Ulta Sets Up Shop With—And Within— Target To Rationalize Retail Spaces

As US retailers seek to get more bang for their bucks in terms of limiting the number of physical locations as well as amount of square footage per store, beauty retailer Ulta is pursuing a rational expansion through the “shops-within-shops” concept in an alliance with Target.

“More than ever before, now is the time for innovation in retail,” said Ulta CEO Mary Dillon in a statement, adding that the partnership “reflects further evolution in our omnichannel strategy.” The idea is “rooted in unlocking the potential of our physical and digital footprints, creating more seamless shopping opportunities for our loyal guests and continuing to lead the beauty industry.”

Under the banner Ulta Beauty at Target, the two partners will premiere the concept at 100 of the value-oriented retailer’s stores in the second half of 2021. There are plans to open hundreds more in the coming years, the two companies said.

“Our guests have told us they want to find prestige and exclusive beauty brands with all of the benefits of shopping at Target,” a Target spokesperson told Adweek, to explain some of the rationale behind the deal. “Ulta recently found almost nine out of 10 beauty enthusiasts who shop at Target and Ulta Beauty are excited about the concept of Ulta Beauty at Target. We cannot wait to deliver!”

But as Ulta enters this new expansion mode, rival Sephora is taking an opposite approach. The cosmetics retailer announced

plans prior to the pandemic that it intended to open 100 of its own stores. Sephora's own store-within-a-store is in partnership with JCPenney, which is currently emerging from bankruptcy, began in 2006. That arrangement hit a snag with a temporary legal dispute over the reopening of its storefronts within JCPenney locations, though the disagreement was ultimately resolved.

As rivals sort themselves out, it could be an opportunity for Ulta to take market share by pursuing a more thoughtful physical store strategy.

"I do think this is a win/win, and I don't know why more retailers don't have stores in stores," said Sucharita Kodali, a retail analyst at research firm Forrester. "It is a great way for the bigger store to get more inventory at a low cost and the smaller store to get distribution without having to invest in real estate."

With the partnership, Ulta will gain access to a large new audience: Only 21% of Target customers also shop at Ulta, according to the equity research division at Cowen and Company. That includes exposure to the 75 million members of the department store chain's loyalty program.

Meanwhile, Target will provide more convenience to customers through the partnership. About 85% of Ulta shoppers—including 35 million loyalty members—are already Target shoppers.

"We believe this partnership positions Ulta to take more share and emerge from 2020 in the best-possible position, as it will gain a presence in 'America's Easiest Place to Shop' alongside essential staple categories," said Cowen's research team, led by retail analyst Oliver Chen.

The announcement comes at an opportune time for Ulta given Target is an essential retailer providing same day fulfillment services such as drive-up, order pickup and same day delivery, not to mention free shipping for qualified orders.

As for the particulars of the deal itself, Ulta Beauty at Target will consist of 1,000 square foot spaces. The Ulta shops will be placed prominently next to existing beauty sections within Target locations. The Ulta outlets will be staffed by Target employees, though those staffers will undergo training by the beauty purveyor. The shop-in-shop will also incorporate Ulta’s digital capabilities, such as its virtual try-on tool GLAMlab.

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