

Merrimack College

## Merrimack ScholarWorks

---

Honors Senior Capstone Projects

Honors Program

---

Spring 2022

### Ulta Beauty: Strategic and Industry Comparison

Madelynne Gatchell

Follow this and additional works at: [https://scholarworks.merrimack.edu/honors\\_capstones](https://scholarworks.merrimack.edu/honors_capstones)



Part of the [Business Administration, Management, and Operations Commons](#)

---

Madelynne Gatchell  
MGT4100W  
Ulta Beauty: Strategic and Industry Comparison

### Overview/History/Major Recent News

Ulta is the largest beauty retailer in the United States. They carry a variety of products regarding cosmetics, fragrances, skin care products, hair care products, and salon services. Ulta has 1,296 stores across the United States and each store is around 10,000 square feet with 950 square feet reserved for salon space. Majority of Ultas are in shopping centers and are close by to other stores. The typical customer is women between the ages 16 and 25. Around 57% of their shoppers are considered “beauty enthusiasts”. To serve these types of customers, they offer 25,000 products from over 600 established or emerging beauty brands. Many consumers have switched back to shopping in stores now that COVID has been on the decline, but around 20% remain shopping online.

Ulta was founded in 1990 by Richard George and Terry Hanson. George left his job as the President of Osco Drug in 1989 to create a business plan for what would be known as Ulta3. Their goal was to become a retailer that would offer beauty products at different price levels. They had other Osco executives join their business indenture and together raised \$11.5 million venture capital. When Ulta3 launched, they had five stores in the suburbs of Chicago. By 1999, Ulta3 was renamed to Ulta, and Hanson was replaced as CEO. In 2007, Ulta became a publicly traded company on the NASDAQ. In 2008, Ulta opened their second distribution center in Arizona. Ulta is currently headquartered in Bolingbrook, IL and have 37,000 employees across the United States to work in their 1,296 stores. In the last few years, Ulta has prided itself in being a diverse workplace that allows people to be comfortable working there. In both 2019 and

2020, Forbes awarded Ulta with being the best employers for diversity and the best employers for women.

In recent news, Ulta has partnered up with Target. In the past year, Ulta and Target have been working together to have Ulta launched in more than 100 Target stores. They will also have an online presence on the Target website and offer more than 50 specialty brands. This partnership will work in both retailers favor because Ulta has become an industry leader in beauty and Target has a broad loyal customer base. This will provide Ulta with a new consumer base that it might not have reached otherwise.

Ulta struggled at the beginning of COVID. They had to close their stores due to government mandates stating they were a non-essential retailer. Ulta did struggle during quarantine because many women were not concerned with buying the makeup they normally would. While operating online only, the sales exceeded their expectations, but did not recover enough to full offset the impact of closing the stores. Once it was safe to reopen, they begun to offer curbside pickup as an option for consumers. Ulta had to take measures to reinforce their financial position and preserving their cash by suspending new hires, deferring merit pay increases for all corporate, store, and salon employees, reducing marketing expenses, and reducing the expansion plan from 40 stores to now 30.

### History of Growth

Founded in 1990, Ulta Beauty grew to its current state by organic growth and acquiring other businesses. Ulta decided to invest in the tech field. They invested in Iterate and Spruce. Iterate is a digital workflow partner, while Spruce is an online booking tool. Ulta also acquired two tech startup companies. The two startup companies include QM Scientific and GlamSt. The

startups work in the artificial intelligence and augmented reality fields. QM Scientific learns consumers shopping habits and uses their preferences to create an individualized shopping experience to increase sales. GlamSt is an augmented reality beauty tech company that creates customized products for retailers and brands. Ulta decided to choose these fields because they believe it will help their personalization in products and shopping experience.

Ulta's strategic competitor CVS and industry competitor Amazon have also expanded in size by using investments and acquisitions over the years. CVS has acquired eight businesses throughout their history so far. Their most known acquisition is Revco, which remains as the largest acquisition in U.S. history for the retail pharmacy industry. CVS acquired more than 2,500 stores from Revco. Throughout Amazon's history, Amazon has acquired twelve businesses. Unlike Ulta and CVS who only acquired businesses in certain industries, Amazon acquired companies in a variety of industries. Their most recent acquisition includes MGM, which is a movie studio. This gives Amazon new hit movies and TV shows. Some other acquisitions include Zox Inc, Ring, PillPack, Whole Foods Market, Kiva Systems Inc, and a few others. Since Amazon has a broader consumer base, they must be involved in a variety of different businesses and products.

