

Promos Push Ulta's Year-End Sales; Salon Demand Up

Companies: CVS, EPA:MC, EPA:OR, LINTA, M, SBH, TGT, ULTA, WMT

November 22, 2011

Research Question:

Aided by new products, will Ulta continue to experience strong sales for the remainder of 2011?

Summary of Findings

- ▶ [Ulta Salon, Cosmetics & Fragrance Inc.'s](#) (ULTA) fall sales have been strong thanks to its wide range of products, one-stop shopping, and promotions/discounts—continuing the positive sales trend found in Blueshift's [August report](#). All five Ulta store sources expect a busy and successful holiday sales season.
- ▶ Customer sources said marketing and promotional materials have increased in recent months. This winter they expect to spend at least as much as they did this summer and fall.
- ▶ Ulta's promotions are resulting in more repeat business as well as greater demand for [salon](#) offerings, which is a positive change from Blueshift's August report.
- ▶ Two supplier sources praised Ulta's operations, inventory control and outlook. Both said Ulta's orders have increased since the summer, which is in line with seasonal trends.
- ▶ Both industry specialists said Ulta will maintain strong sales for the remainder of 2011. One said Ulta's relationship with suppliers and manufacturers could change in terms of discounting. Also, Ulta's promotions may be attracting a deal-seeking customer base.
- ▶ Ulta's rollout of L'Oréal S.A.'s (EPA:OR) Lancôme products, which Blueshift highlighted in its [September update](#), appears slow to take off. Customers and Ulta sources in locations carrying Lancôme said the product line has not yet boosted sales or traffic. Ulta is expected to increase its marketing of Lancôme in December.
- ▶ [Macy's Inc.'s](#) (M) new, more brand-inclusive makeup counter has yet to affect Ulta's business.

Silo Summaries

1) ULTA STORES

Sales have been very positive in the past few months for four of the five sources. The remaining source, representing an Ulta location in Southern California, said store traffic has slowed since the summer. Still, all five sources expect strong holiday sales thanks to heavy promotions, a wide variety of products and convenient locations. This source also said the store's salon business has grown, thanks to promotions and greater repeat business.

2) CUSTOMERS

These six sources said they shop at Ulta instead of Sephora or Macy's because of Ulta's variety of products, rewards programs, coupons and BOGOs, and convenient locations. Sources expect to spend at least the same amount in the upcoming months. A Florida woman in her 30s just started to use Ulta's salon services because of a promotion. A New Jersey said her nearby Ulta offers Lancôme. She had yet to purchase a Lancôme product, but said the line said adds quality to Ulta's selection. **Four of six sources also noted more promotions and marketing from Ulta in recent months.**

3) SUPPLIERS

Both sources made very positive comments regarding Ulta's operations, inventory control and outlook. A cosmetics company VP said Ulta's orders were considerably higher this fall than in the summer, following the seasonal flow of orders. Sephora remains Ulta's main competitor, but drugstores and discount retailers such as Duane Reade Inc., Target and CVS Caremark Corp. (CVS) are vying for more market share. **Ulta is very good at communicating and adjusting inventory orders.** A men's product supplier source also said Ulta's orders had increased since the summer, largely because of the company's greater focus on its men's section.

4) INDUSTRY SPECIALISTS

Both sources said Ulta will be able to maintain its strong sales for the remainder of 2011. The president/owner of a salon service and supply company even predicted a spike in winter sales because of Ulta's wide product selection and pricing compared with Sephora. However, **this source also cautioned that Ulta's heavy discounting may attract the wrong type of client and that the company has to address inventory shortages.** A hair product company executive said Ulta's store expansion, shopper convenience and aggressive discounting will allow for sustainable revenue growth. He noted that Ulta's relationship with suppliers and manufacturers could change in terms of discounting.

	Ulta Will Maintain Sales Through Year's End	Promotions Drive Business
Ulta Stores	↑	↑
Customers	↑	↑
Suppliers	↑	➔
Industry Specialists	↑	➔

Ulta Salon, Cosmetics & Fragrance Inc.

Background

Blueshift's [August report](#) on Ulta revealed that the company, aided by popular loyalty programs and aggressive discounts and promotions, was well-positioned to expand further and grow sales through year's end, particularly during the holiday season. Our [September update](#) found that Lancôme products were becoming available at select Ulta locations; sources said the product expansion would be a win-win for Ulta and L'Oréal, maker of Lancôme. Lancôme color and skin products have been introduced in 29 Ulta stores in four markets (New Jersey, Illinois, Nevada and North Carolina). Ulta is expected to report its earnings on Dec. 5.

