

Ulta, Overall Beauty Industry Will Grow in 2012

Companies: CVS, EL, EPA:MC, EPA:OR, JCP, JWN, M, REV, RGS, SBH, TGT, ULTA, WAG, WMT

February 28, 2012

Research Question:

Can Ulta continue its successful 2011 campaign in 2012?

Summary of Findings

- Twenty store managers, beauty industry specialists, suppliers and customers expect [Ulta Salon, Cosmetics & Fragrance Inc.'s](#) (ULTA) to be able to repeat its 2011 success in 2012.
- Ulta will continue its growth through its store expansions in underserved areas, one-stop shopping convenience, brand and product selection, discounts and promotions, an in-store [salon](#), and its [men's department](#).
- Ulta customers are conditioned to receiving discounts and promotions, and our customer sources expect these offers to continue to be available throughout 2012. Suppliers and industry specialists said Ulta's judicious use of discounting is sustainable.
- Ulta's challenges include improving its marketing and name recognition, offering discounts on prestige products, introducing innovative and exclusive products, maintaining and improving customer service, expanding its online presence, and combating increased competition from drugstores.
- Ulta competitors expect beauty and cosmetics sales overall to improve in 2012, but they do not view Ulta as a direct threat to their business.

Silo Summaries

1) ULTA STORES

All six Ulta store sources said sales for 2012 are meeting or ahead of expectations. Sources pinned their current sales and expectations for the year on Ulta's increasing traffic, higher sale transactions and a gradual improvement in salon and men's department sales. Promotions and discounts are expected by customers and will continue to be offered. Blueshift observed customers walking through Ulta stores with fliers and asking about their rewards at checkout. Product additions and innovations are anticipated, but sources were unable to comment further.

2) INDUSTRY SPECIALISTS

These five sources expect Ulta's growth to continue this year thanks to an improving economy and a 5% year-to-year increase predicted for the entire industry. Furthermore, Ulta has established itself as a beauty shopping destination that frequently locates its stores in areas underserved by the competition. Ulta also offers reasonable prices with frequent discounts. The Ulta salon service is expected to grow and will further differentiate the company. The men's department has excellent growth potential as well. Ulta's challenges include improving its marketing as well as offering better-quality discounts and higher-quality, exclusive products.

3) SUPPLIERS

All three sources credited the improving economy for their first-quarter growth year to year, which ranged from 5% to 20%. Ulta is expected to continue its success in 2012 because of its store expansion, its new products, and its discounts and promotions. Ulta's challenges include a lack of brand recognition, especially in New York City where it lacks a store, as well as in staff turnover and inventory shortages. Also, Ulta faces tough competition from Target, Sephora and drugstores.

4) CUSTOMERS

All six customers expect Ulta's growth and success to continue because it offers a unique shopping experience, broad brand and product selection, low prices, promotions, and a knowledgeable staff. One source reported being turned off by Ulta's customer service and store appearance; still, she expects Ulta's large product line to increase the company's popularity.

5) COMPETITORS

These six sources were largely unconcerned about competition from Ulta, stating that their stores differ from the company in staff training, customer service, cleanliness standards, and brand selection. All six said the overall beauty/cosmetics sector's sales grew during the fourth quarter and have increased in the first quarter.

	Growth to Continue in 2012	Discounts to Continue in 2012	Demand for Salon Services
Ulta Stores	↑	↑	↑
Industry Specialists	↑	↑	↑
Suppliers	↑	↑	↑
Customers	↑	↑	↑
Competitors	↑	N/A	N/A

Ulta Salon, Cosmetics & Fragrance Inc.

Background

Blueshift Research published favorable reports on Ulta in 2011. Sources in our [May](#) report expected Ulta's sales growth to continue through summer 2011, and our [August](#) report confirmed a strong summer and found expectations for further sales growth for the fall. These expectations were confirmed in our [November](#) report and expanded to include the holiday season. We also found an increase in the use of Ulta's [salon](#) services, a turnaround from our August findings. In each report, sources said customers chose to shop at Ulta because of its wide range of products, one-stop shopping convenience, and its promotions and discounts.

Store expansion is an important strategy for Ulta's overall growth. Ulta management expects the number of U.S. stores to increase to [1,000](#). Sixty-one new stores were opened in 2011, bringing the total store count to 449, and 65 to 90 new stores are slated to open this year.

CURRENT RESEARCH

In this next study, Blueshift assessed whether Ulta could continue to grow during 2012. We employed our pattern mining approach to establish and interview sources in six independent silos:

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

We interviewed 26 primary sources, including one repeat source, and included four of the most relevant secondary sources focused on the beauty industry.

Silos

1) ULTA STORES

All six Ulta store sources said sales for 2012 are meeting or ahead of expectations. Sources pinned their current sales and expectations for the year on Ulta's increasing traffic, higher sale transactions and a gradual improvement in salon and men's department sales. Promotions and discounts are expected by customers and will continue to be offered. Blueshift observed customers walking through Ulta stores with fliers and asking about their [rewards](#) at checkout. Product additions and innovations are anticipated, but sources were unable to comment further.

➤ Sales associate/cashier at a new Ulta store in suburban Chicago

Ulta can sustain its growth this year given its strategic store openings and remodels. This new store replaced a nearby location. Traffic has been tremendous thanks to promotions and publicity. The salon has done extremely well so far and is second in sales in the country. This location does not carry L'Oréal S.A.'s (EPA:OR) [Lancôme](#).

- "I think we can be more successful in 2012 than last year. Things have been more than positive since our reopening. The company is making good decisions about where to expand or remodel stores."
- "We have only been open a short time in our new location. Traffic and sales have been tremendous."
- "Our business is definitely up from where we were at last year at this time. It is hard to compare because the grand opening plays into it with all the promotions and publicity. But we are very pleased with customers' response to the new location and store."

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*Sales Associate/Cashier, Ulta
Chicago Suburbs*

Ulta Salon, Cosmetics & Fragrance Inc.

- “I think we will drop back to a normal customer level in a few months. We will have some new customers from the reopening, but our loyal customers will sustain our sales.”
- “Our salon is the second busiest salon in the country. We do very well, and it is usually busy. I feel the salon has been even busier in this new location.”
- “Salon promotions do help drive sales. Our current promotion is Monday through Wednesdays you can get a haircut, color and style for \$50, regularly \$90, with a Level 1 stylist.”
- “Over the years, we have built up a large and loyal clientele in our salon. We have some of the best stylists Ulta has here at this store, and that keeps our clients coming back to us.”
- “When you go to [LVMH Moët Hennessy Louis Vuitton S.A.’s/EPA:MC] [Sephora](#), they only have the high-end makeup and products. We offer that plus so much more. You can get [Revlon \[Inc./REV\]](#) or [L’Oréal](#) or other lines that Sephora does not offer. That is one reason customers like our store.”
- “Since it is a holiday, we have been very busy today. Many customers are using their \$3.50 off a \$10 or more purchase coupons that we mailed to them in our flier.”

Reporter Observations: The store was quite busy for a Monday afternoon because of the President’s Day holiday. Three associates were working at the customer service counter and three registers. Four to five other associates were working the floor, and two to three were working in the salon. One woman in her late 20s was getting highlights, and another in her late 30s was getting a haircut. One male shopper with his teenage daughter purchased three bottles of hair product. Another man, in his mid-30s, bought a tube of conditioner while a middle-aged married couple was browsing fragrances. The remaining shoppers were women ranging from 20 to 70 years old and purchasing a variety of items. We noted no major sales and no promotional signs. The store was very clean and organized. All makeup demo products were clean and usable, unlike in many other Ulta stores visited by Blueshift.

➤ Sales associate, Chicago

Traffic and sales have increased since the store was remodeled in June. The source reported a strong first quarter year to year. The expanded prestige area is a draw despite being excluded from coupons. The store was being “reset” to allow for manufacturers’ product changes.