### Comparative Analysis

CVS focuses on healthcare and allows customers the ability to shop for groceries, beauty products, office supplies, and over the counter medications, while also providing them with their prescriptions or flu shots. CVS is a strategic competitor of Ulta because they provide customers with the same low-cost brands that Ulta does. CVS offer the consumer easy access because they offer a variety of different products and services in the store. While Ulta gives the consumer

more variety and can offer them more luxury products, CVS has quick, on the go items from affordable brands.

As presented in Table 1, CVS has 9,962 stores and 295,000 employees to fill those stores. Compared to Ulta with 1,296 stores with 37,000 employees. Like Ulta, CVS operates solely in the United States. Due to CVS's variety in products and services, they had sales of \$292.1 billion. This is far greater than Ulta who was operating with \$8.1 billion in sales. CVS also has greater earnings at \$7.9 billion and market capitalization at \$133.4 billion. Ulta receives \$0.9 billion in earnings and has \$20.2 billion in market capitalization. Ultimately, CVS is a larger and more profitable company than Ulta.

**Table 1- Comparative Analysis**  
**Financials are Trailing-Twelve Months as of 2021**

	<u>Ulta</u>	<u>CVS</u>	<u>Amazon</u>
Total Revenue (In USD Billions)	\$8.1	\$292.1	\$469.8
Earnings (In USD Billions)	\$0.9	\$7.9	\$33.4
Market Capitalization (In USD Billions)	\$20.2	\$133.4	\$1539.2
Number of Employees	37,000	295,000	1,300,000
Number of Stores	1,296	9,962	629
Price to Earnings Ratio	23.6	17.2	47.7
Dividend Yield (%)	--	2.0	--
Payout Ratio (%)	--	33.6	--

Source: Morningstar

Amazon is the industry benchmark company for beauty products. Amazon offers a multitude of different products, including beauty brands, that can be delivered directly to your

house for low costs. While Amazon only has 629 stores, they dominate with their online shopping. They have 1,300,000 employees to fill the warehouses all over the United States. Amazon does ship internationally to over 100 different countries, but some products may not be offered for certain countries. They also operate in Canada, Italy, Germany, Spain, and the United Kingdom. Amazon generates \$469.8 billion in sales and has earnings at \$33.4 billion. They also have market capitalization at \$1539.2 billion. Amazon is a larger company than both Ulta and CVS. They offer so many more products and provide their services all over the world.

CVS is the only company that pays their investors a dividend, while both Ulta and Amazon choose not to offer a dividend. CVS has a 2% dividend yield, with a payout ratio of 33.6%. Amazon and Ulta may not be the most attractive companies for investors to invest in because they do not offer a dividend.

**Table 2 – Growth Analysis**  
**Earnings Growth and Sales Growth (Year over Year)**

<u>Ulta</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Earnings Growth	18.61	7.2	-75.09
Sales Growth	14.14	10.15	-16.84
<u>CVS</u>			
Earnings Growth	--	8.22	10.18
Sales Growth	31.96	4.65	8.71
<u>Amazon</u>			
Earnings Growth	15.04	84.08	56.41
Sales Growth	20.45	37.62	21.70

Source: Morningstar

Table 2 suggests that COVID had a significant influence on all three companies. Ulta really struggled during COVID and is trying to make a comeback. Both of Ulta's earnings growth and sales growth has dropped drastically over the past three years. Their earnings growth dropped more than half from 2019 to 2020 when COVID started. Then continued to drop to -75.09 throughout 2021. Ulta's sales growth also dropped to the negatives during 2021. CVS was able to maintain their earnings growth during COVID. However, their sales growth dropped during 2020, but they were able to recover for 2021. Amazon's earnings growth and sales growth was able to increase during 2020. Their earnings growth greatly increased during 2020 and was able to reach 84.08. Their 2021 growth is still greater than 2019, but it is starting to go back down to normal heights. Amazon really took advantage of COVID because people were able get everything that they needed delivered to their homes, when there were still government restrictions on stores being open. Table 2 suggests that Ulta is in the growth stage, whereas CVS and Amazon are in the mature stage. Amazon and CVS are larger companies overall and have a greater consumer base because of the variety of products and services they offer, so COVID did not have as negative of an impact on them compared to Ulta, who has more beauty specialized products and services.

