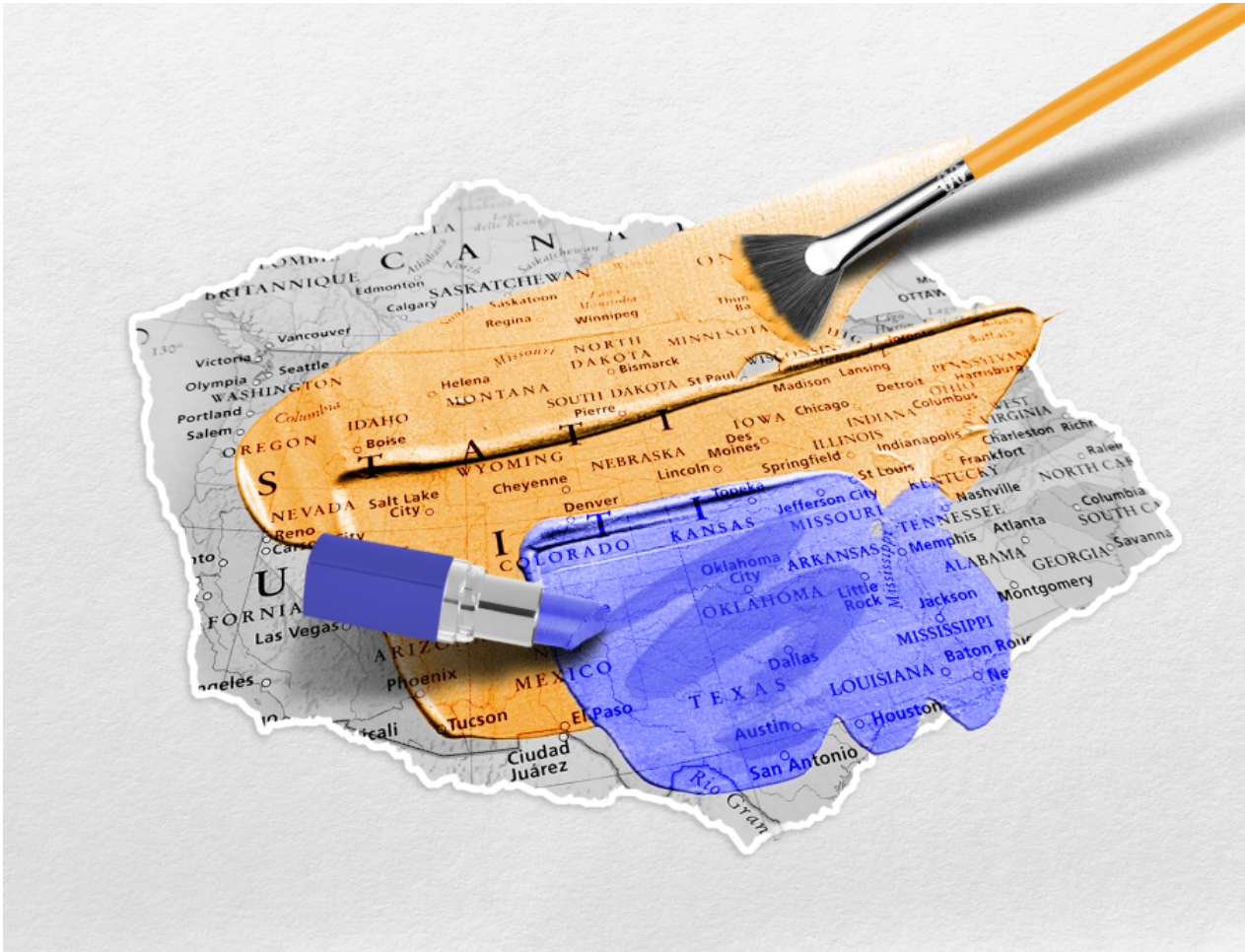


December 2022

Beauty's Irresistible Allure

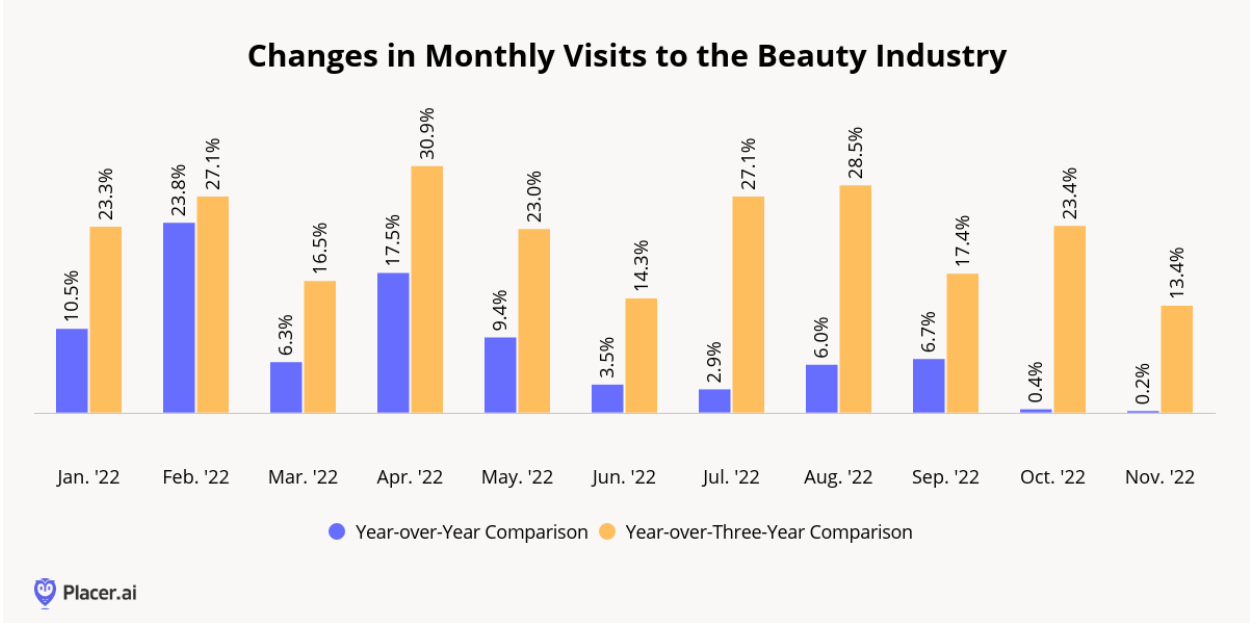
This report draws on location intelligence and demographic data to analyze three leading beauty brands that are adapting to evolving consumer demand in this growing market.



An Industry on an Upswing

Since [March 2021](#), the beauty industry has been on a consistent [upward](#) trajectory. While a health and wellness focus helped drive strength early in the pandemic, as the masks came off and people started getting dressed up again, Americans were given another reason to stock up on beauty supplies. And much of this shopping took place offline. While [virtual try-ons](#) can help shoppers choose the right products, nothing beats browsing the make-up counter and sampling new colors and scents in-store. Indeed, even as inflation put a damper on shopping sprees, consumers continued to flock to chains like Ulta Beauty and Sephora, eager to splurge on discretionary items that didn't [break the bank](#) and made them feel good. Other self-care categories, like [fitness](#), also experienced an uptick as the pandemic began to subside.

Compared to both 2019 and 2021, visits to beauty industry venues have increased significantly. Throughout 2022, foot traffic remained between 13.4% and 30.9% higher than it was three years prior. And even though 2021 saw particularly strong performance from [March onwards](#), visits in 2022 were also up year over year. This increase in foot traffic was driven, in part, by moves by leading retailers like [Ulta Beauty](#) and [Sephora](#) to expand their fleets to keep up with growing demand.



While the sector is doing well overall, some strategies have proven especially successful at enhancing performance. This white paper dives into the data to explore how things like targeting the right audiences and increasing brand exposure can help an already flourishing industry do even better.

The TikTok Generation Reshapes the Face of Beauty

One strategy that has proven particularly important for leading retailers is leaning into the tastes and preferences of younger shoppers.

People of [all ages](#) love beauty products, but in recent years, Gen-Z has become a major driver of the segment's growth. Having grown up online and with many coming of age at the height of the pandemic, members of that demographic view beauty [differently](#) than their parents did. They [prioritize](#) self-care, self-expression, body positivity, and inclusivity over abstract, unattainable beauty ideals. And they are more likely to [research](#) a product's specific [ingredients](#) or follow a favorite TikTok [influencer](#) than to focus on [brand loyalty](#). Gen-Zers also place a [growing emphasis](#) on values-based shopping, embracing products that are cruelty-free, eco-friendly and produced by companies with ethical manufacturing practices.