CURRENT RESEARCH

In this next study, Blueshift assessed whether new products will help Ulta to maintain its strong sales growth for the remainder of 2011. We employed our pattern mining approach to establish and interview sources in five independent silos:

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

Blueshift interviewed 15 primary sources, including six repeat sources, and included three of the most relevant secondary sources focused on Ulta store openings and Ulta's aggressive deals through Facebook.

Silos

1) ULTA STORES

Sales have been very positive in the past few months for four of the five sources. The remaining source, representing an Ulta location in Southern California, said store traffic has slowed since the summer. Still, all five sources expect strong holiday sales thanks to heavy promotions, a wide variety of products and convenient locations. New products and scents are expected for the holiday season, and the Southern California source already is selling holiday gift sets. This source also said the store's salon business has grown, thanks to promotions and greater repeat business.

➤ Associate, Chicago area

Store traffic has increased since this past summer, and sales are expected to be strong this holiday season. This location store does not carry Lancôme and has no immediate plans to offer the line. A salon special currently is being advertised. The source said Ulta does not have a direct competitor as it offers a wide variety of products all in one store.

- "I think we are going to do better than last year. We usually do really great at the holidays, and traffic has picked up since this summer. Things look good."
- "There are several Ulta stores in town, including a new, reopened location, and traffic there has been very good."
- "Only certain stores carry Lancôme. Some of our stores in town have it, but we don't and I don't know of any plans to bring it in."
- "We have a salon special now. For \$50, you get color, cut and style. It's only good Monday through Wednesday, and it is for services with a Level 1 stylist only. Level 1 means our newer girls—not necessarily a new stylist, just new to Ulta. It is a great deal because our color starts \$50 up and haircuts start at \$35."
- "A lot of antibacterial soaps are on clearance now. That means new scents are coming in. I don't know when."
- "[Club](#) card members get our coupons. Purchases get scanned, you build points and then members get our fliers in the mail that have coupons in them. Coupons are extremely popular with our customers."
- "I honestly don't know who our competitor is. We are our own store."

I honestly don't know who our competitor is. We are our own store. We carry everything other stores carry, and then some.

Associate, Ulta
Chicago Area

Ulta Salon, Cosmetics & Fragrance Inc.

We carry everything other stores carry, and then some.”

- “There are a lot of stores that carry a few things we carry. No one carries it all like we do. We carry some stuff [LVMH Moët Hennessy Louis Vuitton S.A.’s/EPA:MC] [Sephora](#) carries. We carry items that [Wal-Mart \[Stores Inc./WMT\]](#) has. We have products that [Target \[Corp./TGT\]](#) carries and so on. You can’t find what you can find here at any other store out there.”

Reporter Observations: During Blueshift’s lunch-hour visit on a weekday, the store was very busy, and approximately 30 customers made purchases of a variety of products. Shoppers’ ages ranged from 20 to 70, and many people were shopping together. Approximately 90% of shoppers were female, and about half of them had an Ulta coupon. Two signs promoting fragrances were on the outside windows. A table held makeup palettes of eye shadows and lip colors that were buy one, get another at 50% off.

► Sales associate, San Francisco Bay Area

The store is having more success than a year ago because of location and new management. Customers are not trading down, and the mix of high-end and low-end consumers has been steady despite the economy. The source expects holiday traffic to be steady and in line with previous years.

- “Things are average to above average compared to last year.”
- “We’re still very busy, especially on weekends and Thursday and Friday nights. Sometimes it is dead in here, but the weekends are still really busy.”
- “No one is really trading down. We have plenty of people who still buy our more expensive stuff. And lots of people come in because we have inexpensive stuff too. But that’s because we are in a good location. Our other store nearby has more people going for the cheaper products.”
- “Another reason we continue to do well is a change in store management in the last couple months. That’s made a big difference. The atmosphere here is so much better now, and I think the customers can sense it.”
- “We’re going to get really busy for Christmas, but it’s like that every year. We’re not doing anything special or different for the holidays than we’ve done in the past.”
- “Makeup kits are really big right now, and we’re getting more inventory in soon because we expect them to be good sellers for the holidays. And we’re getting more Ulta-branded stuff in soon too. But all of that is normal for this time of year.”