- “Our customer traffic did pick up and even increase once we remodeled. We are doing better this year than last at this time. I don’t know exact numbers.”
- “We did an extensive remodel last year. We were open during the construction and had an event in June when it was done.”
- “Many customers like the prestige makeup area. We had some of it before, but it was expanded and is more popular now. The ladies love it.”
- “We can’t discount on the prestige makeup. Coupons do not apply, but we do have events within the lines where you get a bonus or sample with purchase.”
- “Our salon is popular. It stays fairly busy.”
- “Around here, I guess our competition is [CVS \[Caremark Corp./CVS\]](#), and I don’t really consider them a competitor. They don’t offer any high-end brands. There is nothing else in a few miles radius that can offer what we do. You would have to go to Michigan Avenue or downtown for the variety that we offer.”
- “We are actually in the process of resetting the store now, and we just did inventory in late January. We reset twice a year, bit by bit, section by section because it is very labor-intensive. Manufacturers always discontinue products or introduce new scents, so we have to adjust our shelves for these changes.”

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*Sales Associate, Ulta
Chicago*

Reporter Observations: For a Friday afternoon, store traffic was slower than usual, reportedly because of bad weather. Shoppers and salon customers ranged from 25 to 70 years old. Three to four associates were working in the salon, one or two were the register, and two to three others were on the sales floor. Most shoppers were in the nonprestige makeup area and the salon products. We noted a table carrying the new Holland nail color line from [Coty Inc.’s OPI](#). Makeup demo products were clean and organized.

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► Store manager, Florida

So far this year this Ulta store has been meeting its sales plan and has not been affected by seasonal sales declines or the economy. The source expects traffic to increase year to year once more shoppers learn about the one-stop shopping experience at Ulta. The salon and men's departments are utilized but are not significant draws. Sephora is Ulta's biggest competitor.

- "We are meeting our plan for sales so far this year."
- "We will continue to grow and be successful because we are a one-stop shop. People don't have to go the mall for their products. It's easier for them to just come here."
- "Traffic increases everyday over last year. I think traffic will continue to increase this year when more and more people hear about us."
- "There has been no after-holiday slowdown here. The economy has not affected us either. Women are still buying beauty products, and I don't think that will change."
- "Our sales and promotions drive traffic to our store and always have."
- "The salon is going good. It is utilized, but I don't think people really know about it."
- "The men's department is doing OK. The products don't fly off the shelves, but it gets shopped by guys and by girls buying for their guys."
- "I think Sephora is our biggest competitor right now."

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Store Manager, Ulta
Florida

Reporter Observations: Ten customers were shopping in the store on a Wednesday afternoon at 3 p.m. More than one-half of customers visited all of the store's departments. Two shoppers were holding fliers. The store had three floor staff members: one at checkout, a manager stocking shelves, and the third overseeing high-end beauty products. In the salon, three stylists were working, and two customers were having their hair done.

► Assistant manager in a Philadelphia suburb

Ulta's growth will continue in 2012 because the retailer is connecting with its customers on many levels. It offers popular brands as well as new and innovative products. When a customer asks about a product that Ulta does not carry, corporate is made aware of the request and often adds it to the inventory. Ulta stores are setting the standard for presentation and shopping experience and at better prices. This store's fourth-quarter sales were strong and ahead of plan, and first-quarter sales have been beating expectations as well. The source's only negative comment centered on the salon, which has posted slow sales growth and is located in the back of the store. [Macy's Inc.](#) (M) is considered this store's biggest threat and is less an a mile away.

- "The holiday sales were excellent for this store. We were well ahead of plan, and so far we are on track to exceed our plan for the first quarter of this year."
- "I do think the traffic levels are ahead of last year. With the economy improving, I think women are shopping more; at least it seems that way in this store."
- "I expect Ulta to continue to grow, maybe not as fast as we have been but ... we offer everything that a woman wants in a trendy store that competitors are trying to copy and we do it while offering great prices."
- "There's nothing on the horizon to slow our growth. Women will always buy beauty products no matter what the economy is doing. There's the vanity factor, and it makes them feel good."
- "Promotions and rewards are a big part of the Ulta marketing programs, so that is definitely going to continue. We have a new promotion every week, and customers earn rewards for purchases that add up. They love it."
- "The men's department was a good addition, and we saw increased sales during the holidays. Very few men actually shop there; it is usually women buying for their husbands or boyfriends."
- "The salon is growing but slowly. It's tucked away in the back of the store, and I am not sure shoppers really know about it. A salon is a more personal kind of experience. Women really want to trust who they

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Assistant Manager, Ulta
Philadelphia suburb

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go to, and I not sure we have done a good job at building that. It does seem to be improving though.”

Reporter Observations: Twelve to 15 shoppers, ranging from 20 to 70 years old, were in the store on a Friday at 11 a.m. Several were carrying store fliers. Four to five people were waiting to check out when Blueshift concluded its visit. The store was very clean and well-stocked. Special items were being offered in the center aisle, and customers were browsing the deals. The men’s section was difficult to find and very small.

► Assistant manager in Texas

Sales and traffic have been increasing, and Ulta stores in Texas reportedly posted a great holiday season. Customers are spending more, and men are browsing Ulta’s men’s section. The salon is starting to benefit from customers’ desire for a one-stop shopping experience. Drugstores and department stores are not a threat.

- “Sales here are going generally well, and we are constantly busy. There is always a steady flow and no downtime. I have heard every Ulta store around here did really well over the holidays, and it was the busiest Christmas they have had.”
- “Traffic levels have increased at our store compared to last year.”
- “Customers’ checkout totals are increasing compared to the first quarter of 2011. I have looked at many numbers, and they have grown because of the types of products customers are buying.”
- “Discounts and promotions have increased at our store.”
- “Sales for our in-store salon have grown year over year because more people are realizing that we do have a salon here. It is like a one-stop shop for them.”
- “The salon business is doing really well. People come in specifically for that. We have a steady clientele.”
- “More brands can be added to Ulta stores. A lot of vendors want to come to Ulta.”
- “Probably Sephora is our biggest competitor.”
- “I don’t think department stores are having an impact on Ulta sales because a lot of people have the idea that they will be attacked in department stores with ‘Here, smell this.’”
- “Drugstores are not really impacting our sales. Because Ulta is becoming better known, people will come in here. People associate drugstores with a cheaper product.”
- “We actually have men coming in to shop. I think the men’s business is pretty good.”

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*Assistant Manager, Ulta
Texas*

► Salon employee in the San Francisco Bay Area

Salon business has been up year to year as the store has placed a greater emphasis on the service and tied it into the rewards program. Store and salon traffic also has increased compared with 2011. Although men’s products have been expanded in the last six months, the section lacked signage and distinction.

- “Store and salon traffic is better than last year. We’re averaging about 400 customers a day right now.”
- “We’re busier in the salon this January and February than we were a year ago.”
- “More people are trying us out because of the discounts and promotions tied to reward points.”
- “They might love their colorist somewhere else, but they try us out for a cut because they know we’ll do the same quality job and they can pay much less for it. Or they’ll get discounts on products or extra points they can redeem for other stuff in the store. It works to their financial benefit to come to our salon.”
- “We’re also carrying more men’s products in the store in the last six to eight months.”
- “There is stuff you can find here that Sephora doesn’t have and stuff we don’t carry that you can get at Sephora. That’s just how it is.”

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*Salon Employee, Ulta
San Francisco Bay Area*

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Reporter Observations: The number of salespeople outnumbered the number of customers at 2:30 p.m. on a Thursday. The store looked full of product but lacked significant signage detailing a men's section. Lancôme products were available.