### Corporate Strategy

Aside from Ulta's acquisitions in the tech world, Ulta partners with over 600 brands and sells over 25,000 different products from these brands. Ulta participates in related diversification with their multitude of offerings. While they remain in the beauty industry, they have broadened their scope to serve almost of every segment of the industry to increase their sales. Their offering of the inhouse salon is one of their greatest assets because its unique to their brand. The

salon increased sales for Ulta because it offers the customer the opportunity to browse either before or after their appointment. The customer can find the products that were used in the appointment in the store and related items. They also can be recommended products and be able to find them that day. The salon aspect is something that not many retailers have taken part in, but Ulta has taken advantage of this opportunity to serve this segment of beauty.

#### Business Strategy:

Ulta uses a broad differentiation strategy. While they only serve the beauty market, Ulta serves many different segments within beauty. They offer products within skin care, hair care, cosmetics, fragrances, and salon services. Within those segments, Ulta offers a variety of products at every price level. The salon services are also unique to Ulta because it allows the client to try their hair and skin products before purchasing them. Ulta relies on their different products and brands to draw customers in with how unique they all seem, which allows them to apply premium pricing for some of their products.

#### International Strategy:

Ulta planned to become an international company with the expansion of a few stores in Canada in 2022, but due to COVID, this plan is being postponed. They decided to spend this money improving their online shopping presence to improve their sales. While they may not have any international stores, they do make shipments to Canada. Ulta uses Borderfree to ship their products over the border to Canada. However, this does not mean that consumers can purchase every product, there are some products that cannot be shipped over the border and the consumer will have to purchase them when they visit the United States. Also, Borderfree does

not accept gift cards so those will also have to be spent in the United States. In the future, Ulta should be able to make a successful expansion into Canada, especially since people can now make online order from there, so Ulta has a slight presence there. Ulta is currently using global standardization strategy because the website offers basically the same shopping experience in both the United States and Canada. Ulta should continue this strategy when opening stores in Canada because the consumers are already familiar with them, so they do not want to make any drastic changes.

#### Cooperative Relationships/Strategic Alliances/Joint Ventures:

Recently, Ulta has partnered with two companies to create a strategic alliance. The first company is Target. Target is a top retail destination and offers a multitude of products. By partnering with Target, Ulta broadened their horizons and now receives the same consumer flow that Target receives daily. They started the partnership during Covid because they wanted to limit the exposure with one-stop shopping. The second company is IRI. IRI provides other companies with predictive analytic and forward-looking insights in order to grow their businesses. They help companies with their repository of purchase, media, social, and causal and loyalty data. Ulta is using their expertise to expand in the e-commerce world and gain better sales from it. They are going to provide more opportunities and innovations.

#### Omnichannel Capability:

Ulta's omnichannel capability focuses on being able to provide a personalized experience for each shopper. They currently use SAS Customer Intelligence 360 as an engagement platform to incorporate all the marketing technological needs. Ulta uses the platform to monitor the

customer engagement programs, such as credit, loyalty, customer insights, and surveys. Due to the help from SAS, Ulta has seen major improvements in their automation, participation, and retention. They can now use automation to help their creation and execution process. Ulta's new process helped them navigate Covid by still allowing customers find their favorite products on their easy-to-use website and tailors their experience to show their wants, needs, and values. They understand what each customer looks for and can now cater to specific consumers every time they use the website.

#### Analysis: Efficiency and Financial Health:

As seen in Table 3, Ulta's return on equity has recently dropped in 2021 to 9.01%. They had a high return on equity as Covid hit. Compared to Ulta, CVS consistently remains in the 10% range for their return on equity. In the past two years, Ulta's debt to equity ratio remained around the same and slightly dropped to 0.82 in 2021. However, CVS currently sits at 0.93. In the past three years, their return on equity continues to slightly drop. Ulta has a healthy current ratio even though it dropped in 2020. Their current ratio shows that Ulta has enough assets on hand to handle their debt. CVS has a lower current ratio than what seems as healthy because it shows that there are not enough current assets on hand to meet their short-term obligations. Ulta has a generally low inventory turnover rate, since the ideal rate occurs between 5-10, meaning the company sells and restocks product every month or so. CVS has an inventory turnover rate higher than the ideal rate, so they are selling and restocking their products quite frequently. Both Ulta and CVS have a high A/R turnover rate, meaning that they are efficient with their collection processes. During 2019 and 2020, Ulta was extremely high with their A/R turnover rates. CVS has remained consistent with all their ratios, meaning that they are a mature company and in

comparison, their inventory turnover creates an advantage for them in concern to Ulta. When Ulta had a higher A/R turnover in 2019 and 2020, their return on equity was high and doing well.

