

Enduring BEAUTY

ULTA HAS BEEN ON A FIVE-YEAR SALES GROWTH TEAR BY PROVIDING SHOPPERS WITH THE PERFECT MIX OF MERCHANDISE AND ENGAGEMENT. > By Gina Acosta

As shoppers enter the Ulta Beauty store in Citrus Park, Fla., the latest Justin Bieber hit “Despacito” is playing from the speakers. The lighting is bright, but not too bright. There are prestige brands on the right, and the kind of beauty merchandise found at Walgreens and Walmart on the left side of the store. In the back, there’s a middle-aged woman sitting in a salon chair having her hair colored. She is telling the hairstylist that she wants “ombre hair”: a mix of purple and grey strands, “like the style my daughter is always putting on Instagram.” A few rows nearby, tween girls are trying on the new Too Faced brand lip creams, with names such as “Sugar Daddy” and “Nude Beach”.

At Ulta, there are no salespeople pressuring shoppers. Employees are scattered and mostly work the cash registers or in the salon. There is no fancy lighting, no big celebrity signage, nothing really all that special about the store layout or the experience. And that is by design. Ulta is supposed to be the opposite of fancy. Ulta is where the average beauty shopper can find everything beauty in the most inclusive way possible.

It’s a value proposition that has paid off for the Midwestern chain, which has become virtually immune to competitors or the economic climate. In fact, Ulta has found a way to sustainably capitalize on the Instagram era, in which looking good online is more important than ever, with a unique business model: Allowing shoppers to buy both mass and prestige beauty products, as well as get salon services, all in one place. No other retailer offers that mix in an easy-to-shop, 10,000 square foot box.

Because Ulta sells beauty brands at all price points, it has the ability to capture market share from all over the place, including grocery, drugstore and upscale stores. Ulta’s business model has helped it become the biggest specialty beauty retailer in the U.S., with a 27 percent market share, according to Euromonitor International. Ulta has quadrupled its revenue since going public in 2007, to \$4.8 billion. And the company’s winning formula of higher customer traffic, bigger average tickets and increased e-commerce conversions has produced strong comparable sales growth for nearly a decade.

“Our differentiated and compelling assortment, the experience and nature of our stores, the strength of our loyalty program ... help us drive traffic and manage promotional activity with greater precision,” Ulta Beauty CEO Mary Dillon said during the company’s first quarter earnings call. “The supply chain investment we’ve made to support the acceleration of our e-commerce channel. All of these assets are contributing to our exceptional growth.”

That formula for growth is key, because for many retailers, e-commerce has become cannibalistic. But not at Ulta, where the company has data to show that e-commerce users are spending more at physical stores than ever before.

“We continue to find ways to connect with beauty enthusiasts,” Dillon said. “We are very optimistic about her long-term engagement. In fact every indicator we have shows that she is just getting more engaged and that’s largely due to the relatively new online tools that she has at her disposal through social media and the ability to learn more, to share more, to be more engaged in makeup and hair trends and skin trends.”

In fact, Ulta’s e-commerce sales grew 63.4% on top of 44.2% growth last year, contributing 380 basis points to total company comps. This revenue growth was driven almost entirely by increased transactions. While total traffic growth was up almost 63%, mobile traffic rose more than 90%, driven by



▲ Mary Dillon



ULTA AT-A-GLANCE

Headquarters: Bolingbrook, Ill.

Chief Executive Officer: Mary Dillon

Number of Stores: 1,000

Annual Sales: \$4.8 billion

Year Founded: 1990



growth in digital marketing paid channels including search, affiliates, display and Facebook.

For the first quarter ended April 29, the company said e-commerce sales grew 70.9% to \$104.3 million from \$61 million in the first quarter of fiscal 2016, representing 340 basis points of the total company comparable sales increase of 14.3%.

“Our performance puts us in a unique position in the beauty industry and within the broader retail landscape to take advantage of the many opportunities before us to invest to drive the business for the long-term,” Dillon said.

How is Ulta managing to post double-digit growth in comparable and e-commerce sales? The company is focused on a five-pronged strategy of (1) growing the store footprint, (2) adding new products to the assortment, (3) constantly improving the loyalty program, (4) broadening marketing reach to new customers, and (5) expanding the digital business.