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*Sales Associate, Ulta
San Francisco Bay Area*

► Ulta store manager, Florida; repeat source

Traffic is heavy and being driven by steady promotions on fragrance, cosmetics and salon treatments. This three-year-old store is expecting a busy holiday season and consistent sales trends.

- “This store has been open for three years, and we are always very busy.”
- “All sections of the store are selling well.”
- “Sales are consistent. Customers are buying same as usual.”
- “Our mailers and coupons drive traffic to the store.”
- “We are looking forward to a busy holiday season.”
- “We are the woman’s Home Depot.”

Reporter Observations: This Ulta location is positioned next to other large retailers. The store was decorated with holiday signage. About 30 shoppers came through during our visit, ranging from teenagers to women in their 70s. One customer commented to the manager, “Your store is beautiful. It is my first time in. My granddaughter loves your store and told me all about it, and I had to come in.” Two men were in the store, but neither visited the men’s section. The salon also was running promotions. Clearance sections were smaller than during our visit a month ago, and new inventory was available throughout the store.

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➤ **Ulta manager and Lancôme representative; repeat source**

This source declined to answer most questions but did say that holiday traffic already has begun and is expected to be steady through the end of the year. This location sells the Lancôme line.

- “We are entering into a very busy holiday season.”
- “We are busy from the time we open until we close.”
- “We sell most of the Lancôme line.”

➤ **Store manager, San Diego**

Sales have been good, but fall traffic has been slower than expected following heavy summer traffic. Still, this source expects lines of customers on Black Friday. Gift set sales have not been as strong as hoped, but the salon has seen a high number of repeat clients. Promotion levels are roughly the same, but an ad for \$10 off with a qualifying purchase has run longer than normal.

- “Sales are going really well. Our location brings in a lot of people. There are a lot of corporations around here, and it’s a busy strip mall.”
- “Fall to winter sales are pretty good. We put out our holiday stuff a bit too early. Some do early Christmas shopping, but some are turned off by it. The gift sets are selling a bit slower than we’d like.”
- “It’s always busy here in the summer, but at the moment traffic is not as much as we were expecting. But as soon as Black Friday hits, we’ll have lines out the door.”
- “We have the same promos as always. ... This ad [\$10 off with purchase] is going longer than most.”
- “Fragrances are always a big hit [at this time]. We have the wine glasses promo with a \$30 purchase, and it’ll be the robes in a couple of weeks, again with a \$30 purchase.”
- “The salon is doing really well; we have great stylists. ... We get good rebookings.”
- “[Inventory] is good for the holidays. We’re getting two shipments every week.”
- “We’re lower volume than other stores, so we don’t necessarily carry the same products. We’re on a different layout than any of the other stores, and [I would guess] they might restructure [our layout] in the next year.”
- “I haven’t heard about this store getting Lancôme or a dedicated men’s shop.”

Reporter Observation: On a midday visit to Ulta, Blueshift noticed six to 10 women in the store at the start of the visit and 12 to 15 women at the end. Most shoppers were in their 40s. Three women and one teenager were at the salon. Staff was composed of four employees on the sales floor and four in the salon. Promotions included gift sets, stocking stuffers, a fragrance deal and nail supplies.

2) CUSTOMERS

These six sources said they shop at Ulta instead of Sephora or Macy’s because of Ulta’s variety of products, rewards programs, coupons and BOGOs, and convenient locations. Sources expect to spend at least the same amount in the upcoming months. A Florida woman in her 30s just started to use Ulta’s salon services because of a promotion. A New Jersey said her nearby Ulta offers Lancôme. She had yet to purchase a Lancôme product, but said the line said adds quality to Ulta’s selection. Four of six sources also noted more promotions and marketing from Ulta in recent months.

➤ **45-year-old female in suburban Chicago**

Unique makeup brands are a big draw for this source, who prefers Ulta to Macy’s because of selection and parking. She also purchases makeup from Liberty Interactive Corp.’s (LINTA) [QVC](#), which has introduced her to many brands now carried at Ulta. She uses a coupon every time she shops and has no interest in the Lancôme line. She expects Ulta’s sales to remain strong because the store is very busy every time she shops and has plentiful and helpful staff.

- “I come to Ulta once a month. I love it. I have shopped here for years.”
- “I spend \$100 a month at Ulta, sometimes more.”
- “I am a makeup junkie, so this is the perfect place for me.”
- “It is always, always busy when I come here. And there are always enough people on the sales floor to help you, and they are very nice.”