**Table 3- Internal Financial Comparison Strategic Group**  
Year-to-year amounts for the 2019-2021 period

	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Ulta</b>			
Return on Equity	36.64	37.93	9.01
Inventory Turnover	3.73	3.76	3.41
A/R Turnover	56.95	53.71	37.01
Debt/Equity Ratio	--	0.89	0.82
Current Ratio	2.32	1.81	1.87
<b>CVS</b>			
Return on Equity	10.87	10.78	10.95
Inventory Turnover	12.44	12.2	13.24
A/R Turnover	37.73	38.89	38.86
Debt/Equity Ratio	1.31	1.12	0.93
Current Ratio	0.94	0.91	0.89

Source: Morningstar

As seen in Table 4, Amazon flourished during Covid because of their strong online customer base. Ulta's return on equity does not compare to Amazon's at 28.81. Ulta struggles with their inventory turnover, while Amazon remains higher than the average at 14.3. Ulta appears stronger than Amazon with their A/R turnover, but Amazon consistently collects their profits. Both companies have similar debt to equity ratios, but Ulta possess more assets on hand to pay their expenses. Over the past three years, Amazon carries a consistency that Ulta does not possess. Comparing 2019 to 2021, all Ulta's internal financials have dropped, while all of Amazon's internal financials have raised besides their debt-to-equity ratio.

**Table 4 - Internal Financial Comparison Industry Benchmark**  
Year-to-year amounts for the 2019-2021 period

	2019	2020	2021
<b>Ulta</b>			
Return on Equity	36.64	37.93	9.01
Inventory Turnover	3.73	3.76	3.41
A/R Turnover	56.95	53.71	37.01
Debt/Equity Ratio	--	0.89	0.82
Current Ratio	2.32	1.81	1.87
<b>Amazon</b>			
Return on Equity	21.95	27.44	28.81
Inventory Turnover	12.83	15.11	14.3
A/R Turnover	14.96	17.02	16.36
Debt/Equity Ratio	1.02	0.90	0.84
Current Ratio	1.09	1.05	1.14

Source: Morningstar

Strengths and Weaknesses:

Ulta offers 25,000 different products from over 600 established or establishing beauty brands. They offer luxury brands, as well as some affordable brands. CVS does not offer the luxury brands; they only offer the affordable brands. While Amazon, does offer some of these luxurious products, they do not offer the same in store experience that Ulta offers. Ulta competes with both companies because they offer the affordable products like CVS, and they occupy an online presence like Amazon.

External Competitive Analysis/Economic Moat:

Ulta has a narrow moat rating. This is due to their strength of its intangible brand asset. They are the largest beauty retailer in the U.S. and have a strong consumer loyalty. Ulta carries most of the major brands in each beauty segment and offers more products than any other U.S. retailer. While Ulta originally named as a discounted retailer when first opening, they now offer premium products with their discounted products. Ulta also thrives in crowded marketplaces,

which is where most of the stores are located, in suburban power center locations. They do face competition from other businesses in the shopping centers and other online venues that are both rapidly growing, however, Ulta performs well regardless of its competitors due to their strong selection of merchandise and services. Ulta's ability to have both prestigious and new products in stock, make them a very difficult company for smaller businesses to compete with. Ulta also has an increasing brand value due to their ever-growing relationship with prestigious brands. Ulta carries most of the most popular premium products in skin care, make up, and haircare. Ulta's loyalty program is another important competitive advantage. They have over 37 million members of their Ultimate Rewards, which means roughly 25% of women in America are members of Ulta. The reward program is used to promote consumer engagement and the brand's strength. Ulta's physical size is an important factor when looking at their competitors because currently, they are unmatched in size. Ulta has 1,296 stores and most are over 10,000 square feet. This allows them to carry over 500 different brands and have always more than 25,000 products in stock. No other beauty retailer can hold that much merchandise because their size is not equipped to handle it. Ulta's salon services add to their brand value as well because their clients visit the store twice as often as a regular customer and typically spend three times as much. Ulta carries a narrow moat rating due to its brand intangible asset.