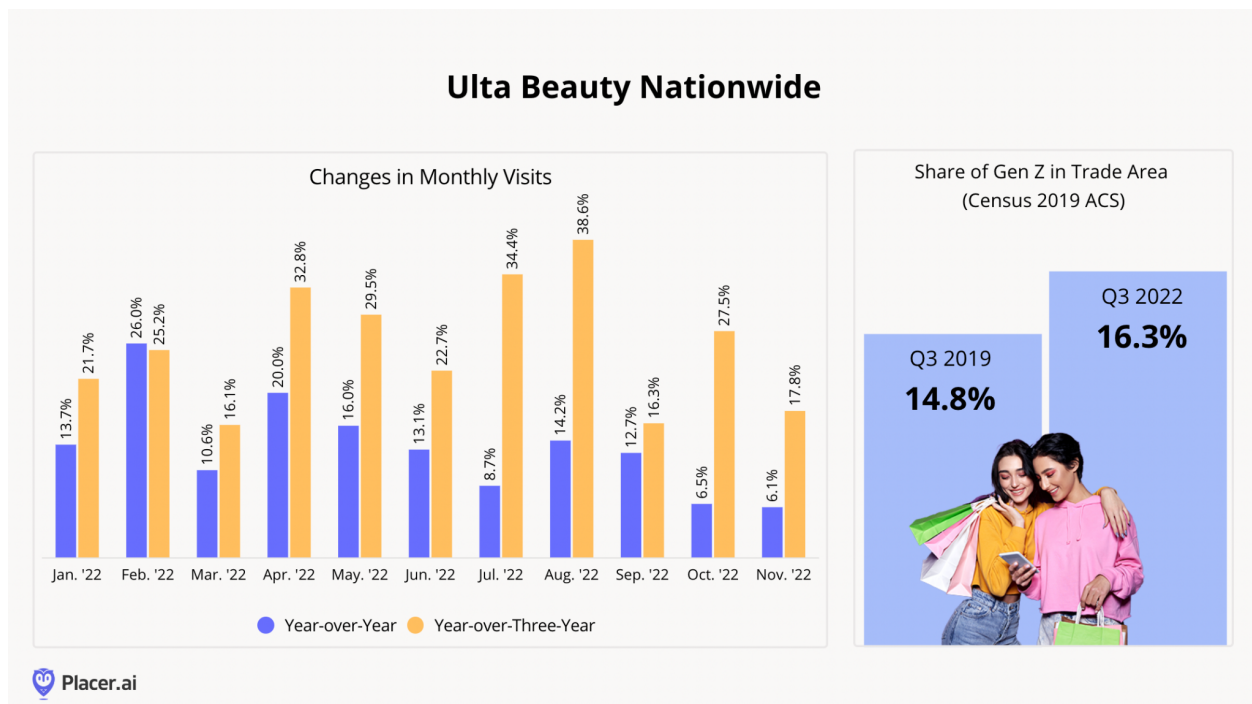
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And the beauty industry is paying attention, [stocking brands likely](#) to appeal to Gen-Zers and embracing [influencer marketing](#). In August 2022, Ulta launched its [Beauty &](#) campaign, designed "to celebrate individuality, resilience, strength, and above all else, the beautiful possibilities that live within each of us." The beauty giant has also promoted the concept of Conscious Beauty, which [emphasizes](#) transparency, clean ingredients, and "brands that positively impact our communities and planet."

Sephora, for its part, expanded its Clean at Sephora program in 2021, [promoting](#) a growing list of products as "[Clean + Planet Positive](#)." On its website, the company [affirms](#) its

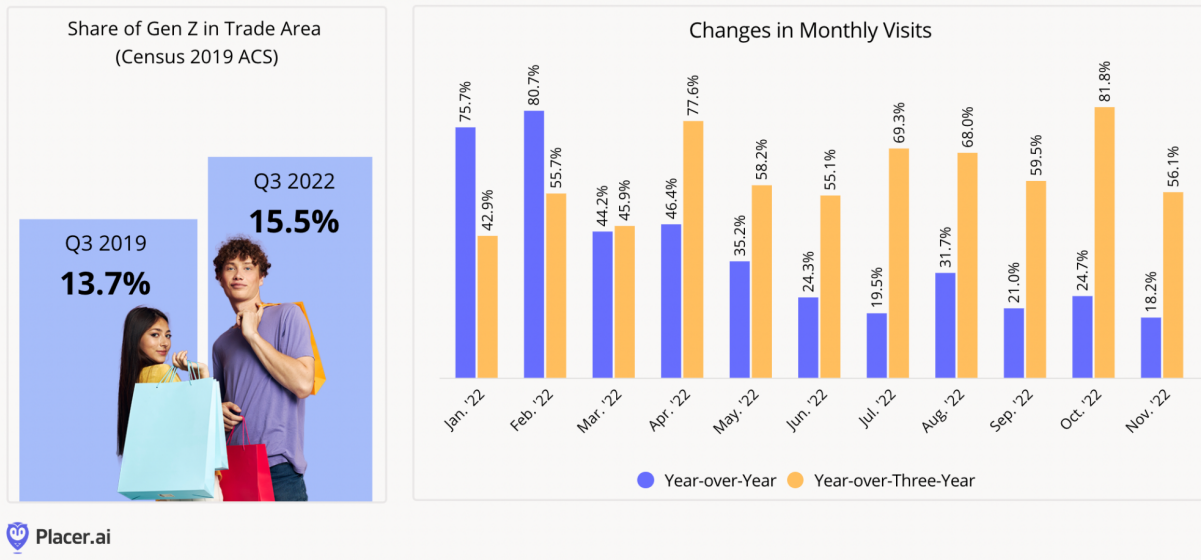
commitment to “beauty that’s free of judgment and exists for all skin types, colors, ages, and genders.”

In its November 2022 earnings report, Ulta [posted](#) a profit [increase](#) of 27.5% for Q3 2022, and an 18.3% year-to-date increase in sales. This success was due in part to the strength of its brick-and-mortar venues, where visits shot up substantially in 2022, both in relation to the chain’s pre-pandemic baseline and in comparison to last year. This year, Ulta’s foot traffic has remained between 16.1% and 38.6% higher than in 2019 – a particularly impressive achievement given the inflationary pressures that have led many consumers to tighten their purse strings.



Like Ulta, French luxury giant LVMH, which owns Sephora, also posted substantial growth, with its selective retailing category (including Sephora) experiencing a [20% increase](#) in organic revenue during the first nine months of the year. Sephora itself saw a dramatic increase in year-over-three-year (Yo3Y) foot traffic to its off-mall venues, which reached an impressive 81.8% in October 2022.