2) INDUSTRY SPECIALISTS

These five sources expect Ulta's growth to continue this year thanks to an improving economy and a 5% year-to-year increase predicted for the entire industry. Furthermore, Ulta has established itself as a beauty shopping destination that frequently locates its stores in areas underserved by the competition. Ulta also offers reasonable prices with frequent discounts. The Ulta salon service is expected to grow and will further differentiate the company. The men's department has excellent growth potential as well. Ulta's challenges include improving its marketing as well as offering better-quality discounts and higher-quality, exclusive products.

► Editor for a salon industry trade publication

Ulta still stands alone in being a destination "for all things beauty," whereas stores like CVS and [Target Corp.](#) (TGT) and department stores attract customers shopping for other items. For this reason, this source believes Ulta's revenue growth is sustainable. Sephora is Ulta's biggest competitor but is more similar to a department store section and is heading in a different direction than Ulta. Salon owners predict a better year than in 2011.

- "I think Ulta's revenue growth can be sustainable. There are competitors, and they will have to watch what they are doing. I still think of Ulta as a preferred place to go for all things beauty."
- "When you think of wanting to go to a beauty place, you want to go to Ulta. When you go to a department store, now you are passing the beauty area. It is not necessarily your destination, but they are attracting you in."
- "There will be people to gravitate toward the [drugstore] market with the perception that it will be cheaper for their beauty supplies. CVS is doing underlining on their display units and making it more attractive."
- "We ask [salon] owners to make a prediction, and the majority thought things were going to go up from 2011."
- "Both hair and color services were up in the last quarter that was measured [year to year], and it had been stagnant for awhile."
- Customers choose Ulta over a department store or Sephora because they can get an eyebrow wax or a manicure while they are in there. It does help Ulta. I do not know if they are as strong as the salons when you compare them to a normal salon."
- "I think Ulta is well-stocked. Their displays are interesting, and they always have a captivating center island that changes."
- "Probably Sephora is Ulta's biggest competitor. I kind of see them as both equally strong, and they have a different angle. Ulta has salons in the stores so they are, from our perspective, more professional ... whereas Sephora is an offshoot of a department store retail area. They are growing in different directions."
- "The experience of shopping at Ulta is different than shopping at [Wal-Mart \[Stores Inc./WMT\]](#) or Target or CVS. You go to Ulta for a specific purpose—an interest in beauty products—and to the others to pick up your prescription, to go grocery shopping and end up walking through the [beauty] area."
- "I have not heard anything [about Ulta's store expansion]."

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Editor, Salon Industry Trade Publication

► Jeremy Goldman, beauty marketing executive, Manhattan

Ulta's key store locations, discounts, and affordable product selections position it to sustain or come close to reaching its 2011 success. This primarily hinges on the company's ability to expand its new store base in areas underserved by Sephora. The beauty industry expects a steady first-quarter increase overall. Ulta's shortfalls include its marketing and the quality of its discounts and exclusive products.

- "For 2012, Ulta's sales are relatively sustainable. ... Within the beauty world, Ulta is one of those things that one of every four articles that are forwarded to me tends to be about Ulta in some way. A lot of it comes down to new doors opening and whether or not they will find more customers there. When you look at their numbers, it winds up coming back to finding those places that has good distribution. ... There is an untapped demand [for beauty

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products] and if they can find the right doors to open, it won't need to have as good of a year as 2011 for [2012] to still be a good year. I would say, though, Ulta's market potential hasn't peaked."

- "I see for the first quarter an overall steady industry wide increase in same-store sales. Particularly when it comes to Ulta, one of the things they've done a really good job with is their store openings. ... One of the key things to watch for them is how well the new stores open up. You saw this last year. They had successful openings because they have really good retail developments and ... if they continue find places where there is an underserved population, they can continue to do well. If they can continue to identify those places, they will have a good year."
- "The salon thing at Ulta is strong, but it hasn't really worked as well as they planned. But Ulta has been able to flip it on its head ... and get consumers to do all their shopping in one area. ... You can go into one kind of mini mall and go to Ulta and then head over to other stores to get other errands done. This is one of the things that they've done, that they've built their platform from. ... That is a big factor of Ulta's future sustainability."
- "If a company, like Ulta, grows fast enough, then the discounts offered are sustainable. The reason why it is sustainable is it winds up impacting the brand more than the stores; the brands themselves feel more of the heat profit-wise than the stores do because the brands eat more of the discount ... and as a result the stores attract more customers. It's up to the brand, not Ulta or Sephora, to make up the profit loss in other channels."
- "Ulta strikes the right balance of being approachable and affordable and not being too luxurious. Where they lose is that a lot of people who go to Ulta would shop for only 15% of what, say, a Sephora has. Shopping for 85% speaks louder to a customer."
- "Target is actually working to do a better job at makeup sales; they want to do more in terms of affordability. Food, beauty and affordable luxury always win. I can see more competition from Target. ... They certainly have the resources and bandwidth to do it."
- "One of the key things for Ulta is that in the more recent recession, people weren't as confident [to buy luxury goods]. ... [However,] it's been getting a lot easier to sell makeup to consumers in this dip. There has been a staggered response. When people start to gain more confidence, they are opting to trade down to an Ulta and those discount places that still carry strong brands."
- "Certain kinds of beauty products require more consultation for the consumer. When you look at Sephora and Ulta, the products that tend to do better don't put that much pressure on their staff."

When you look at their numbers, it winds up coming back to finding those places that has good distribution. ... There is an untapped demand [for beauty products] and if they can find the right doors to open, it won't need to have as good of a year as 2011 for [2012] to still be a good year. I would say, though, Ulta's market potential hasn't peaked.

*Beauty Marketing Executive,
Manhattan*

➤ Ed Schack, CEO/co-owner of [EES Cosmetic Solutions, Inc.](#), Forked River, NJ

Ulta's men's line, discount offerings, and innovations continues to boost its popularity among customers and shape its sales for 2012. Also, one-stop shopping stores have gained more customers. Ulta could stand to boost its 2012 campaign by following some other industry trends and consumer demands, including adding youth lines and more natural product lines, as well as dedicating a percentage of sales to a local or global effort.

- "Ulta is becoming more popular [because of] being innovative, product setup, hitting some of the [niche markets'] growth potential. If you would have asked me two years ago about Ulta, I would not have known much of anything. Its continually strong market growth changed that."
- "As the economy still stays flat, Ulta is going to be fine in terms of discount sustainability. It's going to be up to Ulta to continue to be innovative though. ... The pendulum will eventually switch back, and it will be up to Ulta to tap into its innovation if they see sales plateau a bit."

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CEO/Co-owner, EES Cosmetic Solutions

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- “The salon will become more popular. People like to one-stop shop. ... I can go in to pick up products and get a haircut. I see that gaining popularity.”
- “The Sephora model is the biggest competitor [for Ulta]. I also do like that you can go into Ulta and get groomed there too. It’s very unique.”
- “Companies are doing all their investing in their new market strategies—their men’s market and youth market. As they continue to invest in these areas, the industry will see the growth in those areas.”
- “The Ulta’s section for men’s fragrances is really, really good. The pricing is a bit better [than Sephora’s]; you get a larger choice with Sephora also, but Ulta is set up in a way that works better [for sales]. Guys don’t like searching all over the place. Ulta’s [men’s line] is easily identifiable, and right behind it is the shaving section. It’s a market that’s growing. Ulta has the combination of store placement and accessibility in its favor, and the discount aspect for men is huge. Guys are always looking to save money.”
- “I also like that Ulta’s employees are very friendly and courteous. That can be a real turnoff for guys, but ... guys sometimes need that extra direction so that currently works very well for Ulta.”

