

Ulta Beauty - Where Should Growth Capacity Go?

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Industry: Other Specialty Retail

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Decision scope: U.S. store access, existing-store proposition and loyalty/omnichannel execution

Case convention: This is an author-created management decision exercise. The planning assignment is hypothetical; company disclosures are historical. No private deliberations are represented.

The decision

On October 16, Ulta Beauty set out a new three-year plan: open 200 net new stores, work toward a long-term U.S. footprint of 1,800 or more stores, and grow Ulta Beauty Rewards to 50 million members by 2028. The company described four connected priorities—assortment, experience, access and loyalty—and reiterated its financial targets. The board had also authorized up to \$3 billion of share repurchases. These were management targets and an authorization, not evidence of realized returns or a required spending schedule. [S1](#), Strategic Framework, Actions and Targets, and Share Repurchase Authorization.

The planning team must decide how to stage scarce leadership attention and incremental implementation capacity. Should it emphasize new-store access, the proposition at existing stores and across channels, or a portfolio that releases resources only when local evidence clears defined gates? How should that choice coexist with discretionary repurchases?

Assignment: Prepare a two-page memo recommending a sequence for the next planning cycle. Identify the leading path, the strongest alternative, what would be funded or tested first, and the evidence required before scaling. Treat the announced store and member goals as management's objectives, not proof that any particular investment earns an adequate return. Use only evidence available by the cutoff above.

A specialty retailer built around discovery

At fiscal year-end February 3, 2024, Ulta operated 1,385 stores, had opened 33 and closed three during the year, and reported average store size of about 10,481 square feet. Its assortment covered roughly 25,000 products and 600 brands. Fiscal 2023 sales were concentrated in cosmetics (about 41%), skincare (19%), haircare and tools (19%), and fragrance and bath (15%); services were about 3%. [S2](#), Item 1, Business, pp. 6-10.

The store was one part of a broader proposition. Ulta offered salon services, same-day delivery in virtually all markets, buy online/pick up in store (BOPIS), curbside pickup and Store 2 Door. It also had more than 500 Ulta Beauty at Target shops and a Target.com presence as of February 3. Customers could earn Ulta Rewards points on eligible Target purchases but could not redeem

points there. Management then described a longer-term opportunity of up to 800 partner locations. [S2](#), Item 1, Business, pp. 8-10. This partner reach offered access with less direct control over the shopping environment, staffing and rewards experience than an Ulta store.

Ulta's FY2023 filing said that 76% of Rewards members transacted only in stores and 18% used both stores and digital. It also said omnichannel guests had historically spent nearly three times as much as retail-only guests. [S2](#), Item 1, Business, pp. 8-9. The comparison is an association. Customers who shop across channels may differ in need, tenure, location or engagement; the filing does not establish that moving a customer online causes spending to triple.

A mixed operating signal

The latest reported quarter ended August 3, 2024. Net sales grew 0.9% to \$2.6 billion, while comparable sales fell 1.2%. Transactions declined 1.8%; average ticket rose 0.6%. Gross margin was 38.3%, compared with 39.3% a year earlier. Management attributed pressure in part to lower merchandise margin and fixed-cost deleverage, partly offset by growth in other revenue and lower shrink. Selling, general and administrative expense rose 7.3%; the company cited store payroll and benefits deleverage, corporate strategic investment, store expenses and marketing, partly offset by lower incentives. [S3](#), MD&A, pp. 19-20.

These disclosures do not identify one cause of the weaker comparable sales. Consumer spending, price and category mix, product launches, competition, local execution and investment timing remain possible explanations. The filing lists competition among factors that can affect comparable sales but does not establish that competitors caused this quarter's result. The company also reported first-half inventory of about \$2.0 billion, up \$182.7 million or 10.1% year over year, and \$186.3 million of capital expenditures. It attributed inventory additions to new brands, a market fulfillment center and 49 net new stores. [S3](#), MD&A, pp. 21-22. Inventory growth could support growth initiatives; the disclosed figures alone do not establish excess inventory.