Freestanding Sephora Locations



The two cosmetics giants' continued ascendancy can be attributed, at least in part, to their success in appealing to the Gen-Z crowd. As shown by the graphs above, a look at how the demographic make-up of the companies' [True Trade Areas](#) has evolved over the past couple of years – based on a combination of foot traffic analytics and census figures – shows a significant increase in each brands' share of Gen-Z customers. The share of Gen-Zers in Ulta's trade areas grew from 14.8% in Q3 2019 to 16.3% in Q3 2022. And while the share of Gen-Zers in the trade areas of Sephora's off-mall locations stood at 13.7% before the pandemic, it rose to 15.5% in the third quarter of this year.



The recent evolution of the True Trade Area of Sephora and Ulta shows a significant increase in each brands' share of Gen-Z customers.

The growing share of Gen-Zers in the trade areas of these two successful brands showcases the continued strong appeal of brick-and-mortar retail – even among digitally-native consumers.

Positioning Stores to Attract the Right Customers

Ulta has established itself as the store with something for [everyone](#), [harnessing](#) its strategy of offering both discounted merchandise and luxury items – and even [co-locating](#) them in the same displays – to attract a broad range of customers and offer them opportunities to trade up as well as down. And with many cheaper offerings and an “[ultra-approachable](#)” vibe, it has become a go-to stop for many inflation-wary shoppers.



Sephora, Photo: monticello / Shutterstock.com

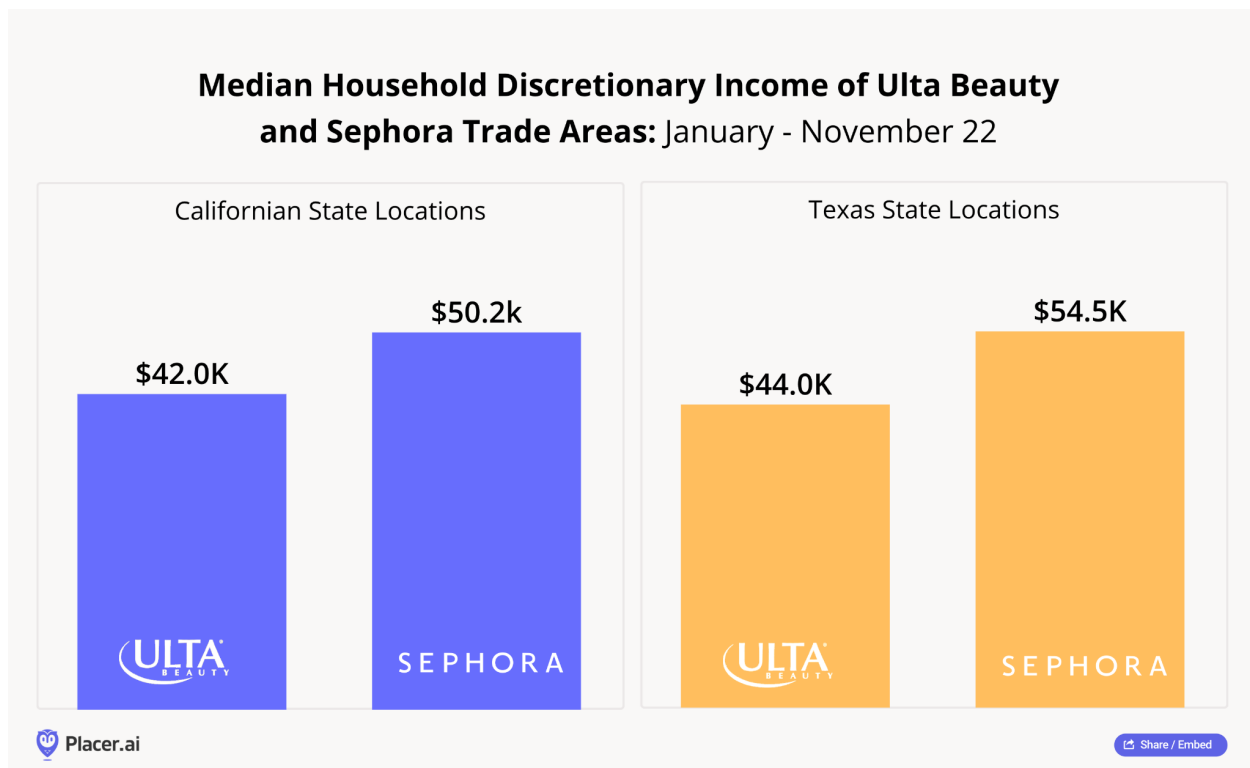
Sephora, on the other hand, owned by luxury goods company LVMH, has embraced its status as a prestige alternative – especially in owned locations. The popular chain’s [chic](#) atmosphere and [steeper price points](#) tends to draw consumers looking for a more upscale experience, who generally have more money to spend and are [less concerned](#) about rising prices.



Ulta has established itself as the store with something for everyone while Sephora has embraced its status as a prestige alternative.

A look at the demographic make-up of the chains' trade areas in a couple of key states shows how they've each positioned their locations to attract the right customers for their offerings. For this analysis, we focused on one key metric – [discretionary income](#), or the amount of money each beauty giant's customer base has at its disposal after paying for necessities. To obtain this, we analyzed the chains' True Trade Areas in California and Texas with data provided by STI: Popstats, which uses IRS, census, and U.S. Bureau of Economic Analysis ([BEA](#)) figures to estimate income levels.