► Beauty industry blogger and a Sephora beauty advisor

Ulta’s 2012 success will depend on its marketing approach. Currently, it is gaining traction among beauty “junkies” and beauty insiders, but it will need to market well to its local customers and find key store locations to maintain momentum. Also, retailers like Ulta and Sephora ought to pay attention to product trends to boost sales. Gluten-free products and sunscreens will require new product packaging this spring and summer per FDA regulations. The source also noted a trend toward products that offer nonsurgical results, such as wrinkle filling and skin tightening.

- “Ulta is definitely gaining more popularity. I wouldn’t say it’s gaining more than Sephora, but I do notice a lot more ads for Ulta than I have in the past. I think there is more recognition of it among beauty junkies like myself, and it’s shaping up to be another alternative to your beauty shop. What is going to decide [its sustainability] is customer service. ... I am not likely to go in there if there’s going to be high-pressured sales. ... Also, it needs a stronger online aspect to continue its growth.”
- “People seem to have more money, so they will definitely splurge more on makeup this year. ... At established retailers like Sephora and Ulta, customers like products that offer a cheaper alternative to surgery.”
- “Ulta’s market sustainability is going to be all in how it’s marketed. There are always going to be clients looking for deals, especially with the way the economy is, and the discounts keep it competitive. But you certainly don’t want to give away the farm all the time. When [Sephora] offers discounts, we know as clients that they’ll be worthwhile to wait for and then you do all of your shopping in bulk, whereas if you are shopping at Ulta you may not make such a big purchase. From that perspective, Ulta is sustainable because it keeps customers coming back more frequently.”
- “With Ulta, I’ve noticed they’ve opened a lot more stores lately and that seems like business is still booming and attracting clients.”
- “Any company that tries to capture the male market will do well if they do a better job to prominently display the products and make it easy for them to grab one item and not have to deal with a million different products. Men like simple, and when they find that, they are very, very loyal clients. ... They are more likely to come back. I feel like when I go to Sephora they could do a bit better with that.”
- “The salon aspect is a really good idea because it enforces that one-stop shopping: You get your makeup and get your brows done in one place.”
- “Sephora is definitely the biggest competitor [for Ulta]. Sephora has more of a luxury essence whereas Ulta is more where you’re going to go to use your coupons and get discounts. ... [Sephora is] also just a bit higher-end in where its stores are located.
- “Clients are looking to be wiser with their money. They want more bang for their buck. There is currently this [anxiety] about going into a department store and feeling like you have to buy. ... I know I feel more comfortable in a setting like a Sephora or Ulta where there is not high-pressure selling. I tend to spend more.”

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*Beauty Industry Blogger &
Sephora Beauty Advisor*

Ulta Salon, Cosmetics & Fragrance Inc.

➤ CEO of a premier Northeast salon group and organizer of an annual salon conference

This source does not believe Ulta will lose its appeal but that some of its brands may wane if Ulta does not provide “the proper shopping experience.” Fourth-quarter industry sales were up about 9%, and first-quarter sales are expected to increase 3% year to year. Drugstores are Ulta’s largest competitors locally, while Sephora and department stores like Macy’s are Ulta’s regional rivals. Ulta’s salon services could help the company if well-executed. Ulta must carefully use discounting to continue to woo customers.

- “I do not think Ulta will lose its appeal, but the brands may unless Ulta provides the proper shopping experience to support the prestigious brands.”
- “Popularity is directly associated to visibility and accessibility. If Ulta has a plan for growth in place that exceeds its competitors, it will result in expanded popularity if not in direct competition than in newly acquired market share.”
- “The fourth quarter for the makeup/beauty industry sales were better by 9%.”
- “I expect first-quarter sales in the industry to exceed [the first quarter of 2011] by 3%.”
- “I expect 2012 sales in the industry to be better than 2011 sales by 5%. Economic improvement, although limited, will result in affordable self-indulgence.”
- “In the industry there is unlimited potential as dictated by advancements in technology. Key trends include safe hair smoothing products, new makeup colors and palettes, and affordable luxury brands.”
- “Ulta’s discounting levels draw in customers, but once discounting is expected then its sustainability becomes questionable. Discounting must be used strategically and creatively to keep the consumer engaged.”
- “Customers choose Ulta over a department store or Sephora because of convenience, comfort and familiarity.”
- “I do not know how Ulta’s salon services are faring although there is no reason with the proper plan in place this segment could not be properly developed for positive growth and brand sustainability.”
- “Department stores moving to open counters is a smart move to attempt to capture the shopper of convenience, but there will be a need to make sure personal connection with the consumer is not compromised.”
- “Drugstores’ expanded beauty offerings are impacting consumer shopping habits.”

Ulta’s discounting levels draw in customers, but once discounting is expected then its sustainability becomes questionable. Discounting must be used strategically and creatively to keep the consumer engaged.

CEO, Premier Northeast Salon Group

3) SUPPLIERS

All three sources credited the improving economy for their first-quarter growth year to year, which ranged from 5% to 20%. Ulta is expected to continue its success in 2012 because of its store expansion, its new products, and its discounts and promotions. Ulta’s challenges include a lack of brand recognition, especially in New York City where it lacks a store, as well as in staff turnover and inventory shortages. Also, Ulta faces tough competition from Target, Sephora and drugstores.

➤ President of a distribution company that supplies products to the salon and spa industry; repeat source

Ulta is gaining in popularity and is not losing share. However, it faces tough competition from Sephora, Target, drugstores, salons and department stores and could lose some of its appeal. Overall, the fourth quarter was positive for the salon service and retail business, and this source’s first-quarter sales have risen 10% and 12%. Consumer confidence has improved. The men’s market is limited and will show few returns for Ulta.

- “Ulta is getting more popular. My perception is that Ulta is not losing market share.”
- “Ulta could lose appeal. The way we respond as a distributor is ... when a brand ends up in Ulta, it generally means it will decline in the salon industry.”
- “The fourth quarter was very positive. Both the service business and retail business were slightly up. The higher quality of the salon or spa, the higher it was up.”
- “The first quarter seems to be up 10% to 12%, I would say partially because of the economy. I think our [regional] economy is doing better than the national economy.”
- “I do think people are more confident this year. Customers are responding to the brands that stores are selling. I think the ‘masstige’ concept, the blend of mass market and prestigious lines sold at a mass-market price, is strong and getting stronger.”

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- “Ulta’s biggest competitors are stores like Target and any salon that carries a wider variety of better-quality products.”
- “Drugstores and department stores have impacted Ulta. CVS is hiring, and [Walgreen \[Co./WAG\]](#) has hired cosmetologists who recommend hair color and are helping with cosmetics.”
- “Sephora is a big competitor.”
- “I think the fact that there is a salon attached to Ulta gives it a perception that they have good-quality products.”
- “Ulta is a cross between [Regis Corp./RGS](#) and [PureBeauty Salons & Boutiques Inc.’s] [Trade Secrets](#).”
- “[Ulta is] adding more stores, but same-store [growth] will depend on if they can keep the right brands in there.”
- “Ulta always has looked well-stocked.”
- “[The men’s line] is good, but that is a limited market. The only one who has broken through is [American Crew](#). I think it will be a slow growth [area for Ulta].”

Drugstores and department stores have impacted Ulta. CVS is hiring, and Walgreen has hired cosmetologists who recommend hair color and are helping with cosmetics.

President, Salon Product Supplier Co.

➤ Regional manager of a salon distribution and education company

Ulta’s revenue growth is sustainable because the company focuses on various consumer types. This source expects Ulta’s sales to spike during the first quarter and to increase slightly throughout the rest of the year. Although Sephora and Macy’s remain tough competitors, Ulta is gaining share through the addition of locations, services and products. Ulta is not consistently well-stocked and needs to address this issue.