I prefer Ulta over Macy’s by a long shot. They have way more brands, you can park close to the store, you don’t have to deal with mall traffic, it is close to the mall if I need to go over, plus it is easy in and out of the store and parking lot. Coming to Ulta is hassle-free for me.

*Ulta Customer
Chicago Suburbs*

Ulta Salon, Cosmetics & Fragrance Inc.

They are a popular store. I am sure their sales will continue to be good this year and beyond.”

- “The major draw for me is Ulta carries brands that no one else carries. You might be able to find a few at Macy’s, but that is the only place around here that competes with them.”
- “I prefer Ulta over Macy’s by a long shot. They have way more brands, you can park close to the store, you don’t have to deal with mall traffic, it is close to the mall if I need to go over, plus it is easy in and out of the store and parking lot. Coming to Ulta is hassle-free for me.”
- “I haven’t noticed Macy’s new counter.”
- “I also get a lot of my makeup on QVC. Many of the brands I buy here at Ulta are actually brands I first discovered and purchase from QVC.”
- “Brands that I buy here now that I also get from QVC are [Laura Geller](#), [Tarte](#), [bareMinerals](#) and [Smashbox](#). I also use [Philosophy](#) skincare, which I get at both places. Now, if it Ulta would just get [Mally](#) makeup, I will be set and really happy!”
- “I am coming here the same amount I was three or six months ago and don’t plan to change that in the future.”
- “I love their promotions and coupons. I use one every time I shop here. My favorite one is 20% off one item. They also just had a 30% off that was really great, but they don’t offer that too often.”
- “I have not personally used the salon services, but I have done it for my kids. I think their prices are a bit high for kids.”
- “I did not know that Ulta is carrying Lancôme now. I would not buy it if this store had it. I am not interested in buying any Lancôme. I grew up on it, so I am just not into it anymore.”

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*Ulta Customer
Chicago Suburbs*

► Middle-aged woman, Chicago area

Quality brands, customer loyalty and a large selection motivate this source to shop at Ulta. She shops every two or three months and spends \$20 to \$40 per trip. Her favorite coupon is 50% off one item. She does not plan to use Ulta’s salon services or to purchase Lancôme. A brow wax is \$22 at Ulta compared with \$12 at an independent salon. She does not shop at Macy’s.

- “They should do well for the rest of the year.”
- “I like that Ulta has all kinds of brands. My friend and I really like shopping here.”
- “I shop at Ulta once every two to three months.”
- “I spend between \$20 and \$40 each trip to Ulta.”
- “I have not noticed any new products here, but I generally get the same things. Once in a while I will try something different. I like that Ulta has everything in one spot. I can find anything I need here.”
- “I did not know Ulta is starting to carry Lancôme. I don’t wear too much makeup so that does not interest me and their moisturizers are more than I spend for that.”
- “I do like Ulta’s nail polishes. ... But I mostly go for the hair care.”
- “Today, I specifically came in for the [Abba](#) [Colomer Beauty Brands USA Inc.] shampoo I use. It is on sale now.”
- “My favorite coupon is 50% off an item, like the one I used today.”
- “I use a coupon everytime I come here. Today, I used one so I got half off the liter of shampoo. That makes a big difference because it usually costs \$30.”
- “I have never used the salon services, and I don’t plan to in the future. I actually looked at the prices today for a brow waxing and it is \$22. That is expensive. I go to a salon near my house that charges \$12 to do it.”
- “Ulta’s competition is salons or [Sally Beauty Holdings Inc.’s/SBH] [Sally Beauty Supply](#). But Sally doesn’t carry as many hair products or some of the high-end, nicer-quality products like Ulta.”
- “I don’t shop at Macy’s. Their prices are too high.”

► Woman in her 30s, New Jersey

This customer has increased her spending and visits to Ulta. The store was not on her radar last year but then was recommended by many friends. She reported noticing more products and a good mix of high- and low-end products. Despite being a rewards member, she thinks most of the coupons and or gift with purchases don’t work out because of minimum spending requirements or brand exclusions.

- “There really is no competitor exactly like Ulta. To get the products they offer, I would need to go to somewhere like Target and a department store.”