The results were striking: in California, residents of Sephora's True Trade Areas have a median discretionary income that is 19.5% higher than those of the state's Ulta locations. And in Texas, they have 23.9% more spending power.



Shop-in-Shops: Strengthening Brand Awareness by Increasing Exposure

Ulta and Sephora's continued success can also likely be attributed to their thriving partnerships with major retailers Target and Kohl's. Rather than cannibalizing visits from their other venues, the beauty chains' shop-in-shop strategy appears to be fueling increased visits to their full-size brick-and-mortar stores.

In August 2021 Ulta partnered with Target to [open](#) more than 100 Ulta Beauty at Target locations, offering a curated selection of the brands carried by the cosmetics chain. Since then, it has steadily [expanded](#) the initiative, with plans to open at least 800 in-Target [locations](#) moving forward.

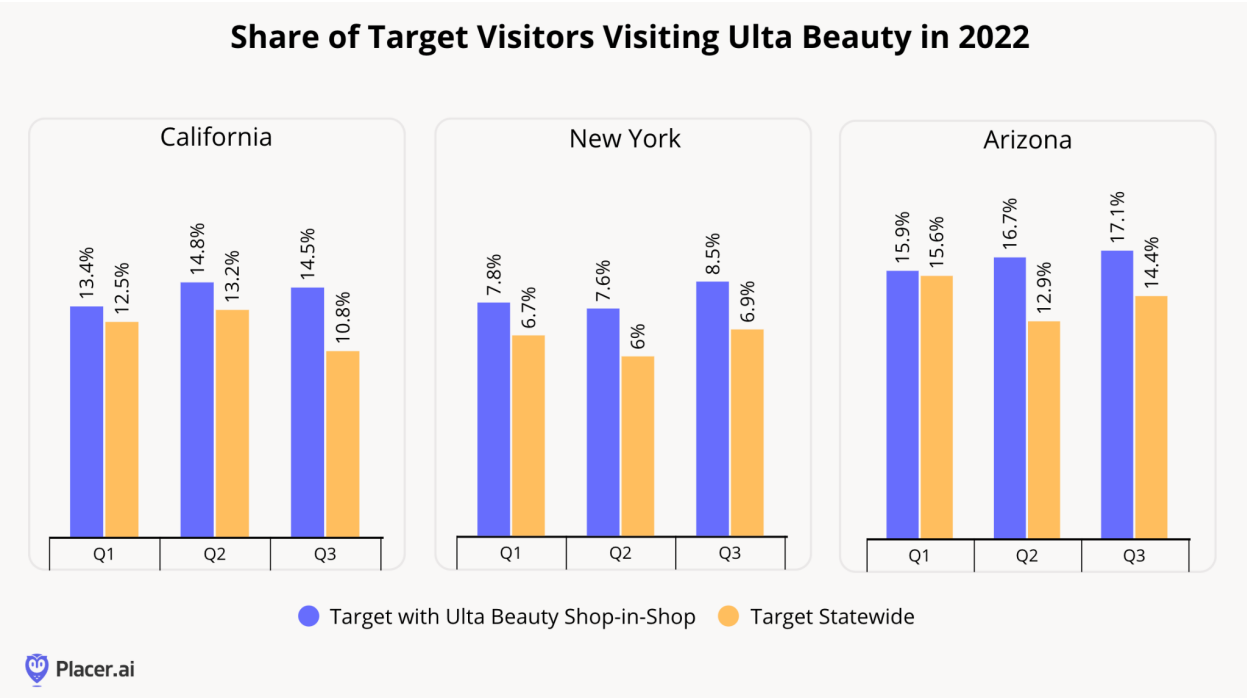


Ulta Beauty at Target, Photo: corporate.target.com

A look at quarterly cross-shopping data for Target and Ulta Beauty locations in several states shows that visitors to Target stores with an Ulta shop-in-shop are more likely to visit a full-sized Ulta venue than those who shop at other Target locations. During Q3 2022, for