- “Ulta’s revenue growth is sustainable because their business plan does not focus on one type of consumer. Their selection includes products that you can 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 for the consumer.”
- “There will be a spike in sales in the first quarter. 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 due to clients’ replenishment and redemption of gift cards.”
- “I anticipate that 2012 will have an increase in sales over 2011. We are no longer hearing about the economy from every client, all day, every day. Consumers are opening up their pocketbooks and wanting to treat themselves. I do not think it is going to be a large increase yet—more around the 5% to 10% range.”
- “Sephora and Macy’s are Ulta’s biggest competitors.”
- “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 points.”
- “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. Ulta also appeals to a broader spectrum of clients because it feels welcoming.”
- “Open makeup sales concepts at department stores have only impacted the industry with a newer shopper. In previous positions where I worked with vendors that were in department stores, I got the sense from seasoned shoppers that they were reluctant to grab the products themselves.”
- “The drugstore will always be a competitor in a sense because they offer skin care lines with a lot of hype behind them and at lower prices. In most cases, when it comes to cosmetics you will always get what you pay for.”
- “I have not noticed much change in [Ulta’s] salon. They seem to be maintaining business, but it is never busy.”
- “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.”

Ulta’s revenue growth is sustainable because their business plan does not focus on one type of consumer. Their selection includes products that you can 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 for the consumer.

Regional Manager, Salon Distributor

Ulta Salon, Cosmetics & Fragrance Inc.

- “Ulta store expansions seem to be set at a good pace. They are smart to not expand too quickly in this market, and take the time to select ideal high-traffic areas.”
- “Each of the similar types of store settings has its own characteristics that attract different types of consumers. The one thing that keeps clients coming back is the way they are treated and the staff. With a discount setting, it does not always allow for the optimal retention of staff due to pay-scale restraints. All retailer types are going to need to find a way to attract and retain a great staff if they want to attract the same type of customer. Based off what I have seen with Ulta, the staff turnover rate is on the higher side.”

➤ Marketing manager for mass-label supplier

Ulta’s success will carry over into 2012 because they continue to invest in the company. This supplier’s Ulta sales have increased month to month during 2011, and the source plans to expand the number of product offered in Ulta stores. However, Ulta’s popularity is not growing, and its brand recognition in major cities is low despite increased advertising.

- “Ulta will have continued success in 2012. They’ve just opened more stores—about 200—which proves they are growing and investing in the company.”
- “Overall, our company is up more than 20% quarter to quarter based on the mass vendor, which is the most accurately tracked. Our sales in Ulta overall are growing each month, but it’s hard to compare with other vendors because the number of products in Ulta is lower than other vendors.”
- “Ulta is not gaining popularity. They are doing more advertising, but in major cities they have no brand recognition. They do not have an NYC store, but they should.”
- “Their competition is probably other beauty supply stores, like [Sally’s Beauty \[Holdings Inc./SBH\]](#), and maybe department stores. I guess they try to benchmark themselves against Sephora, but [they are not competitors].”
- “Discounting, that’s their strategy. They are a promotion-driven company, and that is what their customers are looking for. So, yes, they can maintain that level.”
- “We supply to Ulta, [a major mass-market vendor], and websites. [Ulta sales] are doing well. We are in growth mode. We have [a limited number] of products in Ulta, and we are looking to expand that.”
- “Ulta continuously reevaluates the products they carry and fine-tunes to what is relevant. They will push out what is not selling. ... Retail space [within Ulta] is coveted. There is not a lot of space.”
- “Of course we would want more margin for ourselves, but Ulta does a lot, advertises our products, sends out circulars.”

Ulta is not gaining popularity. They are doing more advertising, but in major cities they have no brand recognition. They do not have an NYC store, but they should.

*Marketing Manager,
Mass-label Supplier*

4) CUSTOMERS

All six customers expect Ulta’s growth and success to continue because it offers a unique shopping experience, broad brand and product selection, low prices, promotions, and a knowledgeable staff. One source reported being turned off by Ulta’s customer service and store appearance; still, she expects Ulta’s large product line to increase the company’s popularity. No source had used Ulta’s salon services, but two said they would consider it. Sephora was viewed as Ulta’s biggest competitor. Three of the six customers said they have purchased beauty products online because of price and product availability.

➤ 50-year-old small business owner and Ulta shopper near St. Paul, MN

Ulta is gaining in popularity through its product selection, neat stores, good ads, and discounts. Its sales associates are knowledgeable and helpful. This source does think the company should market more to older women with aging concerns. Sephora is Ulta’s biggest competition, but the two stores are located far enough apart to lessen the threat. She mostly shops online for skin care and hair care products.

- “Ulta is gaining popularity as the products carried versus Trade Secret are of a better selection, the stores are neater, fairly widely available and quite generous on discounts, and the ads are very nicely done.”
- “Ulta is more convenient, offering more of a one-stop shopping experience where you can talk to one sales associate who seems to know about more than one product line, versus at a department-store counter where

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the sales associate knows and pushes their line. This makes comparison shopping for what may work for you a better experience.”

- “I do not think Ulta will lose its appeal, but I believe Ulta needs to step up a bit in its marketing to us older women with aging concerns. Lots of products seem to be aimed at younger women.”
- “Even though we do not have Sephora here, I would guess it is Ulta’s biggest competitor. We have Trade Secret or department store counters as competition, but I would not call either of them great competition.”
- “Drugstores’ expanded beauty offerings are not impacting my shopping habits. I worry about freshness as I perceive drugstore offerings as a secondary outlet for products.”
- “The most important factor for me in deciding where to shop is ease of shopping.”
- “I have not used Ulta’s salon services.”
- “I hope to make the same number of trips to Ulta over the next three months compared to the prior three months. I expect to spend about the same on each trip as I did previously.”
- “Over the past three months, Ulta’s level of discounts has stayed the same or maybe decreased a little.”
- “The Ulta brand lines have increased in regards to inventory, and some of the other lines have decreased. I do not usually buy store brands as I find other brands to be of better quality. Ulta brands I would equate to drugstore brands.”
- “The men’s section is not too bad, but more options would be great. I would purchase more for my husband in skin care.”
- “I shop for makeup and beauty products online: Lancôme for mascara and [DermStore \[LLC\]](#) for [Colorscience](#), others for skin creams that are natural. Chemicals are a big factor for me.”

Ulta is more convenient, offering more of a one-stop shopping experience where you can talk to one sales associate who seems to know about more than one product line, versus at a department-store counter where the sales associate knows and pushes their line. This makes comparison shopping for what may work for you a better experience.

*Ulta Customer
St. Paul, MN*

► 50-year-old Ulta customer and neurodiagnostic technologist at a San Diego hospital

Ulta is gaining in popularity and opening more stores in areas like [Duluth, MN](#), but Sephora is a tough competitor in Southern California and elsewhere. This source shops at Ulta because of convenience and lower prices, but also likes Sephora and [Nordstrom Inc.](#) (JWN) for makeup products. Ulta is always well-stocked, including in prestige brands. She rarely buys cosmetics at drugstores.

- “There seems to be more Ulta stores opening up than Sephora stores, so I guess they are gaining in popularity.”
- “Probably Sephora would be the biggest competitor [to Ulta] in this [Southern California] region.”
- “I buy makeup and beauty products at Nordstrom as well because they have such a great [return policy](#). Even if you have used the product, they will return your money if you are not satisfied. I also like Sephora for their variety of difficult-to-find products.”
- “Drugstores’ expanded beauty offerings have not changed my shopping habits. I will occasionally buy something from the drugstore only if I’m already there for something else.”
- “I shop at Ulta versus other competitors because it is more conveniently located and the prices are usually better.”
- “I usually buy a lot of Christmas gifts at Ulta they have great stocking stuffers, so I spend more time and money at Ulta in December. I have not used its salon services.”
- “I would use Ulta over a department store or Sephora because the prices are a bit better. I like the reward points.”
- “Ulta’s inventory always seems great to me. I especially like the fragrance section and their hair care products.”
- “I think offering the prestige brands can only make Ulta better.”
- “I have bought a few things for my son [at Ulta]. They have a good fragrance section for men. I will continue to buy men’s products there from time to time.”

