

Beauty Loyalty Programs: Sephora Vs. Ulta

- 1) Sephora and Ulta are the top-two beauty retail chains in the US. In 2016, they accounted for 22.7% and 26.7% of US beauty specialist retail sales, respectively. In this report, we discuss their loyalty programs, which are very different and fit their positioning in the market accordingly.
- 2) **Beauty Insider:** Sephora’s Beauty Insider program features multiple membership tiers—the more the customer spends, the more exclusive the rewards and benefits are. This creates a premium feeling for the higher-spending customer and matches the retailer’s positioning in the higher-end segment.
- 3) **ULTamate Rewards:** Ulta’s Ultamate Rewards program features value-related rewards, such as points for discounts and extra points accrual for higher-tier members. Indeed, most of Ulta’s customers cite price and promotions as reasons they shop there, according to Prosper Insights Monthly Consumer Survey.

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Introduction

Sephora and Ulta are the top-two beauty retail chains in the US. In 2016, they accounted for 22.7% and 26.7% of US beauty specialist retail sales, respectively, according to Euromonitor.

Sephora was founded in 1970, and in 1997, was acquired by LVMH, one of the largest luxury goods companies in the world. It has over 413 stores across the US and Canada, as well as 573 outlets inside JCPenney. Sephora focuses on beauty products in the middle to high-end segments. It also offers beauty services and beauty classes at some of its outlets.



Source: Shutterstock

Ulta was founded in 1990 and operates 974 stores in the US. It expects to open 100 net new stores by the end of fiscal year 2017. The retailer sells drugstore items along with mid-range beauty products, and offers beauty (hair and brow) and skincare services at its salons, which are featured in all of its stores.



Source: Shutterstock

To retain their loyal customers and capture customer data, both beauty retail chains have well-established loyalty programs: Sephora has its Beauty Insider program and Ulta has its Ultamate Rewards program. In this report, we compare the two programs and analyze how and why they differ from each other.

What Drives Consumers to Shop at Sephora and Ulta?

We looked at the reasons consumers cited for shopping for health and beauty products at Sephora and Ulta by analyzing data from the Prosper monthly consumer survey conducted in November 2016.

Sephora edges on quality and service, while more Ulta customers mentioned value-related factors such as price and promotions.

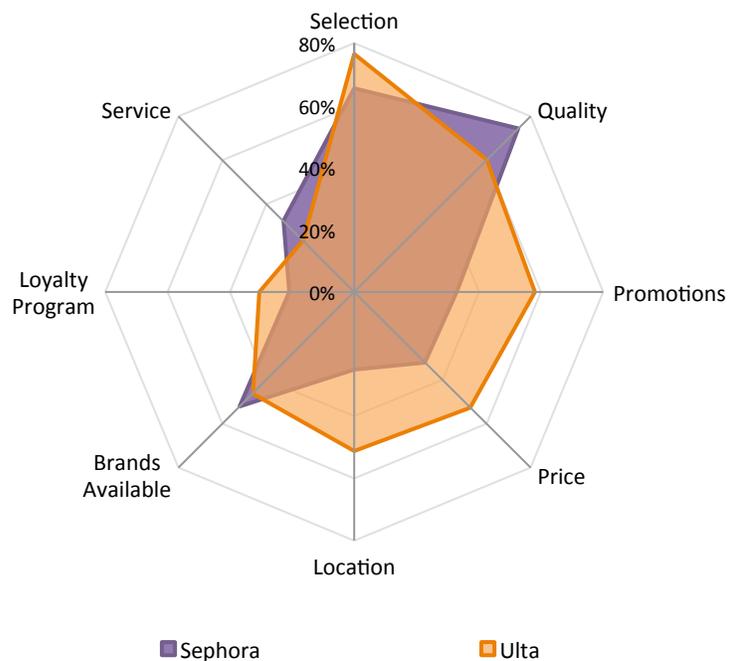
Merchandise mix: According to the survey, the merchandise mix is a significant driver for both retailers: 65% and 77% of loyal customers mentioned selection as a reason to shop at Sephora and Ulta, respectively.

Quality and service vs. price and promotions: Sephora leads on quality and service, while Ulta leads on value-related factors such as price and promotions.