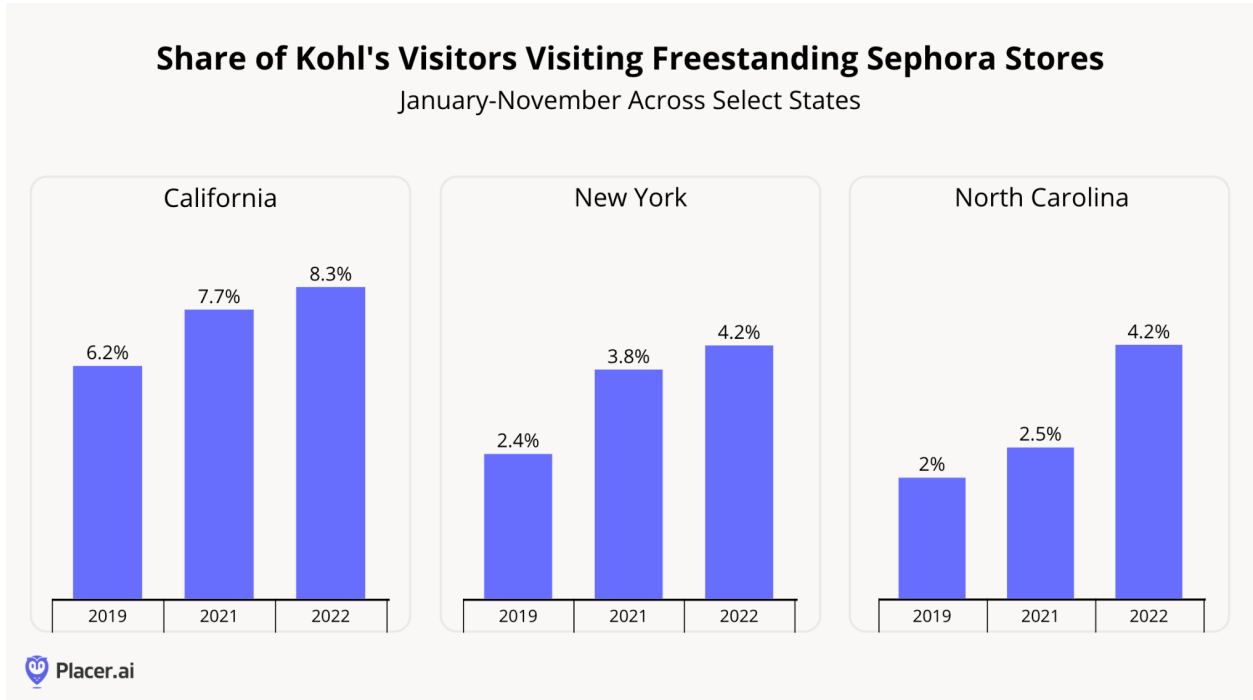
example, 14.5% of customers who shopped at a California Target with an Ulta shop-in-shop also visited an independent Ulta location – compared with just 10.8% of those who shopped at Target statewide. Similar trends can be observed in New York and Arizona. By increasing brand awareness and providing customers with a pleasant taste of what the chain has to offer, Ulta’s shop-in-shops appear to whet consumers’ appetites, building positive engagement and leaving them eager for more.

“Visitors to Target stores with an Ulta shop-in-shop are more likely to visit a full-sized Ulta venue.



Sephora has experienced similar success with its shop-in-shop [partnership](#) with Kohl’s. After launching some 200 Sephora at Kohl’s locations in 2021, the [two companies](#) recently [announced](#) plans to [expand](#) the program to every Kohl’s nationwide by 2023. And looking at statewide data indicates that, like with Ulta and Target, the advent of Sephora shop-in-shops in Kohl’s has also been driving visits to standalone Sephoras.

Foot traffic data from California, New York, and North Carolina indicates that the share of Kohl's shoppers who also shop at Sephora jumped in 2021 when the partnership first launched. Since then, the share of cross-shopping with Sephora has continued to increase, indicating that, like with the Ulta-Target partnership, the Sephora shop-in-shops in Kohl's stores are not cannibalizing visits from standalone Sephora venues. Instead, Kohl's visitors who encounter the beauty retailer during their trip to the department store seem more likely to also seek out the brand's owned retail outlets.



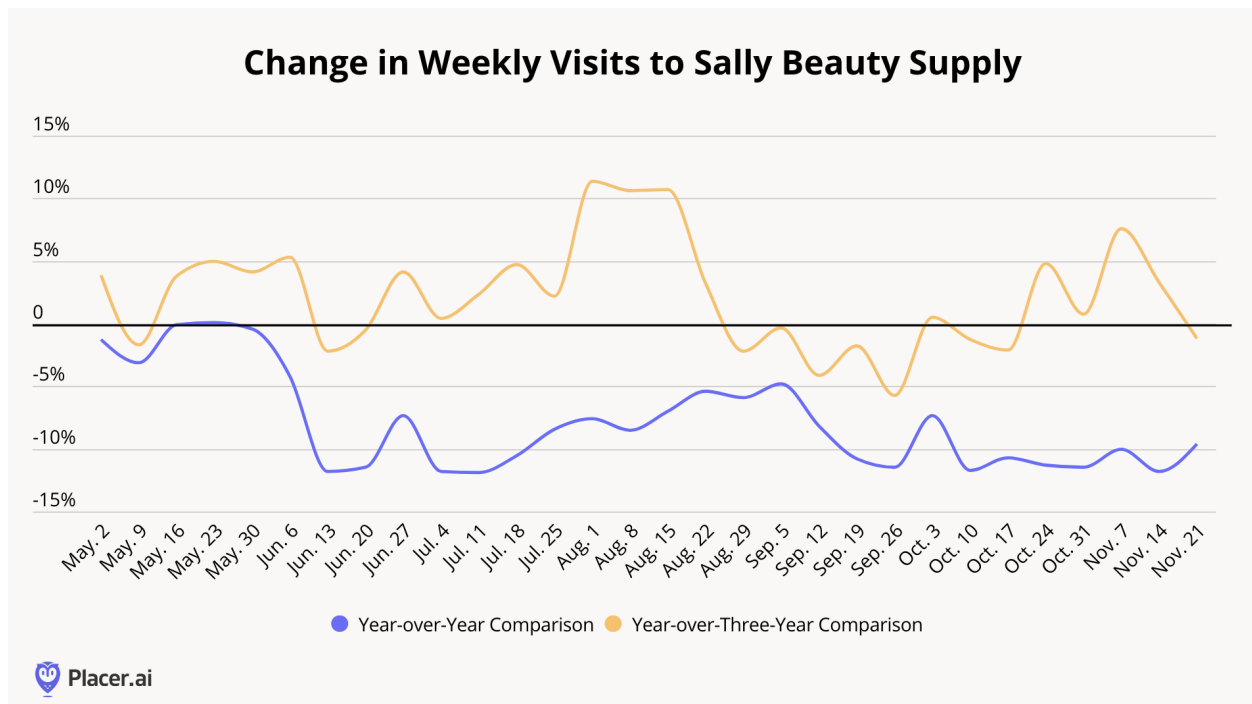
Sally Beauty: Optimizing Through Rightsizing