I shop at Ulta versus other competitors because it is more conveniently located and the prices are usually better.

*Ulta Customer
San Diego, CA*

Ulta Salon, Cosmetics & Fragrance Inc.

► 60-something Ulta customer in the Chicago area

This year will be good to Ulta because of the company's unique shopping concept and merchandise. This source shops at Ulta weekly and spends \$25 per trip with this use of coupons. She also shops elsewhere based on price, including at CVS and Target. She plans to shop more often at Ulta in the next three months because a store opened near to her home. She likely will use the Ulta salon the next time she will get a haircut.

- "I think Ulta will be successful in 2012 because they have lots of different merchandise that other stores don't. There aren't really any stores that are like them that I am aware of."
- "I don't know who their biggest competitor is. I don't know of any stores like them. They are one of a kind. I guess Sally Beauty Supply, but they don't really carry the more expensive brands."
- "I have been making more trips to Ulta in the last three months because I have been running out of stuff that they carry. I spend \$25 in an average trip."
- "I shop at Ulta about once a week or once every two weeks."
- "I will probably shop at Ulta more often in the next three months because the store is a little closer to my house."
- "I also shop at CVS, Macy's, Wal-Mart and Target for beauty and makeup products. I probably spend the most at CVS because of the coupons and prices. A lot of times they have buy one, get one free. I guess where I buy really depends on where I can get the best price."
- "One of my favorite things at Ulta that I can't find anywhere else are the OPI nail polishes. They have colors that I like and can't find at other nearby retailers. I have found them online, but then you have to spend \$50 or so to get free shipping."
- "I sometimes shop online for beauty and makeup. ... I have bought hair products online. I recently bought some [Alfa Parf \[Group S.p.A.\]](#) hair gel and mousse from [Walgreen's] [Beauty.com](#) because it is a lot cheaper than the beauty salon charges. Ulta does not carry this line or I would purchase it there."
- "I have considered getting my hair done at Ulta. I might do it. I was going to try it; then I tried a salon and was not happy with my haircut. That is why I might try Ulta the next time I need a haircut."
- "I have bought cologne for my husband at Ulta. He would not shop here himself. He does not shop."

I think Ulta will be successful in 2012 because they have lots of different merchandise that other stores don't. There aren't really any stores that are like them that I am aware of.

*Ulta Customer
Chicago-area, IL*

► Middle-aged female in Chicago who has shopped at Ulta for 15 years

This source expects Ulta to have continued growth in 2012 thanks to the upgrading and remodeling of its stores. Although Sephora has a similar strategy of offering many product lines, Ulta is becoming more competitive by offering lines such as Lancôme. She chooses Ulta over other stores based on its regular discounts, convenience and knowledgeable staff, and she shops at least biweekly and spends \$30 to \$40 on each trip.

- "I feel Ulta can be as successful in 2012 as they were in 2011. They recently significantly upgraded and remodeled my store last fall. The Ulta staff is extremely helpful too."
- "Ulta also upgraded the products that they offer. Now they offer more high-quality products like Lancôme that I use to only be able buy at department stores."
- "The newer-looking store makes my shopping experience more enjoyable. The environment feels and looks better, and it shows that Ulta cares more for the consumer."
- "Ulta's biggest competitor is Sephora because they seem to have the same type of strategy of offering a wide variety of product lines. You don't go to one product line counter like you would in a department store. You are going to one store with all the different product lines."
- "Ulta [has] more discounts available than Sephora."
- "At Sephora, you have more high-end products that you don't have available at Ulta. But that has changed over the years so that Ulta offers more of those too."
- "I have to go downtown to shop at Sephora or a department store. Shopping at either is not as convenient as shopping at Ulta."
- "I shop at Ulta on average once a week or once every two weeks, and spend \$30 to \$40 each time."
- "I have never used the salon services because I like the people I go to now, and I am pretty loyal to them."

I have to go downtown to shop at Sephora or a department store. Shopping at either is not as convenient as shopping at Ulta.

*Ulta Customer
Chicago, IL*

Ulta Salon, Cosmetics & Fragrance Inc.

- “I really like the Ulta associates, but they seem really young and unpolished to me. But to be honest, they always know what they are talking about. I like that the staff is super-helpful and knows the products.”
- “I get all the Ulta emails and fliers. I always buy everything with the 20% coupon or spend \$10 and get \$3.50 off. I have paid full price but rarely.”
- “I have shopped at Ulta for as long as I have lived in Chicago ... around 15 years. They told me I have one of the oldest Ulta cards they have.”

➤ 20-something graduate student in marketing research, Philadelphia suburb

This source is a frequent Ulta and Sephora shopper, but prefers Ulta because of the selection and price. She expects the entire industry to grow because of women’s desire for cosmetics. She usually purchases four to five items twice a month, spending \$35 to \$50 on each trip. She has not used the Ulta salon and will not anytime soon. She does not believe a prestige brand’s image is tarnished when its products are sold in discount stores.

- “I shop at Ulta and Sephora because I like the broad selection of products and the lower prices compared to the department stores.”
- “The promotions and loyalty programs really do influence where I shop. When I need something, I check the fliers and online to see which one has the best price on what I need and then I shop there, or I look at my rewards points and determine where I will get the best deal. Lately, Ulta has offered the lowest prices.”
- “I really think the entire beauty industry will continue to grow. The economy is improving, and women will not do without their makeup.”
- “I spend anywhere from \$35 to \$50 each time I shop for makeup and beauty products, which I guess is about twice a month. I think that pretty normal for my friends too.”
- “I have never used the salon. I have been going to the same hair dresser for about two years, and I am happy with her.”

The promotions and loyalty programs really do influence where I shop. When I need something, I check the fliers and online to see which one has the best price on what I need and then I shop there, or I look at my rewards points and determine where I will get the best deal. Lately, Ulta has offered the lowest prices.

*Ulta Customer
Philadelphia Suburbs*

➤ 50-year-old business owner in Minneapolis

This source does not think too highly of Ulta. She said the salon section at her local Ulta store is always empty, and that its appearance and stylists leave a lot to be desired. She does not plan to return to Ulta, and believes Ulta will lose appeal because of its lack of customer service. For now, its broad product selection has boosted its popularity. Salons are Ulta’s biggest competitors, but drugstores also are taking some business.

- “I shop at Ulta versus a competitor store because of the large variety of product lines, but I have not had many good experiences there. My last experience at Ulta was so bad, I do not think I will be returning.”
- “I have not used Ulta’s salon services. Every time I am in the store the salon section is empty, there is hair on the floor, and stylists without clients are not willing to help customers with any questions.”
- “I think Ulta will lose appeal because of their lack of customer service, not because of their product lines.”
- “Salons are Ulta’s biggest competitors.”
- “I think Ulta is becoming more popular because the product selection is much larger and some salons have been going to one specific product line.”
- “I shop at department stores for brand-specific products.”
- “Drugstores’ expanded beauty offerings are sometimes affecting my shopping habits. If I am there for something, I may try a new lipstick or mascara that is inexpensive or on sale.”
- “Location is the most important factor to me in deciding where I shop.”
- “I do not shop for makeup and beauty products online.”

5) COMPETITORS

These six sources were largely unconcerned about competition from Ulta, stating that their stores differ from the company in staff training, customer service, cleanliness standards, and brand selection. All six said the overall beauty/cosmetics sector’s

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sales grew during the fourth quarter and have increased in the first quarter. One Macy's source reported a shift to some open displays, and one CVS source said some of the chain's stores are expanding their beauty sections and adding makeup artists.

