

# **Lululemon Athletica**

## **BUS 478 – Synopsis**

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## INTRODUCTION

### **Company History**

Lululemon Athletica Inc., founded in 1998 in Vancouver by Chip Wilson, is a company which designs and produces high-end yoga and technical athletic clothing. They have operated primarily in North America and Australia; their initial target customer was an educated woman who lives an active and healthy lifestyle. They opened their first store in Kitsilano in BC in November, 2000. The first store was intended to act as a community hub where people could learn and discuss about the physical aspects and mental aspects of a healthy life, in addition to selling yoga clothing. However, the company started to realize the difficulties in using their store as a community hub and retail store as their store became very busy. This caused them to focus more on training their staff. One of their goals was to train their people so well that they could positively influence their families, communities and customers. Lululemon's vision was to elevate the world from mediocrity to greatness. To achieve this, they partnered with the right people and developed three different kinds of strategic sales programs in hope of spreading yoga love and increasing the level of health within their communities. They chose to value quality more than quantity. Besides producing high quality yoga and athletic clothing, they integrated high quality in building relationships with their partners (Lululemon Athletica, 2013).

### **The Company Today**

Lululemon is recognized as one of Canada's fastest growing brands. As of August 30th 2013, the company operated 218 store locations worldwide in addition to its online store (Kowitt & Leahey, 2013). In 2012, the estimated brand value was \$3.245-billion which had increased 292 % compared to 2010 (Krashinsky, 2012). Their financial strength was shown by their growth in revenues and increase in stock price. Their stock price is at \$69.62 as of Nov 5 2013, compared to less than \$3 a share in early 2009 (Oursler, 2013). As of Feb 3, 2013, the company's profit had increased 34 percent to \$762.8 million and revenue increased 37 percent to \$1.4 billion compared to the previous year (Clifford, 2013.)

## **Current Situation**

2013 has been a challenging year for Lululemon due to production glitches and management uncertainty. In March 2013, Lululemon recalled 17 percent of its stretchy black yoga pants due to an unacceptable level of sheerness. Management expects the recall will cause a loss of revenue of between \$57 million and \$67 million in 2013 (Hsu, 2013). Christine Day, the CEO of Lululemon, announced in June her intention to resign. Christine will step down when a new CEO is found. According to Christine Day, 2013 is the most important year in the company's history due to the steps it has taken to tighten quality control and the addition of three new manufacturers. The company plans to launch stand-alone men's stores by 2016 and expand their business globally (Ho, 2013).

## **EXTERNAL ANALYSIS**

**Economic:** Continued economic struggles, especially within the European Union, have the potential to negatively affect Lululemon's international expansion. During hard economic times consumers become more price conscious; retailers must provide differentiated products to maintain price levels.

**Sociocultural:** The market for activewear has been bolstered by the movement in society towards active and healthy lifestyles. The number of people within North America engaged in yoga continues to rise (Moran, 2013). Additionally, consumers are increasingly concerned about the ethical production of the goods they purchase.

**Demographic:** The aging population presents an opportunity for sports apparel companies. The youth sports apparel market is very well served, while older active segments of the population are underserved. The men's athletic apparel market segment present a large growth opportunity for Lululemon.

**Technological:** The emergence of online shopping has enabled clothing retailers to reach a much wider market. The increasing prevalence of social media has presented new ways for companies to advertise and spread brand awareness. New advanced high tech materials are a possible source of competitive advantage for apparel companies (Pacheco, 2013).

**Political:** The NAFTA makes it easier for Canadian companies like Lululemon to branch out across North America. Currently, Lululemon possesses numerous patents protecting, among other things, its products and designs (Pacheco, 2013).

**Global:** Globally, the sports apparel industry is growing (Campos, 2013). Because some of Lululemon's clothing is manufactured in China and other developing Asian countries, increases in wages in these countries have the potential to lead to higher manufacturing costs (Lululemon Athletica, 2013e).

#### **Porter's Five Forces:**

**Bargaining Power of Suppliers:** There are many suppliers competing for retailer's business. Materials used such as rubber and cotton are readily available. This gives Lululemon a lot of choice in who they choose to buy from. This means that suppliers have a low level of bargaining power.

**Bargaining Power of Buyers:** As a group, Lululemon's customers have a high level of bargaining power. Buyer's switching costs are low; they can easily switch to another brand if they are at all dissatisfied with Lululemon's products.

**Threat of New Entrants:** The threat of new entrants is moderate. There are advantages to be had from economies of scale. At the same time, companies are able to outsource all of their manufacturing overseas, meaning low up front capital costs. It can be difficult to get access to distribution channels. However, with the internet, retailers now have access to customers worldwide. It can be difficult to establish a new brand, but at the same time switching costs for consumers are low.