Another giant in the brick-and-mortar beauty space is [professional hair color](#) leader Sally Beauty Supply. Although the company – by its own [account](#) – has struggled somewhat with the impact of inflation, it too has experienced a Yo3Y increase in brick-and-mortar visits this year. So while the chain isn't reaching the post-stimulus foot traffic heights of 2021, it has outperformed its pre-pandemic baseline almost every week since May 2022.



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Like other [cosmetics giants](#), Sally Beauty has also invested heavily in omnichannel capabilities in recent years, positioning itself as a category [leader](#) in the area (in 2022, Total Retail [ranked](#) it, together with Sephora, as the top beauty and cosmetics omnichannel retailer). As a chain that [caters](#) to salons and other beauty professionals, who usually know exactly what they're looking for, Sally Beauty is particularly well-positioned to maximize online success.



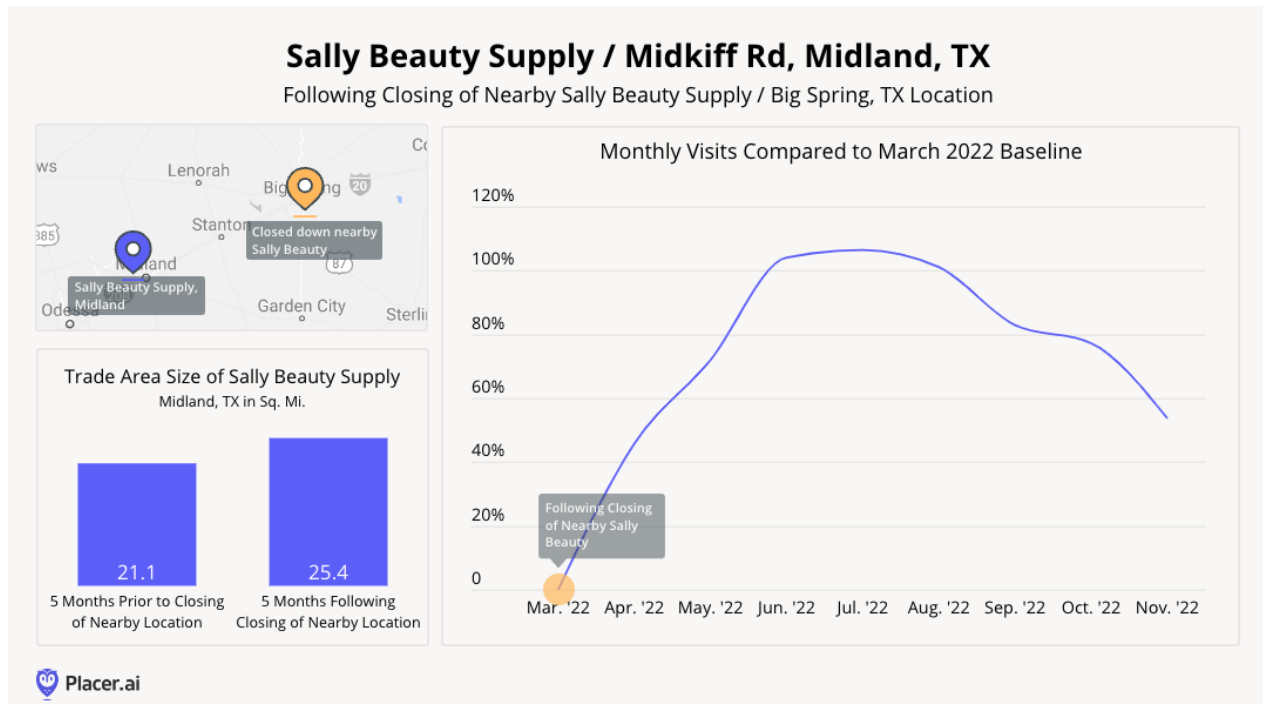
To further optimize its sales channels, Sally Beauty has also doubled down on its strategy of rightsizing its fleet. After successfully [piloting](#) the closure of some 90 stores in recent months, the company [announced](#) plans to shut down some 350 more, most by the end of 2022. It will also close two distribution centers.