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- “Ulta is becoming more popular. I didn’t really know much about them last year, and then recently all my friends have been talking about them so I had to try them for myself and now I love them.”
- “Their popularity has definitely risen in the past six months.”
- “I am making about the same number of trips there as in the past three months and buying about the same.”
- “I think I will be making the same number of trips in the coming months but maybe spending a little more for Christmas gifts.”
- “I shop at Ulta because of their selection. They are one of the few places to carry the [Dermalogica \[Inc.\]](#) brand. I go in there for Dermalogica, but I always end up buying other products in addition to what I went in for.”
- “I have not purchased any Lancôme from Ulta. I don’t really use Lancôme. There are just other brands that appeal to me more.”
- “The last few times I was in Ulta, the ‘drugstore’ brand shampoo section has been pretty empty. It looked like they hadn’t been restocked in a while.”
- “I have not used their salon services and don’t know too much about them.”
- “I think that they have been sending a crazy amount of e-mails with promotions lately. I got an e-mail where you got free champagne glasses and an ice bucket if you purchased something. It doesn’t even really make sense to get glassware from Ulta. I feel like it makes them look a little desperate for business.”
- “Most of their coupons don’t work on the higher-end products, and that’s what I primarily buy there.”

There really is no competitor exactly like Ulta. To get the products they offer, I would need to go to somewhere like Target and a department store.

*Ulta Customer
New Jersey*

► Woman in her mid-20s, New Jersey

This self-described beauty product “junkie” has shopped at Ulta for years because of the mix of high- and low-end products. Ulta reportedly has become more popular in the past few months. She is part of Ulta’s loyalty program and said the coupons and rewards help to provide a good value.

- “I have shopped at Ulta for years, and so have most of my friends. I would say they are becoming more popular though because it seems more crowded every time I am in there.”
- “I shop at Ulta because I can get everything here. Buying beauty products just makes me happy, and I love that I can come in here and spend a lot or a little but always leave happy.”
- “I am making the same number of trips as three months ago. I am trying not to spend as much on each trip because I am saving up money for Christmas, but when I go into Ulta it is just hard to resist spending money.”
- “I don’t plan on coming into Ulta more or less frequently in the next three months.”
- “I have noticed some items being sold out for longer than they used to be. I know there are some bareMinerals skincare items that are popular and sell out very quickly when they come in.”
- “It seems like the level of promotions has increased recently. I get a lot of e-mails and coupons in the mail. I love their coupons and promotions. I use them a lot, and I feel like I always get a good deal with them.”
- “I noticed about two months ago that they got some Lancôme products in. I like when they add the higher-end products. It makes the store feel more upscale.”
- “I haven’t purchased any of the Lancôme products from Ulta, but I am sure that I will. The last few times I went in I wasn’t in the market for higher-end cosmetics. I think I just bought shampoo and some cheap mascara.”
- “I don’t really buy Lancôme products at other stores ... but I will probably pick up something by them now that they are in Ulta.”
- “I would guess that some of my friends would start buying Ulta at Lancôme, but I haven’t really talked to them about it.”
- “I don’t use their salon services, and I don’t know anyone who does. I would consider it if my hairdresser quit or something, but I have been with the same person for years and don’t plan on leaving her.”
- “I suppose Sephora would be their closest competitor, but Sephora doesn’t have many hair care products and there aren’t any Sephoras nearby.”

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*Ulta Customer
New Jersey*

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➤ Woman in her mid-30s, South Florida

This new customer plans to shop at Ulta about once a month and recently started using the salon services. She said the store is busy and gaining in popularity. She takes advantage of salon promotions and mailer coupons. Sephora is a competitor, but Ulta will continue to be successful because it offers more products.

- “I had never heard of Ulta before I moved here. Sephora was the only place I had been to like this.”
- “Every time I come here, they are busy. I think they are getting more popular. A lot of my friends talk about it and the coupons. We talk about what products we like.”
- “I get the coupons in the mail every month it seems, and the hair deal I just got was a great promotion. I knew they had good prices, but that’s unheard of.”
- “I stay consistent with my trips and spending here. I spend up to \$50 each time, sometimes more though, and shop every month or so.”
- “Ulta competes with Sephora. They sell a lot of the same things, but Ulta has lower-end products and hair care where Sephora’s good for high-end splurges.”
- “I think Ulta will continue to be successful, especially in areas that don’t have a Sephora.”
- “I just started using their salon because of a great deal they had for a cut and color for \$50. That is an unheard of deal. It was great! The girl really knew her stuff and did a great job. I wish it was a little more private feeling in the salon, but I don’t care half the time and walk around and shop while my color is processing. I will go back. I’ve locked into that rate for my future appointments and am saving a ton of money by going there.”
- “Their products are all up to date with beauty trends; they have the latest products.”

