

THE COSMETICS INDUSTRY IN THE 2020S: A CASE STUDY

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INSTRUCTORS' NOTES

CASE DESCRIPTION

Many brick-and-mortar stores are facing the repercussions of the retail apocalypse as consumers opt to shop online rather than visit physical stores. While retailers such as Sears, Forever 21, and Barney's have resorted to filing for bankruptcy, others are thriving. The \$25 billion specialty beauty industry has benefited from the changing retail landscape, as consumers have drifted away from department stores in favor of beauty, cosmetics, and fragrance stores to purchase their personal care products. Instructors will have plenty of opportunities to engage students and boost participation. This case is ideal for a junior or senior class on retailing, consumer behavior, marketing strategy, strategic management, or merchandising. It is designed to stimulate discussion about brick-and-mortar vs. online retailing, the future of retail, positioning, and psychographic segmentation.

This case is an excellent vehicle for demonstrating how retail strategies can be utilized by underdog and niche retailers to garner customer loyalty and growth. The case is designed to be taught in a 60-75 minute class, and is expected to require 3 hours of outside preparation by students.

CASE SYNOPSIS

Specialty beauty retailers, such as Ulta and Sephora, seem to be Amazon-resistant companies, immune to the downward spiral facing department stores. Millennials are increasingly electing to purchase products from beauty stores due to the stores' product expertise and incentivized loyalty programs. For instance, Ulta Beauty has continued to profit and grow due to the value and shopping experience it is able to offer its customers. The 1200-store chain has found a profitable niche in the intensely competitive beauty market, which was once dominated by department stores. Ulta offers a broad assortment of beauty products, cosmetics, and fragrances across the price spectrum in a low-pressure and relaxed fun environment. Thus, the specialty beauty retailer, that captures 26% of the market, caters to both casual customers looking for bargains and the sophisticated shoppers paying a premium for upscale brands; they then mix in salon services like hairstyling and brow tinting. Together, the mix makes Ulta Beauty a one-stop beauty shop—and one of the most amazing success stories in retail. Sales, profits, and stock price have tripled over the last six years. On the other hand, department stores are contending with powerful sources, like Amazon and trendy specialty stores

and discount players such as Ulta and Sephora, chipping away at their business. In 2019, more than 9,300 stores of all kinds closed their doors, a 60% jump from the previous year. The retail apocalypse is real, but some retailers are flourishing nonetheless.

SUGGESTED TEACHING STRATEGY

The instructor could start the case discussion by asking students to go to [Ulta](#) and [Sephora](#)'s websites and spend a few minutes browsing the available merchandise. This approach triggers a conversation about branding, product mix, and marketing loyalty programs. Depending on the scope and time of the class, the instructor can list brick-and-mortar stores that did not survive the economic sledgehammer of recent years. This discussion should naturally lead to a debate about what physical retailers are doing right and why some are thriving while others are having a hard time staying afloat. Another approach that the author has found valuable in generating discussion is to poll students: "Do you shop at department stores? Do your parents? Why or why not?" or "What comes to your mind when you hear or see the Ulta brand?" or "What do you think of Mary Dillon?" This will get students to talk about their perceptions of both Ulta and its CEO. Students could also be asked to browse the websites of other major department stores and check the changes they are making in the beauty category. Or check on the performance of specific companies, such as JCPenney ([JCP](#)), Macy's ([M](#)), Kohl's ([KSS](#)), Nordstrom ([JWN](#)), and Dillard's ([DDS](#)). The instructor may also ask students to go online after the discussion and find updates on [Ulta's](#) market capitalization, number of stores, revenues, and profitability. Finally, since the case has shown that Ulta and Sephora are dominating the specialty beauty retail landscape, checking on how Sephora is doing would be appropriate.

This case can be used in a class with a timeframe of 60 to 75 minutes (see Table 1).

Table 1
Teaching Plan Based on a 75-Minute Session

Case Overview	10 minutes
Evaluation of the role of retailers in society	15 minutes
Explaining how Ulta managed to come out on top	15 minutes
Discussion of pros and cons of online and brick-and-mortar retailing	10 minutes
Debating how the retail landscape will transform in the next 10 years	20 minutes
Update on the case	5 minutes

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

1. How has the U.S. retail landscape grown over the last several decades?

The retail landscape all began with local mom and pop stores within individual towns. As the suburbs began to grow, so did retailing with the first enclosed mall opening in 1956 in Minneapolis. Next came the category killers or those specializing in one particular type of merchandise such as Barnes and Noble, Home Depot, and Best Buy. The mom and pop shops could no longer match the large inventory and prices offered by category killers and department stores, so many of these small businesses began to close. This led to a major boom in retail space, which we are now seeing the impact of. Aside from holiday shopping, mall traffic is down

along with many retail giants closing their doors altogether (i.e. Toys ‘R’ Us and Sears). Although brick-and-mortar traffic may be on the decline, ecommerce is growing rapidly, especially major online retail giant Amazon. As of December 2019, there were over 150 million Amazon Prime members (up from 100 million in April 2018). And in March 2020, Amazon announced it is hiring 100,000 people amid the Corona virus outbreak to keep up with demand, while social distancing is likely to hurt physical stores (Mattioli, 2020).