➤ Sephora sales associate in the Chicago area

Ulta has not affected Sephora's business. This source does not shop at Ulta because she said its stores and its tester sections are dirty. The source's store sales were very strong during the holidays and continue to beat expectations. Exclusive products boost customer traffic and differentiate Sephora from Ulta. Like Ulta, this store's strongest skin care line is Coty's [Philosophy.com Inc.](#) and, like Macy's, its strongest eye shadow is an [Urban Decay Cosmetics LLC](#) color palette.

- "I don't know much about Ulta or their growth. I don't feel they have an impact on us. And I don't personally shop there. I have only been in one a few times, and it was not appealing. I know they carry more brands than we do, but in the product lines that we both carry, we carry more products within the line than Ulta does."
- "I don't think Ulta competes with us. They might carry a few of the same brands, but that is about it."
- "Christmas was crazy for us. The store was extremely busy, and we surpassed all our goals."
- "We are doing very well since the holidays. We are beating our expectations."
- "We carry some brands that Ulta does not carry. That is one reason our customers shop here rather than there."
- "Ulta stores are not very clean, especially their testers. I don't know what kind of hygiene standards they keep there, but they are definitely not on par with ours. Sephora has very high hygiene standards. We change our testers weekly. We want all our testers to be safe for our customers to use."
- "We have deals and agreements with many of the makeup lines. They develop products or colors specifically for Sephora that are not available anywhere else, including Ulta. That exclusivity drives customer traffic regularly because the companies introduce new products all the time."
- "The Sephora brand of makeup does pretty well against the brand and designer makeup. If you include it with those lines, our brand is up there in sales—probably in the top three in overall sales."

I don't think Ulta competes with us. They might carry a few of the same brands, but that is about it.

Sales Associate, Sephora
Chicago-area, IL

Reporter Observations: During Blueshift's visit on a Tuesday afternoon, the store was moderately busy. Two associates were working the cash registers and another three were working the sales floor. Associates discussed how they enjoyed the training they had recently received. All shoppers were women ages 25 to 45, and most were looking at high-end brand makeup. (Our visit to a Macy's [Impulse](#) counter found that Macy's had modeled the layout, the racks and the brand selection on Sephora.)

➤ Sephora assistant manager for J.C. Penny Company Inc. (JCP), Florida

Sephora is expanding into more J.C. Penny locations this year and could pose more of a threat to Ulta as it expands. This store experienced a seasonal slowdown of sales and traffic after the holidays but still is trending according to plan. Customer service and high-end products set Sephora apart from Ulta.

- "We have been slower since the after the Holiday, but we are still trending positively. I expect Sephora's success to continue as it has."
- "Sephora is opening new stores across Florida in J.C. Penny every day. J.C. Penny is on track to revamp and in the next three years will look and be more like Macy's."
- "Sephora is not going to compete directly with Ulta. This store has been here for seven years, and it's not going anywhere."
- "We don't discount the same things or same times they do. We are the leader, and we have led the way for quite some time. Ulta is new on the block and has a lot to prove."
- "We offer much better customer service, our staff is knowledgeable, and from what I hear Ulta is losing customers because of just that reason."

Sephora is not going to compete directly with Ulta. This store has been here for seven years, and it's not going anywhere.

Assistant Manager
Sephora in J.C. Penny
Florida

Ulta Salon, Cosmetics & Fragrance Inc.

- “Customers shop Ulta thinking the prices are better, but they are the same as what we offer. We are all chasing the same dollar.”
- “Ulta sells supermarket brands, and that could hurt them in the end.”

Reporter Observations: This Sephora department was located inside a J.C. Penney mall store. Six customers were shopping in the section during our Wednesday, 3:30 p.m. visit. The department had very nice displays and product offerings, and the most recent flier was eye-catching. We noted no sales or discounted merchandise.

➤ **Makeup artist working at a Macy’s Clinique counter 40 miles outside Chicago**

A newly reopened Ulta has not affected this source’s business and likely would not even if it were to carry the same brands, such as The Estée Lauder Cos. Inc.’s (EL) [Clinique](#). She said Macy’s extensive associate training provides an advantage over Ulta.

- “I don’t think Ulta has an impact on our business, even with the new location closer to the mall. My colleagues agree. We have our shoppers that are loyal to our store, and they have theirs.”
- “Ulta does not carry Clinique or Lancôme, so we don’t have competing products. If they did get either line in, I still don’t think Ulta would affect our business. My two associates agree with me on this too.” [Some Ulta stores carry a few products from both Lancôme and Clinique.]
- “We don’t consider Ulta to be our competition. Other department stores are our competition.”
- “People come here over shopping at Ulta because we are trained in makeup.”
- “They don’t get the training we do. They won’t know the lines as well as we do. We get sent to training so we know what looks and works best for our customers.”
- “Customers want to work with someone who has expertise in the makeup and is not going to sell them just anything. I would not totally trust the recommendations made at Ulta.”

I don’t think Ulta has an impact on our business, even with the new location closer to the mall. My colleagues agree. We have our shoppers that are loyal to our store, and they have theirs.

*Makeup Artist, Macy’s Clinique Counter
Chicago, IL*

Reporter Observations: During Blueshift’s Tuesday afternoon visit, store traffic was slow and only one customer, a woman in her late 30s, was in the makeup area. We noticed no sales. A Lancôme gift-with-purchase had ended the day before.

➤ **Associate for Macy’s Impulse Beauty counter, Chicago area**

Neither Ulta nor Sephora has affected this source’s business; rather, her counter competes with other department store anchors. This counter opened over a year ago and has performed well. The goal was to offer enough variety so that customers only shop at Macy’s. Philosophy is the best-selling skin care line while the Urban Decay eye palette, priced at \$50, is the hottest selling item. Macy’s has an advantage over Ulta in that it carries the namesake Estée Lauder line.

- “I don’t know much about Ulta other than that we carry some similar brands. I don’t feel that we directly compete with them.”
- “I don’t think Ulta or Sephora has an effect on our business. We are well-established.”
- “Our competition is the other department stores like [Macy’s] Bloomingdale’s and Nordstrom. They can offer what we do, unlike Ulta.”
- “Most of our customers are driven by the use of their Macy’s credit card and the discounts and benefits they get using it. They like that they can find everything they need here in the store. That is what we want.”
- “We don’t want our customers shopping elsewhere. We try to carry a little bit of everything. Ulta isn’t set up like us, so it is hard to compare our stores. They are strictly makeup and beauty. We are that and so much more.”
- “Today is slow, but yesterday was great. Overall, we are where we should be this year.”
- “Our best-selling skin care line is Philosophy. The best in makeup is Urban Decay.”
- “The hottest thing in Impulse is the Urban Decay Naked eye palette for \$50. They just came out with [Naked 2](#) in January, and we sell out of it often. We just got a few in, but they won’t last through the week.”

I don’t know much about Ulta other than that we carry some similar brands. I don’t feel that we directly compete with them.

*Associate
Macy’s Impulse Beauty Counter
Chicago-area, IL*

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- “Estée Lauder is the best selling makeup/skin care line on the floor. I don’t believe Ulta carries it.” [Ulta carries only the [fragrances](#) of the Estée Lauder line.]

► Estée Lauder makeup artist for Macy’s, Philadelphia suburb

Sales were at least on par with year-to-year levels during the holiday season, and are improving in the first quarter because of the stronger economy. Macy’s has implemented the [open-sell concept](#) in the MAC brand area, and the customers seem to like it. The source does not think Ulta has hurt sales for Macy’s beauty counters and products, which are well-established and benefit from customer loyalty. Sales promotions, free gifts and samples are standard marketing devices and likely will continue to be used. She was unaware that some prestige brands were being offered at Ulta and drugstore settings, but did not think this development would hurt the brands’ image.