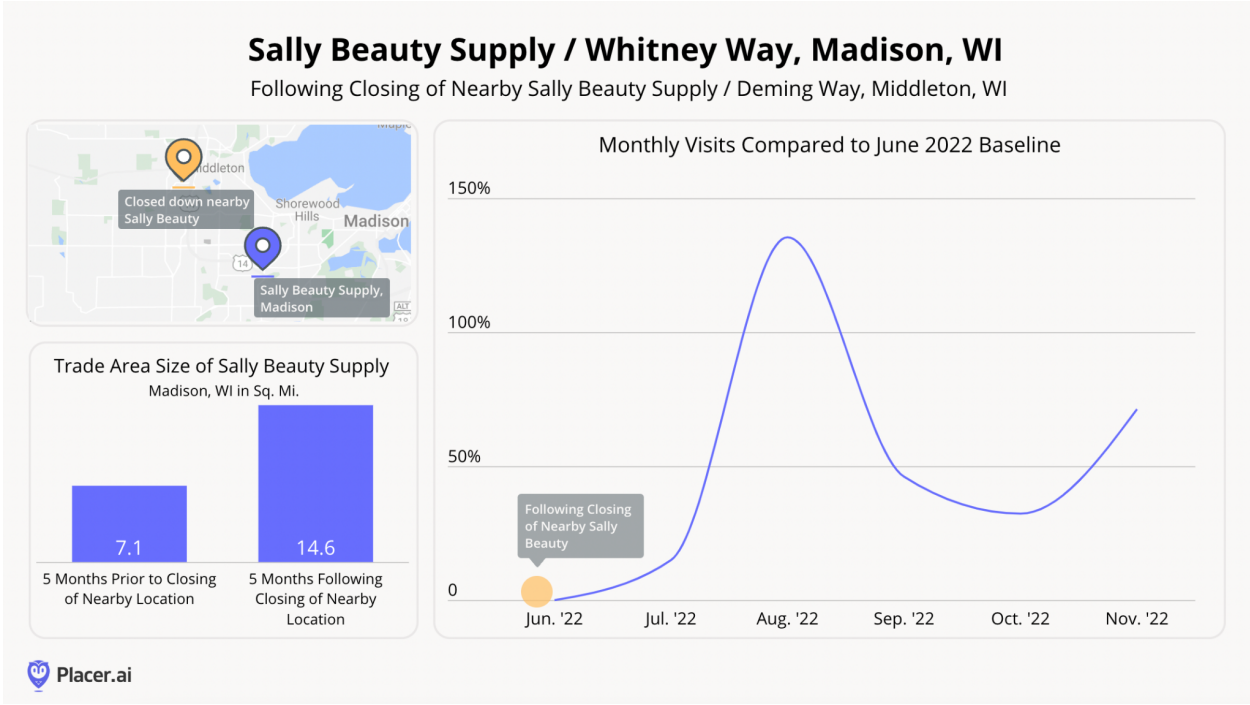
To further optimize its sales channels, Sally Beauty has also doubled down on its strategy of rightsizing its fleet.

As we've [noted](#) in the past, shuttering underperforming locations to optimize a fleet can be a very profitable strategic move. Closing stores can expand the remaining venues' visits and trade areas, reducing cannibalization, bringing in customers from further away, and increasing efficiency. And when a company has a significant online presence – as Sally Beauty does – fewer brick-and-mortar locations may be needed to fuel sales growth and serve its customers needs.

A dive into the data shows how well this strategy is working. In March 2022, Sally Beauty Supply shuttered its Big Spring, TX location. Following this move, the trade area size of the nearby Midland, TX location increased by 20.4%. At the same time, monthly visits to the Midland store began to trend sharply upwards.



The same thing happened in Madison, WI, when a nearby Sally Beauty location closed down in May 2022. After the closure, foot traffic to the Madison store shot up, and its trade area more than doubled.



In its November 2022 earnings [report](#), Sally beauty noted that it has seen better profits and good sales recapture rates in the markets where it began to reduce its physical footprint. As the data above illustrates, the chain’s success in embracing rightsizing can serve as an illuminating example of how fleet optimization can play a key role in navigating economic headwinds and even enhance overall performance.

Looking Ahead

When it comes to makeup and perfume, there’s nothing quite like in-person shopping. From finding just the right look to browsing with friends, cosmetics chains offer consumers a chance to find products that make them feel good, while having fun and engaging in social interaction. Looking ahead to 2023, the beauty industry – like fitness and other experiential wellness categories – appears poised for continued growth.

Key Takeaways

1. **The Gen-Z factor rules.** From its obsession with [skin care](#) products to its affinity for parting hair down the [middle](#), Gen-Z will likely continue to be a driving force in the beauty industry for years to come. Leaning into the things that are important to this demographic – from sustainability to inclusivity and ethical business practices – will be an important strategy for brands seeking to increase market share.
2. **Strategic positioning is key.** Beauty products can appeal to a wide variety of audiences, and there is room at the top for both discount and luxury brands. Chains that meet their customer base where they are – strategically positioning their stores to meet their customers' needs – will continue to thrive.
3. **Shop-in-shops work.** The experience of Ulta and Sephora shows how brands can benefit from partnerships with other venues to increase their reach. Far from cannibalizing existing sales, shop-in-shops can increase brand awareness and actually drive more customers to full-size stores.
4. **Store optimization can be critical to success.** Rightsizing a chain's fleet can draw more customers to remaining stores and increase their trade area. While this can be a good way to navigate challenges like inflation, it can also enhance performance overall.