Location: Ulta is also preferred by customers because of its location, which correlates to management’s focus on real estate as a core competency.

Loyalty program: Loyalty program plays a more important role for driving customers to shop at Ulta than Sephora: cited by 31% of Ulta’s customers and 21% of Sephora’s customers as a reason to shop at the location.

Figure 1. Reasons for Shopping Most Often at Sephora and Ulta, November 2016



Sample Size: Sephora Customers: N=101; Ulta Customers: N=148
 Source: Prosper Insights & Analytics, Monthly Consumer Surveys



Ultamate Rewards members contributed 90% of the company's revenue, whereas 80% of Sephora's transactions were made through its Beauty Insider program.

An Overview of the Two Loyalty Programs

Loyalty programs play a vital role for both Sephora and Ulta. According to Ulta's 2016 annual report, Ultamate Rewards members contributed 90% of the company's revenue. As for Sephora, 80% of its transactions were made through the Beauty Insider program, according to Bridget Dolan, VP of Sephora's Interactive Media.

Fundamentally, the two beauty retail chains' loyalty programs are similar to those in other industries such as airline frequent-flyer programs or hotel loyalty programs—customers earn points with their spending, and the more they spend, the more they get rewarded and the better the benefits.

In the following table, we outline and compare the main features of the two programs. Enrolment is free for both programs, customers can earn one point per dollar spent (basic plan) and receive a free birthday gift each year.

Figure 2. Comparison of Sephora Beauty Insider and ULTAmate Rewards

			
Number of Members (as of 2016)		17 million (US and Canada)	23.4 million
Average Number of Members per Store		17,241	24,025
Member Driver of Sales as a % of Total Sales		80%	90%
Membership Tiers		Beauty Insider (free) VIB (\$350 annual spending) VIB Rouge (\$1,000 annual spending)	Basic (free) Platinum (\$450 annual spending)
Points	Earning	One point per dollar spent	Basic: 1 point per dollar spent Platinum: 1.25 points per dollar spent
	Expiry	Never	Basic: expires after one year Platinum: points never expire
	Rewards	Gift redemption	Gift redemption, money-off purchase
Benefits	Basic Members	Free birthday gift Free beauty classes	Free birthday gift Extra points during birthday month
	Higher-Tier Members	Seasonal savings Free custom makeovers Private hotline (VIB Rouge only) Exclusive products & events (VIB Rouge only) Free shipping (VIB Rouge only)	Extra points for multiplier offers Cash coupon on birthday Extra free gifts

Source: Company websites/Katja Makeup Artistry/Beauty Skeptic

Ultamate Rewards requires a higher spending of \$450 over the course of one year to reach the next membership tier Platinum, which is higher than the \$350 required to reach Sephora’s VIB status (Very Important Beauty Insider). However, Sephora features one more tier known as VIB Rouge, where members enjoy even more exclusive benefits.

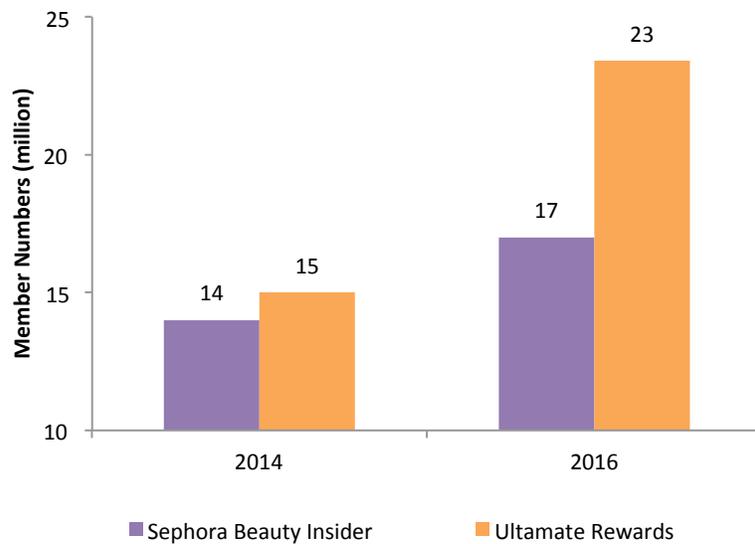
Ulta Seeing Faster Growth of its Membership Base

Ulta has seen much faster growth in its loyal member base than Sephora. Ultamate Rewards had 15 million members in 2014, which grew 56% to reach 23.4 million members in 2016. During the same period, Sephora Beauty Insider saw its membership grow 17% from 14 million to 17 million.