- “Our holiday sales were at least as good as Christmas 2010, and we are off to a good start in 2012. I don’t know the actual numbers.”
- “The improving economy and increasing number of jobs are causing traffic to increase, so I expect 2012 to be a good year. I know I am doing more makeovers.”
- “The open shopping trend in beauty products is taking hold, and Macy’s has implemented it in the MAC brand area. The counter is much smaller, and you can shop between aisles and displays actually touching products and trying samples on your own. Shoppers seem to really like it, but I don’t know if there are any plans to expand on it.”
- “Ulta is a good competitor and there is one very close to us that I know a lot of our customers go to, but I don’t really think they have negatively impacted our sales. Macy’s has a strong, well-established reputation in the cosmetic and beauty field and our customers are very loyal.”
- “Promos, specials, free gifts and samples are standard in the beauty business. I can’t imagine anyone cutting back on them. There is always something on sale at one counter or another and sometime at lots of counters; customers expect it. It’s how we build loyalty.”

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*Makeup Artist, Macy’s Estée Lauder
Philadelphia Suburbs*

Reporter Observations: Approximately seven shoppers were spread throughout Macy’s beauty section. Staff outnumbered shoppers and was stocking product and cleaning counters. Specials were not overly obvious and were being promoted through small signs.

► CVS supervisor in Southern California

This source was unfamiliar with Ulta, but said her store’s cosmetics and shampoo sales had increased in the past few months. Some CVS locations are adding makeup artists to assist customers and also are offering higher-end fragrances, makeup and skin care products. CVS also is revamping many of its displays, and carrying many new products from current brands.

- “Cosmetics in our store are doing really well, and the cosmetics section and shampoo and conditioner sales went up last month.”
- “I believe customer purchases did go up this January versus last January.”
- “Our sales in the fourth quarter of 2011 were better than the year-ago period.”
- “Our [Beauty 360s](#) might be pretty good competition. With Beauty 360s, customers can get higher-end makeup and fragrances, kind of like Sephora. Some CVS locations have makeup artists in the store.”
- “Our store has a healthy skin care center, so we have [L’Oréal’s] [Vichy](#) and [La Roche-Posay](#) and we compete with department stores. People still come in here asking for Lancôme.”
- “There are not necessarily new brands but new products from specific brands that we have carried before.”

Secondary Sources

A review of cosmetics and beauty industry websites revealed that Ulta is expected to become the exclusive U.S. retailer for 140 new products from Coty. Also, 60 new Ulta stores are slated for opening in 2012. Meanwhile, Ulta had the best

Ulta Salon, Cosmetics & Fragrance Inc.

performing Chicago-based stock in 2011, and the company's growth is expected to continue. Finally, competition from Walgreens is expected to increase as the drugstore chain will be opening large stores with front ends focused on beauty supplies.

➤ **Feb. 23 Women's Wear Daily [article](#) (subscription needed for entire article)**

In April, Ulta will become the exclusive U.S. retailer for Coty's new CK One brand of 140 stock keeping colors. This brand and product addition is expected to compete with department brands like Estée Lauder's Clinique and MAC. The CK line could generate up to \$25 million in worldwide sales in the first 18 months following the launch.

- "In the U.S., it will be exclusive at launch to Ulta. A second wave of global distribution, to include travel retail, the U.K., Germany, South Africa, Mexico and Brazil will follow in fall 2012, with the remainder of the globe getting the products in spring 2013. In each market, the brand will launch exclusively in one retailer, giving the company a chance to build the brand effectively, said [Thomas] Burkhardt [vice president of marketing for Calvin Klein Fragrances.] 'It allows us to learn along the way,' he added."
- "While executives declined comment, industry sources estimated that the line could generate global retail sales of about \$25 million in its first 18 months."

➤ **Jan. 9 *Chicago Business Journal* [article](#)**

Walgreens is opening a 27,000-sq. ft. flagship store in Chicago in an effort to recapture some of its lost share of the beauty dollar and offset the loss of being in the Express Scripts network. Walgreens management has not disclosed the number or the locations of these flagship stores, but has stated it will be evaluating former Border's locations. Leadership for the front-end merchandise department already has scored some exclusive brands from Italy and Australia.

- "Drugstores in general have really recognized that their hold on the beauty market has been whittled away by the Ultas and the Sephoras of the world,' says Wendy Liebmann, CEO of New York-based consumer research firm WSL Strategic Retail. 'They know if they want their female customers to buy an extra item when they walk in, they really have to up their game.'"
- "The No. 1 drugstore chain's makeover won't come cheap. The new Walgreens will include a sleek cosmetics area that looks like a mini-Sephora and offers \$15 manicures and eyebrow-shaping. There also will be a barista, made-to-order sushi, a juice and smoothie bar, self-serve frozen yogurt, upscale wine and spirits and a wide cheese selection—even a humidior."
- "Ms. Curtin, who, as Walgreen's general merchandise manager for beauty and personal care, is overseeing the overhaul. An avowed beauty junkie who got her start spritzing perfume at a Dillard's department store in Arkansas, Ms. Curtin has worked for MAC cosmetics and most recently spent nearly a decade as a senior buyer for skin care products at Wal-Mart Stores Inc."
- Ms. Curtin has spent two years conducting market research and recruiting little-known overseas brands like [Becca](#), an Australian makeup line whose packaging—and \$25 price tags for eyeshadows—resemble those of [Laura Mercier](#) or [Estée Lauder's] [Bobbi Brown](#). A facial serum from Italian skin care line [Rilastil](#) will retail for \$160.

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Chicago Business Journal Article

➤ **Feb. 20 About.Com Retail Industry [release](#)**

The number of brick-and-mortar stores in general may slow in 2012 because of the slow economic recovery and the rapid rise of online and mobile shopping. Still, Ulta is expected to open 60 new stores this year.

- "Growth and expansion of brick and mortar stores in the U.S. retail industry is likely to slow down in 2012 due to the continued slow recovery of the economy and the online and mobile shopping trend that is expanding at a rapid rate creating a decrease in foot traffic in physical stores."

Ulta Salon, Cosmetics & Fragrance Inc.

► **Jan. 15 *Chicago Tribune* [article](#)**

Ulta was ranked as the best-performing Chicago stock for 2011. Growth is expected to continue for the 449-store chain. New stores will be opened at the rate of 15% to 20% per year, particularly in the East and the Pacific Northwest. Ulta will be challenged by competition from online retailers and drugstores' expansion and improvements in their beauty sections.

- "The Bolingbrook-based retailer ranked as the best-performing local stock of 2011, surging 91 percent to \$64.92. It is the second year in the row the purveyor of moisturizers and hair products ranked among the Chicago region's top-10 best performing [stocks](#)."
- "One reason: Ulta occupies a unique spot. It is, in essence, the [Best Buy](#) of the beauty market, offering everything from drugstore mascaras to prestige-brand moisturizers and a full-service hair salon under one roof.
- "With 449 stores, Ulta has plenty of room to expand, particularly on the East Coast and in the Northwest, analysts said. The company plans to expand its store base at a rate of 15 to 20 percent a year until it reaches 1,000 stores nationwide, Rubin said."
- "Some analysts caution that the highflying stock could be poised for a sell-off in 2012, pointing out shares trade at a lofty multiple of 32 times estimated [earnings](#). They also contend competition is heating up, as drugstore chains Walgreens and CVS dress up their beauty departments and more shoppers buy beauty products online."

Next Steps

Blueshift will research Ulta's new stores to determine if store traffic is meeting company expectations and increasing brand awareness. We will monitor consumer reception to Ulta's new products and brands to see if the company can use innovation to create interest. We will continue to monitor the growth of Ulta's salon and men's departments. Finally, we will evaluate the increasing competition from open-concept beauty departments within department stores and the rise of expanded drugstore beauty sections.

Additional research by Marissa Yaremich, Cheryl Meyer, Lindsay Gadsby, Erica Franklin and Tina Strasser

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