But Ulta is more than a beauty retailer with a successful strategy. It’s also a community.

Beauty enthusiasts, as Ulta calls them, go to these stores to hang out, put on makeup, share selfies and enjoy a sense of comradery. These customers are flocking to physical stores and also to Ulta’s digital channel. And they are fiercely loyal, mostly due to Ulta’s Ultimate Rewards Program.

“Loyalty program members are driving the majority of our sales,” Dillon said. “We’ve simplified the loyalty program. I think our communication about how the program works, how we communicate with that guest, how we convert new members and potential members in-store — are all components of what we’ve done that’s working well and driving great value and experience.”

According to Ulta, 90 percent of its shoppers use the program. During the first quarter the retailer says it acquired \$1.1 million net new loyalty members, bringing the Ultimate Rewards program to 24.5 million active members. This represents growth of 26% year-over-year. This means the company has an enormous amount of data on shoppers. “We use the information from our Ultimate Rewards Program to influence how we think about real estate, how we assess the effectiveness of our marketing strategy. We also use it to influence how

we think about our merchandise strategy and planning. Our brand partners also leverage this data,” said Dave Kimbell, Chief Merchandising and Marketing Officer at Ulta Beauty.

While the company’s success has been extraordinary for various reasons, one thing is certain: Driving growth will become more difficult over the longer term as more business shifts to online, where sales tend to have lower profit margins. For now, Ulta is not giving up on its model.

The company is leveraging big data to make assortment decisions, develop new service offerings and generally uncover opportunities to bring value to customers. It is also evolving its strategy to stay relevant with beauty enthusiasts by increasing its use of technology (social, artificial intelligence, virtual and augmented reality, etc.) to improve the online shopping experience and guide customers toward new brands, products and tools. There are now 1,000 Ulta Beauty stores in the United States as of June. The retailer plans to open 100 new stores a year over the next several years, with a goal of eventually having 1,700 locations.

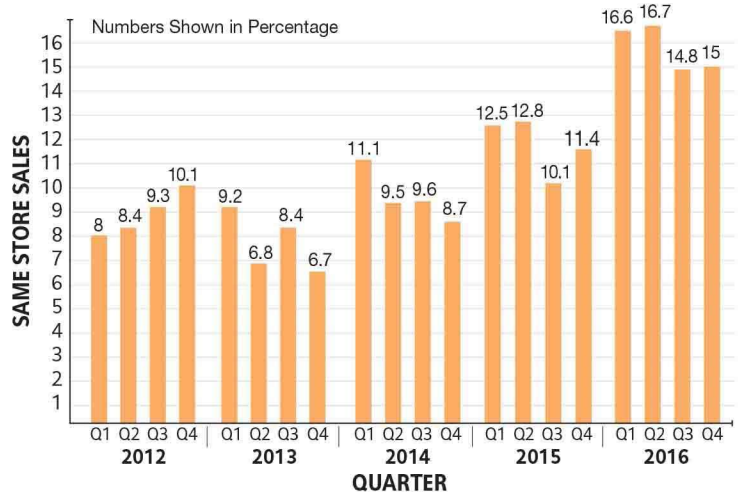
The retailer recently opened its sixth distribution center, in Fresno, Calif. The new DC will allow the company to more efficiently serve stores in California, where roughly 10 percent of Ulta stores are located (104 of 874 stores at end of last year were in California).

In addition to adding beauty products, Ulta is also leveraging its customer engagement programs to drive sales at the salon. Salon comps in the first quarter grew 9.9%; salon sales increased 16.7% to \$68.7 million from \$58.9 million in the first quarter of fiscal 2016.

“The salon is central to our overall strategy,” Kimbell said. “Our salon customer spends more money, comes more frequently, is high-loyalty. But most important, the salon allows us to elevate the overall store experience. It allows the customer to immerse herself in beauty.” RL

ULTA BEAUTY AT-A-GLANCE:

Same store sales have accelerated as Ulta has expanded its physical and digital footprint.



SOURCE: Company Reports