2. Why do you think Ulta is growing rapidly and winning customers?

Mary Dillon, Ulta CEO, has set a roadmap to success and it has worked. Revenues, profits, market valuation, and number of stores are soaring. The roadmap includes:

- **Loyalty programs:** Its 32 million members cannot be wrong! Ulta’s loyalty programs are designed to encourage repeat purchases, inciting consumers to turn to it more frequently than to other retailers (Loeb, 2019).
- **Personalization:** Just having products to sell in stores is not what today’s sophisticated shoppers look for. Stores need brands that build an emotional connection with consumers. Ulta has created a beauty experience by implementing tester stations that allow consumers to physically sample the products.
- **Product assortment:** Ulta has increasingly concentrated on catering to millennial consumers. Shoppers can buy a broad range of cosmetics and get their hair styled on site. The products on their shelves range from hip private-label to stylish national brands. Over its 30 years in business, Ulta’s strength has been its focus on being an all-in-one trendy and fun destination.
- **Store location:** Ulta avoids shopping malls and locates its stores mostly in strip malls with major vehicle and pedestrian traffic. Building stores outside of dying malls has proven to be a sensible strategy.
- **Celebrities:** Ulta utilizes celebrities and influencers such as Ariana Grande, Jessica Alba, Khloe Kardashian, and Kylie Jenner to project a youthful and outgoing image (Danziger, 2018). The new partnership to sell Kylie Jenner's makeup was particularly successful.
- **Supply chain strength:** Ulta is the market leader in its field. The company utilizes its large economies of scale to garner favorable contracts with upstream wholesalers and manufacturers.

In brief, everything the company is doing is generating more customers. Fast fulfillment, personalization, loyalty offerings, and rewards all add up to a successful operation. Ulta is changing the way people shop as it has allowed shoppers to buy both mass and prestige products, as well as get salon, brow and other beauty services that historically would have been done at multiple locations.

3. Does online retailing have an implied advantage over brick-and-mortar format? If yes, how so?

The number of traditional retailers that have filed for bankruptcy since 2017 is alarming. Examples include prominent names such as Avenue, Barney’s, David’s Bridal, Destination Maternity, Dressbarn, Forever 21, GameStop, Gander Mountain, Gymboree, Mattress Firm, Nine West, Payless ShoeSource, Pier 1 Imports, Sears/Kmart, Shopko, and Toys ‘R’ Us.

Having said that, the author believes physical stores are here to stay. The question is what type of physical stores. Department stores stock more fashionable merchandise and have to

reduce prices when they make a mistake in guessing what the popular styles will be. They also provide more personal sales service and have more expensive mall locations. This business model does not allow much flexibility. In contrast, discount stores appeal to customers who are looking for lower prices. These consumers are less interested in the costly services provided by department stores. Millennials are doing their brick-and-mortar shopping at extreme value retailers like dollar stores and discount racks. Department stores like Macy's and JCPenney are closing locations, while off-price stores like T.J. Maxx and Dollar General are growing their brick-and-mortar footprint.

Online retailing is booming. Most online stores, like Amazon, now have free shipping and liberal return policies, so shoppers can always return or exchange an item if they don't like it or if it didn't fit. Customers may also be able to legally avoid paying sales tax. I was recently shopping for a new TV and the main reasons I didn't even consider Best Buy or Walmart were: 1) How am I going to haul it to my house? and 2) Why should I pay sales tax? Buying online was the convenient and cost-effective way to go. It may have also been the greener choice! After all, the FedEx truck at my doorstep was likely in the neighborhood anyway, which means the incremental fuel used is a lot less than what I would use driving to and from the store. Amazon is even considering shipping to Prime members only once a week. The so-called "Amazon Day" service will be voluntary and targets customers who are troubled about their carbon footprint. Consolidating purchase deliveries will cut down on emissions associated with sending a delivery truck to the same customer multiple times a week and will result in grouping orders within a single package, thus reducing packaging. Customers can choose their preferred day of the week to receive shipments.

4. While the rise of the Internet is certainly a large reason for the fall of brick-and-mortar retailers, what other potential factors have contributed to the “retail apocalypse”?

Over the last few decades there has been an overexpansion of malls in the U.S., and now the market is seeking to correct itself by closing many physical retailers. In addition, many shopping areas have been plagued with high rents that stores are unable to pay, especially after the 2008 market recession. Rising costs of tariffs with respect to importing goods from other countries is another external contributor to the fall of many retailers. There are also many internal factors that affect a store's survival. Some stores may fail due its refusal to innovate or change in a time of increased competition in consumers' shopping choices. Mismanagement and poor strategic choices are also a large contributor to why stores are vulnerable to the retail apocalypse. Failure to personalize the shopping experience based on the individual's needs or building a sense of community through in-store events for loyal customers is another factor. In a time where stores are struggling to stay afloat, it is important for retailers to reexamine their strategies in order to survive the retail apocalypse.

5. What can retailers do to battle the retail apocalypse?

Amid all the liquidation and downsizing, the prevailing belief is that brick-and-mortar stores are out of fashion in the age of Amazon and online shopping. One intuitive option to avoid the retail apocalypse is to launch ecommerce initiatives to expand a store's presence beyond brick and mortar. For example, Walmart expanded into the online arena with its purchase of Jet.com.

Another survival tactic is through innovation of the shopping experience or servicescape. For example, Ulta is known for its pleasant shopping experience, unique product offerings, and helpful staff. In addition, retailers can enhance margins and purchasing decisions, improve customer service, leverage big data, and initiate creative marketing campaigns. There has also been the rise of lifestyle shopping centers where location and the surrounding stores offer great convenience to the shopper. For example, having a restaurant, gym, grocery and other goods store in near proximity may draw in shoppers. The key to staying in business is offering greater benefit over costs and providing customers with value they cannot receive from other stores or shopping online. Whether it be from the price, selection, or shopping experience, only stores that innovate to consistently capture customer needs and wants will survive the retail apocalypse.

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