Access, rivals and local economics

Ulta's October strategy release described planned investments in wellness, personalization, exclusive and emerging brands, associates and stylists, services and events, digital discovery and faster omnichannel service. It reaffirmed FY2024 guidance of 60-65 net new stores and 40-45 remodels or relocations, and set longer-term 2026-and-beyond targets for 4-6% net-sales growth, mid-single-digit operating-profit growth at roughly 12% margin, and low-double-digit diluted EPS growth. It targeted capital expenditures of 4-5% of sales. [S1](#), Actions and Targets, and FY2024 Outlook. These targets describe management's plan; the release does not allocate a specific budget or disclose initiative-level returns.

The competitive landscape was also changing. Kohl's FY2023 filing reported 860 full-size Sephora shops at February 3, 2024, in addition to small-format locations, with further rollout planned. In March, Kohl's said Sephora at Kohl's generated more than \$1.4 billion in 2023 sales and projected more than \$2 billion in 2025. [S4](#), Item 1 and Item 7; [S5](#), paragraphs 1-4. These are Kohl's reported sales and projection. They do not measure sales lost by Ulta, Sephora's profitability or the effect on a particular Ulta market.

New stores might reach customers who lack convenient access and could support store discovery, returns or online orders. But new-store sales are not automatically new chain sales: some guests may shift from nearby Ulta stores or digital orders, and leases, payroll, inventory and fulfillment create costs. A customer-level study of an anonymized U.S. fashion retailer found that store openings increased affected existing customers' purchases in stores and online

when access materially improved; openings near existing stores with little access change did not show the same effects. The study is not an Ulta forecast. **S6**, manuscript pp. 13-22, 26-33.

The same discipline applies to loyalty and channels. A study of a convenience retailer found purchase behavior differed by member segment: lighter and moderate users changed more, while heavy users claimed more rewards without a comparable increase in use. It did not have individual nonmember purchase histories to isolate program effects. **S7**, pp. 24-30. Ulta's member count or spending gap therefore cannot substitute for evidence of incremental contribution after rewards and marketing costs. Likewise, online growth or higher omnichannel spending may reflect channel transfer, greater service costs or selection rather than net new profitable demand.

Three resource paths

The planning team can recommend a leading emphasis or a staged portfolio:

1. **Extend access.** Prioritize market entry and the announced store program where local access appears underserved. Require evidence on new-customer acquisition, ramp, nearby-store and online effects, and contribution after occupancy, labor, inventory and launch costs.
2. **Strengthen the installed base.** Prioritize the existing-store proposition, assortment, services, associates, loyalty and omnichannel experience. Require evidence that observed changes improve transactions, retention or mix after discounts, rewards, labor, fulfillment and returns costs.
3. **Gate a portfolio.** Fund limited pilots across selected markets or customer groups, preserve flexibility, and release further capacity only when pre-specified measures clear thresholds. This can protect both options but may slow rollout, add measurement complexity and fail to capture scale benefits quickly.

The \$3 billion repurchase authorization is permission, not a spending commitment. Management said shares could be repurchased from time to time and that the board could terminate the authorization. **S1**, Share Repurchase Authorization. Any recommendation should distinguish capital returned from operating capacity and explain what evidence would justify changing the balance.

Exhibits

Exhibit 1. Operating snapshot before the decision

Measure	Reported result
FY2023 year-end stores	1,385
FY2023 store openings / closures	33 / 3
Q2 FY2024 net sales growth	0.9% to \$2.6 billion
Q2 FY2024 comparable sales	-1.2%
Comparable transactions / average ticket	-1.8% / +0.6%
Q2 gross margin	38.3%, versus 39.3%
First-half FY2024 capital expenditures	\$186.3 million

Source: [S2](#), Item 1, pp. 6-8, and Item 7, Basis of Presentation / Comparable Sales, p. 37; [S3](#), MD&A, pp. 19-22. Comparable sales include retail and e-commerce; stores enter the calculation after 13 months. Quarter comparisons and management explanations are not causal estimates.