On Ulta’s fourth quarter earnings call for fiscal 2017, senior management stated that the combination and the simplification of the loyalty program have helped to accelerate membership growth.

Ulta has also significantly increased its in-store execution, with store associates helping educate and convert potential members.

Figure 3. Member Numbers for the Respective Loyalty Programs, 2014 vs. 2016



Source: Company reports/Press releases/CNBC

What Differentiates the Two Loyalty Programs

Leverage Customer Data

Both Sephora and Ulta have leveraged the customer data from their loyalty programs to provide personalized experiences for their members across different touchpoints.

According to Ulta’s CEO Mary Dillon, Ultamate Rewards helped to deliver more targeted and personalized offers across all channels, and initiatives such as equipping store associates with a digital device that gives them the



Sephora Beauty Insider is skewed more toward services, while Ulta Rewards focuses more on values.

ability to track the profiles and preferences of individual customers, as well as to provide more personalized customer interactions.

Sephora also utilizes its loyalty program to provide a coherent and personalized experience across different touchpoints, according to Dolan, the program enables Sephora to provide relevant recommendations to their members. For instance, it records the skin type of individual customers and the emails received by the customer will have that attribute.

Rewards and Benefits

In terms of rewards and benefits, Beauty Insider is skewed more toward services, while Ulta Rewards focuses more on value, which aligns with the respective positioning of the two beauty retail chains. For instance, Sephora offers free beauty classes to all of its members, and free custom makeovers to higher-tier members. Ulta’s program, on the other hand, focuses more on value purchases. This is delivered by giving members extra points, which is translated into money-off purchases.

We compared the two beauty retail chains’ loyalty programs with those from other industries, and identified some similarities.

Figure 4. Comparison of Rewards and Benefits for Sephora, Ulta, Airlines and Supermarkets

Rewards and Benefits	Airlines	Sephora	Ulta	Supermarkets
Membership Tiers	3 – 4	3	2	1
Accrue Extra Points	✓*		✓*	
Points for Money-off Purchases			✓	✓
Exclusive Events and Services	✓*	✓*		

* For higher-tier members only

Source: Company websites/Fung Global Retail & Technology

Use of tiers and exclusive services: Sephora’s loyalty program, similar to airline frequent-flyer programs, has created a premium membership tier to retain its high-value customers, and offers them exclusive products and services. Sephora VIB Rouge members enjoy dedicated customer service, unlimited access to the beauty studio, invitations to exclusive events and earlier availability of products. This is similar to benefits enjoyed by the airlines’ higher-tier loyalty program members, such as dedicated check-in lines, as well as access to airport lounges.

Money-off purchases: Ulta carries mostly drugstore items and mid-range beauty products, where value helps to build loyalty better than service. This is similar to the approach by supermarket chains such as Sainsbury and Woolworths, where customers can earn points for money-off purchases with their loyalty programs. As value and selection are the key factors why customers shop at these retailers, they do not segment off high-spending customers.



In our view, an effective loyalty program must have a clear value proposition and match the positioning of the retailer, and this can be found in both retailers' programs.

Key Takeaways

Loyalty programs are an effective tool to retain customers, encourage spending and collect customer data to enhance operations. In our view, an effective loyalty program must have a clear value proposition and match the positioning of the retailer, and this can be found in both Ulta's and Sephora's programs.

Sephora: Sephora sells mostly mid- to high-range beauty products, and most of its customers cited quality as the reason to shop there. The use of tiers and exclusive rewards not only helps to retain customers, it creates a sense of luxury and matches the more premium positioning of the retailer. In addition, it helps to encourage customers to spend more and progress to a higher tier.

Ulta: Ulta sells drugstore items and mid-range beauty products. Most of its customers cited value-related factors as reasons to shop there. Similar to supermarket loyalty programs, the use of points for money-off purchases effectively encourages customers to retain and spend more at the retailer.



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