CVS also carries a narrow moat rating due to their scale-related cost advantages. CVS can benefit from local scale advantages in certain metropolitan areas because of the fragmented health insurance market. In communities where CVS holds a substantial portion of the market share, they can offer lower costs and more benefits. Companies in the surrounding area will be incentivized to join and offer CVS' insurance to gain access to their growing memberships. These create high barriers to entry because new entries do not have the membership to back up

their entry. CVS' Caremark segment provides a competitive advantage due to its cost advantages and mild switching costs. Their Caremark segment provides PBM services and is one of the top three prescription providers in America. The purchasing power for all their prescriptions, offers discounts and provides value to consumers. CVS' moat standing has the potential to change whenever the U.S. makes changes to their healthcare system.

#### Asses and Project:

Ulta is an extremely competitive market and consistently faces challenges. There are over 70,000 stores that sell beauty products in the U.S. and some of the competitors have many more stores than Ulta, such as CVS. Majority of Ulta's sale come from their physical locations. Many consumers are starting to prefer shopping online because they can buy everything with the click of a button without even having to leave their home. This opens Ulta up to new competition, such as Amazon. Due to their industry, Ulta is highly exposed to the health of the cosmetic market and consumer spending. This market consists of items that are not necessary to everyday life, but more so desires. There have also been fewer makeup introductions over the past few years and there has been a decline in innovation.

Regardless of their challenges in the industry, in the next 1-2 years, Ulta should be able to fully recover from Covid. Ulta continues to partner with popular and successful brands. People love the variety they offer and finding new products they had not heard of before. They are also continuing to improve their omnichannel to increase their sales in the long run. Their partnership with Target should also improve, due to the benefits on both sides and Ulta should be opening in more Targets. Despite the high risks in their industry, Ulta has placed themselves in a position to remain successful in the future.

### Recommendations:

There are a few areas that Ulta should invest in for their company in the future. The first being their online presence. The world of shopping is moving online, and stores are receiving less foot traffic as the years go on. Ulta must invest more into their website and social media presence. This will add more publicity and more consumers. Another aspect to invest in is their salon services. As shopping moves more online, their salon services offer them the unique advantage of having people enter their physical stores. Ulta could offer special deals with their salon services to get people in their store to browse. Lastly, Ulta should invest more in their international position. They should start with a few stores in Canada, as they already have a slight online presence there. If all goes well in Canada, they can consider opening stores in other countries. There are many ways that Ulta can improve their already highly successful company.

### References

- “Investor Relations.” *Ulta Beauty, Inc.*, 24 Feb. 2022, <https://www.ulta.com/investor>.
- “Our Story.” *Ulta Beauty, Inc.*, <https://www.ulta.com/company/about-us/our-story/>
- “A Bullseye View. behind the Scenes at Target.” *Target Corporate*, <https://corporate.target.com/press/releases/2021/07/Target-and-Ulta-Beauty-Announce-Brands-and-First-L>.
- Mike Troy Editorial Director. “Covid-19 Has Ugly Impact on Ulta Beauty.” *Retail Leader*, 6 Dec. 2021, <https://retailleader.com/covid-19-has-ugly-impact-ulta-beauty>.
- Swartz, David. “Morningstar, Inc.” *Morningstar*, <https://www.morningstar.com/stocks/xnas/ulta/quote>.
- Julie Utterback, CFA. “Morningstar, Inc.” *Morningstar*, <https://www.morningstar.com/stocks/xnys/cvs/quote>.
- Dan Romanoff, CPA. “Morningstar, Inc.” *Morningstar*, <https://www.morningstar.com/stocks/xnas/amzn/quote>.
- “Ulta Makes 2 Acquisitions and 2 Investments in Tech.” *BeautyMatter*, 10 Apr. 2022, <https://beautymatter.com/articles/ulta-makes-2-acquisitions-and-2-investments-in-tech>.
- “Our History.” *CVS Health*, <https://www.cvshealth.com/about-cvs-health/our-purpose/our-history>.

Person. "Amazon's Major Acquisitions over the Years." *Reuters*, Thomson Reuters, 26 May 2021, <https://www.reuters.com/technology/amazons-major-acquisitions-over-years-2021-05-26/>.

"Iri and Ulta Beauty Launch Strategic, Multiyear Partnership to Improve View of Beauty Market." *Business Wire*, 15 Mar. 2022, <https://www.businesswire.com/news/home/20220315005208/en/IRI-and-Ulta-Beauty-Launch-Strategic-Multiyear-Partnership-to-Improve-View-of-Beauty-Market>.