Exhibit 2. Announced plan and financial targets

Plan item	Company statement at cutoff
Three-year store plan	200 net new stores
Long-term store opportunity	1,800+ U.S. stores
Rewards ambition	50 million members by 2028
FY2024 net new stores / remodels and relocations	60-65 / 40-45
FY2024 capex / repurchase guidance	Approximately \$400-450 million / approximately \$1 billion
2026+ net sales / operating profit	4-6% growth / mid-single-digit growth at about 12% margin
Long-term capex target	4-5% of sales
New repurchase authorization	Up to \$3 billion; no expiration; discretionary

Source: [S1](#), Actions and Targets, FY2024 Outlook, and Share Repurchase Authorization. Targets and authorization are not realized outcomes, allocated project budgets or a mandated repurchase schedule.

Exhibit 3. Channels, partners and rival access

Evidence	What it establishes	What it does not establish
76% of Rewards members shopped only in stores; 18% used stores and digital in FY2023	Members used channels differently	Causal value of channel migration or contribution by channel
Omnichannel guests historically spent nearly 3x retail-only guests	Management-reported spending association	That omnichannel use caused higher spend or profit
More than 500 Ulta shops at Target at FY2023 year-end	Partner access beyond Ulta's own stores	Same control, redemption or unit economics as owned stores
Kohl's reported >\$1.4 billion 2023 Sephora-at-Kohl's sales	Scale of a competitor-reported partnership result	Ulta sales lost, Sephora profitability or local market impact

Sources: S2, Item 1, pp. 8-10; S4-S5.

Discussion

1. Which customer or market problem should Ulta solve first: access, the existing-store proposition, or customer engagement across channels? What evidence supports your choice?
2. Which of the three resource paths should lead, and what is the strongest argument against it?
3. How would you test whether a new store creates incremental chain demand rather than moving sales among nearby stores or channels?
4. What evidence would distinguish causal loyalty lift from selection, reward subsidy or purchases that would have occurred anyway?
5. What measures and thresholds should release the next tranche of resources? How would you account for labor, inventory, fulfillment, returns and capital commitment?
6. How should management weigh reinvestment against a discretionary repurchase authorization, and what information would change your view?

Sources and conventions

S1. Ulta Beauty, [October 16, 2024 strategy and long-term targets release](#), furnished with Form 8-K accession 0001558370-24-013325. EDGAR accepted 8:10:24 a.m. ET; Exhibit 99.1. The Investor Day webcast was scheduled for 9:30 a.m. ET and is excluded.

S2. Ulta Beauty, [FY2023 Form 10-K](#), filed March 26, 2024, accession 0001558370-24-003941; Item 1, printed pp. 6-13; Item 7, Basis of Presentation / Comparable Sales, printed p. 37.

S3. Ulta Beauty, [Q2 FY2024 Form 10-Q](#), filed August 29, 2024, accession 0001558370-24-012542; MD&A, printed pp. 16-22.

S4. Kohl's, [FY2023 Form 10-K](#), filed March 21, 2024, accession 0000950170-24-034691; Item 1 and Item 7.

S5. Kohl's, ["Sephora at Kohl's Surpasses \\$1.4 Billion in Sales"](#), March 12, 2024; paragraphs 1-4.

S6. Kumar, A., Mehra, A., & Kumar, S. (2019), "Why Do Stores Drive Online Sales? Evidence of Underlying Mechanisms from a Multichannel Retailer," *Information Systems Research*, 30(1), 319-338. [Author/institutional manuscript](#), pp. 13-22, 26-33. Read in full; anonymized fashion retailer and quasi-experimental findings are not Ulta estimates.

S7. Liu, Y. (2007), "The Long-Term Impact of Loyalty Programs on Consumer Purchase Behavior and Loyalty," *Journal of Marketing*, 71(4), 19-35. [Full author-hosted article](#), pp. 24-30, 31-34. Read in full; one convenience chain, with no individual nonmember transaction records.

Historical disclosures, management plans, interpretations and case proposals are identified separately. All post-cutoff remarks, filings, outcomes and Investor Day materials are excluded.