I just started using their salon because of a great deal they had for a cut and color for \$50. That is an unheard of deal.

*Ulta Customer
South Florida*

➤ Woman in her mid-30s, Charlotte, NC

This source shops at Ulta every two to three months and spends \$50 to \$100 each time. She may spend more during the holidays. She has noticed an increase in advertising and promotions from Ulta. Also, she had forgotten that Ulta now carries Lancôme and made her last purchases from Macy’s. She does not use Ulta’s salon services.

- “I think Ulta has been getting more popular because they are expanding, offering coupons and rewards and are becoming more of a recognizable name brand.”
- “[Ulta is] close to my house, and I like that I don’t have to deal with the drugstore traffic or the mall when I need something.”
- “They are up on the trends.”
- “I usually spend the same amount each time, between \$50 and \$100. I know what I want when I go, about every two to three months.”
- “I will probably spend more on my next trips because of holiday gifts. Maybe I will be making more trips because I just switched shampoo and they sell it there.”
- “I feel like [Ulta is] sending a lot more of ads via the newspaper and fliers you get in the mail.”
- “I am a little mad and confused because my points expired without notice at Ulta.”
- “I am a true Lancôme fan and usually get my compact at Macy’s or [Belk \[Inc.\]](#). I like the free gifts with purchase from the department stores, but if Ulta has a good gift with purchase too, then that may be the deciding factor on where I buy from.”
- “I have not purchased any Lancôme at Ulta yet. I was actually thinking the other day and trying to remember if they carried Lancôme. It’s been about three months since I shopped in there.”
- “If Macy’s or Belk added a beauty products section like Ulta, that would be interesting. I’m not sure where I would shop. ... It would be who had the best deals, gift and rewards with purchase.”
- “Sephora seems to be a competitor because they carry some of the same things and it is a one-stop beauty shop.”

3) SUPPLIERS

Both sources made very positive comments regarding Ulta’s operations, inventory control and outlook. A cosmetics company VP said Ulta’s orders were considerably higher this fall than in the summer, following the seasonal flow of orders. Sephora remains Ulta’s main competitor, but drugstores and discount retailers such as [Duane Reade Inc.](#), Target and [CVS Caremark](#)

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Corp. (CVS) are vying for more market share. Ulta is very good at communicating and adjusting inventory orders. A men's product supplier source also said Ulta's orders had increased since the summer, largely because of the company's greater focus on its [men's section](#). The source was very impressed with Ulta's employees and said the company is very easy to deal with. He has heard that Sephora can be very difficult to work with.

➤ VP of sales and marketing for a cosmetics company; repeat source

Fall sales to Ulta were higher than 20% compared with the summer, which is in the midrange compared with sales to Ulta's competitors. Sephora remains its biggest competitor though drugstores and mass-market stores increasingly are vying for market share. Ulta's continued revenue growth is possible because of a great model and the real estate opportunities available today.

- "Sales to Ulta in the fall were in the plus column—double-digits, higher [than 20%]."
- "They are in the midrange [compared with sales to other competitors]. ... Historically, fall/winter exceeds spring/summer, and Ulta follows that trend."
- "Sephora is the biggest competitor to Ulta. However, they are getting more and more competition from drugstores/discount retailers."
- "The drug and mass companies becoming bigger competitors. Duane Reade, Wal-Mart, Target, CVS, etc. are all vying for market share, including 'prestige.'"
- "Ulta has all the advantage other than store count in terms of popularity compared with Sephora."
- "I think they have a great model and tremendous real estate opportunities in today's economy."
- "Inventory is an ongoing communication, and they are very good at adjusting min/max as needed."
- "We strongly support this account. Since we are in the salon channel of distribution, they are a main conduit to the consumer."
- "What, if anything, could derail Ulta's growth is themselves, for letting growth outpace restocking and operational systems."

I think they have a great model and tremendous real estate opportunities in today's economy.

*VP of Sales & Marketing
Cosmetics Company Supplier*

➤ President of a men's product supplier; repeat source

Ulta is doing all the right things to continue its growth thanks to its smart management, happy employees and suppliers, and great in-store experience. This supplier's sales grew during the fall compared with the summer because of an increase in Ulta stores and because of Ulta's greater emphasis on men's products.

