program! Better yet, use their salon and spa services if they’re available at your local stores! You won’t regret the amazing rewards you’ll receive just by staying beautiful.”
- Reader response: “Ulta is just lovely. We had one open about 3 years ago now and I don’t know how I lived without it. The coupons, the sales and the rewards are AWESOME.”

# Ulta Salon, Cosmetics & Fragrance Inc.

➤ **July 29 Women's Wear Daily article (subscription required)**

Mall operators are experiencing increasing sales per square foot and increasing rents. The Simon Property Group Inc. is feeling better about the consumer and, as a result, is planning to add 37 anchor-type tenants to its properties. Ulta is being considered for some locations.

<http://www.wwd.com/business-news/financial/malls-gain-despite-slow-recovery-5019380>

- “Retailers might be sweating the recovery, but mall operators are feeling pretty good, particularly when it comes to their luxe venues where shoppers are out and spending.”
- “Simon Property Group Inc.—the nation’s largest mall operator with 201 regional malls and premium outlet centers—said last week that sales per square foot, occupancy and average rents were all on the rise. The smaller Taubman Centers Inc. had a similar take recently.”
- “This year, Simon plans to add 37 anchor or big-box stores under a variety of nameplates, including Carson Pirie Scott, Kohl’s, Marshalls, Target and Ulta.”
- “For now, the action is in the high-end segment, where shoppers undoubtedly have the power to spend.”

This year, Simon plans to add 37 anchor or big-box stores under a variety of nameplates, including Carson Pirie Scott, Kohl’s, Marshalls, Target and Ulta.

*Women's Wear Daily Article*

➤ **July 18 Musings of a Muse posting**

Laura Geller products arrived in Ulta stores in August. This popular QVC brand also was once available at Sephora.

<http://www.musingsofamuse.com/page/2?s=ulta&cat=0>

- “Laura Geller Makeup products will be available in more than 400+ [Ulta] locations starting in August which will include her baked foundations, primers, and other face, eye and lip products as well as exclusive Ulta sets.”

## Next Steps

Blueshift will determine whether Ulta’s sales growth will continue into the third and fourth quarters and if the company still will rely on discounting and promotions to drive traffic and sales. We also will research customers’ response to Ulta’s store expansion and broadening men’s line. We will review the department beauty counter sales model to see if it is being bypassed by shoppers for the cross brand Ulta and Sephora model. Finally, we will assess the threat from Sephora’s presence in J.C. Penney stores.

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Additional research by Marissa Yaremich, Lindsay Gadsby, Erica Franklin, Kyle Stack and Tina Strasser

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