- "Fall sales to Ulta continued to grow compared with the summer."
- "As Ulta continues to grow stores, there will be a natural growth in our sales. Also, Ulta created a men's shop instead of men's products being spread out all over the store."
- "Our sales are up across the board in Ulta. However, percentage-wise, it's better at Ulta."
- "Ulta is the only retail outlet we service and have no plans to go to other retailers. We haven't considered Sephora; we haven't reached out to them."
- "I would assume Ulta is gaining popularity compared with Sephora. I stopped in an Ulta yesterday; the attitude and feeling there was incredible. Employees love working there. If you have people who are loyal to a company and want it to do well, it goes into the experience."
- "This manager started talking to me—she had no idea who I was—and she'd been there four or five years. She started as a seasonal cash register person and is now the manager. From my perspective, Ulta seems to be doing all the right things. The employees are happy, sales are up, they're opening new stores."
- "I'd heard ... Sephora can be difficult to deal with as a supplier. A couple people have said it in passing."
- "I would assume Ulta knows their business, how fast or how slow to grow. They seem to be a smart group, and if sustainability wasn't there they wouldn't continue to invest."
- "Our [inventory] systems work well with them."
- "Ulta is a great partner. From past experience, I can tell you that you tend to want to perform better and succeed if you are working with a partner you like. ... You tend to lower [your performance] if they are a pain in the butt. This plays well in Ulta's hands, and it's reflected in everything they're doing."

Ulta Salon, Cosmetics & Fragrance Inc.

4) INDUSTRY SPECIALISTS

Both sources said Ulta will be able to maintain its strong sales for the remainder of 2011. The president/owner of a salon service and supply company even predicted a spike in winter sales because of Ulta's wide product selection and pricing compared with Sephora. However, this source also cautioned that Ulta's heavy discounting may attract the wrong type of client and that the company has to address inventory shortages. A hair product company executive said Ulta's store expansion, shopper convenience and aggressive discounting will allow for sustainable revenue growth. He noted that Ulta's relationship with suppliers and manufacturers could change in terms of discounting.

➤ President and owner of a salon services and supply company; repeat source

Ulta's revenue growth is sustainable because the company offers products for many different types of customers. However, Ulta's discounting may be attracting customers who are shopping only when deals are offered. Also, Ulta does need to address its low inventory. Sephora remains Ulta's biggest competitor but Ulta offers a wider product selection, better prices and a one-stop shopping venue. This source expects Ulta to have a good holiday season and a sales spike this winter.

- "Ulta's revenue growth is sustainable because their business plan does not focus on one type of consumer. Their product selection includes products that you find at your local drugstore, to higher-end and high-performance products. With the addition of offering services they have become a true one-stop shop."
- "I anticipate that there will be a spike in sales in the winter. Ulta is able to offer great deals with value tied into them. This is very appealing to most consumers in an economic time that we are all experiencing. Based on their holiday season last year I expect they will have a successful increase in service and product sales."
- "Customers choose Ulta over a department store or Sephora because of product selection, price point scale, and one-stop shopping. I personally also find Ulta to be much cleaner than Sephora."
- "In these times everyone is looking for a deal. I know Ulta's discounting is appealing to customers, but they are not always the ideal customer. I say this to mean that they often are only in for the deal. And Ulta will need to consistently invent new offers to entice them to return for a product purchase or service."
- "The promotions that Ulta consistently offers on their facial services have helped in raise interest. However, I do hear that the clients are not consistent in rebooking. Most of the clients are deal seekers and wait until the next offer to have another service."
- "The inventory on the shelves [at Ulta] is not consistently up to par. I know that this is not because the staff is not restocking; it is because they do not have enough stock. This is something that Ulta will need to address to consistently have sales increases. Consumers are turned off by low inventory because they want to be certain the product is fresh, and that when they return to rebuy the item it is available."
- "Ulta store expansions seem to be set at a good pace. I think they are smart to not expand too quickly in this market and take the time to select ideal high-traffic areas."
- "Sephora is Ulta's biggest competitor, and second is Macy's."
- "Although Sephora has been in our territory longer, Ulta is gaining market share by adding new locations, offering services and showcasing a larger range in product selection and price point."

In these times everyone is looking for a deal. I know Ulta's discounting is appealing to customers, but they are not always the ideal customer. I say this to mean that they often are only in for the deal. And Ulta will need to consistently invent new offers to entice them to return for a product purchase or service.

*President & Owner
Salon Services & Supply Company*

➤ Executive for a hair products company; repeat source

Ulta's revenue growth is sustainable because the company continues to open new locations and to offer enticing discounts. Shoppers also will choose Ulta over department stores because of convenience and price and may choose Ulta over Sephora because of perceived lower prices. This source said Ulta should see healthy holiday sales if the retail season is good overall. Its main rival continues to be Sephora based on customer service, but Ulta is holding its own.

- "Their revenue will continue to grow because they continue to open new stores. Same-store sales should be OK."

Ulta Salon, Cosmetics & Fragrance Inc.

- “[Ulta’s discounts] drive traffic, especially in this economy. If they were getting some help from manufacturers, though, I think that is stopping because the beauty industry is up in arms over the discounting.”
- “Ulta maintains a halfway decent inventory.”
- “We are hearing that Ulta will continue to grow [its stores] at the same pace.”
- “For the remainder of the year, if retail has a good holiday season, Ulta should have one as well. If retail in general is up 3%, Ulta should be up 3%.”
- “I think [sales in the fall were] basically the same. Ulta’s out-the-door business will be very strong. I think they are going to have a very good meeting.”
- “[Ulta has] an issue with their customer service. Their customer service does not match up with Sephora. I do not think Ulta’s people are trained as well [as Sephora’s staff]. They are more sales clerks.”
- “We hear that [Ulta’s salon services] are growing.”

[Ulta’s discounts] drive traffic, especially in this economy. If they were getting some help from manufacturers, though, I think that is stopping because the beauty industry is up in arms over the discounting.

Executive, Hair Products Company

Secondary Sources

Three secondary sources covered such topics as Ulta’s first New York City store, the company’s new distribution center and retail store openings in the Tri-State area, and Ulta’s aggressive Facebook discount offerings.

➤ Oct. 27 Allure blog post

Ulta opened its first store in New York City, which has bloggers and customers excited about doing all their beauty shopping in one place.

<http://www.allure.com/beauty-trends/blogs/daily-beauty-reporter/2011/10/new-york-meet-your-newest-beauty-destination-ulta.html>

- “When I got to tour New York’s very first Ulta store—it’s located in the Rego Park Center in Queens—I was pumped.”
- “It truly is a one-stop beauty destination: Not only can you buy basically any drugstore brand under the sun (think Pantene, Tresemmé, NYX, and Almay), it carries upscale products, too (including Tarte, Urban Decay, Bliss, Elizabeth Arden, etc.).”
- “In addition to getting your shop on, the store offers all kinds of beauty services. Need a blowout, cut, or even color? Ulta houses a salon, headed up by celebrity New York City hairstylist Rodney Cutler.”

➤ Nov. 8 Herald-Mail.com article

Ulta has a new distribution center in Chambersburg, PA, as well as two new stores in the Tri-State area.

http://articles.herald-mail.com/2011-11-08/news/30375998_1_ulta-beauty-distribution-center-unemployment

- “Ulta Beauty, a national retailer of beauty products, recently expanded into the Tri-State area, opening retail stores in Hagerstown and Frederick, Md., and planning a warehouse in Chambersburg.
- “More than 400 logistics and support jobs are expected to land in Franklin County (Pa.) this winter when Ulta Beauty opens a 350,000-square-foot distribution center near Interstate 81 off Kriner Road.”

➤ November comments on Ulta’s Facebook page

On its Facebook page, Ulta has posted information on an array of new products, holiday advertising and customer excitement over new stores.

<https://www.facebook.com/ULTA?sk=wall>

- “Love NYX Cosmetics? Shop ULTA stores and ULTA.com now for a buy 1, get 1 50% off deal on all NYX products!
- “If you’re getting a head start on your holiday shopping, check out our 5 for \$5 mix and match sale in stores this week through Saturday while supplies last.”
- “BIG NEWS! We just officially launched our new, ULTA Beauty Fab Photo virtual makeover!

Ulta Salon, Cosmetics & Fragrance Inc.

Next Steps

Blueshift's next Ulta report will continue to monitor sales, with particular focus on the company's use of promotions and discounts to drive sales and traffic. We also will interview more suppliers to assess their relationships with Ulta. We will check repeat business for Ulta's salons and the expansion and marketing of the Lancôme line into more Ulta stores. Finally, we will determine whether customers are being encouraged by Ulta's promotions to trade down in products and spend less.

Additional research by Lindsay Gadsby, Cheryl Meyer, Erica Franklin, Tina Strasser and Heidi Mirdala

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