**Competition Level:** The sports apparel industry is very competitive, with companies constantly positioning themselves to attract a greater market share. Low buyer switching costs mean companies try to poach competitors' customers.

**Threat of Substitutes:** There are not many good substitutes for sports apparel, so the threat of substitutes is low.

**Key Rivals:** There are many companies competing within the yoga and sports apparel industry. Large brands such as Nike, Under Armour, Adidas and Gap as well as smaller startups such as Lolë, Prana and Lucy Activewear are all competing directly against Lululemon.

**1. Nike:** Nike is the global leader in sports apparel sales and has access to widespread distribution channels (Campos, 2013). It provides a complete line of women's workout apparel.

**2. Athleta:** Acquired by Gap in 2008, Athleta is a fast growing company directly targeting the female sports apparel industry (Lutz, 2013). Athleta products sell at a slightly lower price point than Lululemon which may tempt price conscious buyers (Peterson, 2013).

**3. Under Armour:** Though it lacks the brand power of Nike, Under Armour is a fast growing company that is a major player in the women's sports apparel industry. Through an increasing retail presence and a differentiated product Under Armour has been very successful (Campos, 2013).

## INTERNAL ANALYSIS

### **Resources**

#### ***Tangible***

**Distribution facilities:** Lululemon has three large distribution facilities located in Vancouver, Sumner, and Melbourne (Bureau van Dijk, 2013). These large facilities allow the company to operate efficiently and distribute its products to its stores around the world.

**Intellectual property:** With several trademarks including ones over its name, logo, fabric names, products, and apparel designs, Lululemon is able to mitigate the possibility of imitation of its well-known brand (United States Securities and Exchange Commission, 2013).

**Globalized stores:** Lululemon has 218 stores, located across Canada, the US, Australia, and New Zealand, which helps the company establish its presence as a major player in the technical athletic apparel market (Kowitt & Leahey, 2013).

## ***Intangible***

**Brand name:** Customers recognize the company as a premium brand that offers high quality athletic apparel and accessories, especially yoga products, that are differentiated from competitors (United States Securities and Exchange Commission, 2013).

**Reputation:** Lululemon has a strong reputation with its suppliers as its design team has worked closely with them for many years to establish its dominance in the market (Road Less Invested, 2012).

**Quality perception:** With a strong commitment towards quality, Lululemon has created a strong perception among customers about its premium products. Customers are assured that the majority of the products they purchase will last five years if used as intended (Lululemon Athletica, 2013d).

## **Capabilities**

*Outbound Logistics:* **Inventory management.** Lululemon incorporates an inventory management system in which only a limited amount of specific designs are distributed to stores to create artificial scarcity for its products and entice customers to purchase products quickly (Road Less Invested, 2012).

*Marketing and Sales:* **Community-based advertising.** Lululemon's grassroots approach to marketing focuses on increasing brand identity and customer loyalty. The company is heavily involved in building local networks through activities such as sponsored events and in-store lessons (Road Less Invested, 2012).

*Service:* **Yoga sessions.** In addition to offering athletic products, the company provides customers with complimentary in-store yoga sessions that are lead by local instructors (Lululemon Athletica, 2013c).

*Service:* **Education:** Lululemon has a guest education centre (GEC) which acts as a forum for customers to provide feedback to the company and also ask questions about products and services (Lululemon Athletica, 2013a).

*Procurement:* **Supplier relationships.** Over time, Lululemon has developed strong relationships with suppliers who not only provide the company with the inputs needed, but also help develop the new products based on suggestions from the company's design team (Road Less Invested, 2012).

*Technological Development: **Product designs.*** Before developing new products, Lululemon’s design team uses market research to identify trends and also actively seeks feedback from customers and ambassadors (United States Securities and Exchange Commission, 2013). In addition, the firm also partners with a leading company that inspects, verifies, and tests out fabric by various performance measures like shrinkage (United States Securities and Exchange Commission, 2013).

*Human Resource Management: **Employee training.*** Employees or ‘educators’ are highly trained and encouraged by the company to develop personal connections with customers (Road Less Invested, 2012). In addition, Lululemon offers internships to students with its ‘Make Your Mark’ program (Lululemon Athletica, 2013b)

**Core Competencies**

**TABLE 1: Lululemon’s Core Competencies**

Core Competency	Valuable	Rare	Inimitable	Organized to be Exploited
Strong relationship with customers	<ul style="list-style-type: none"> <li>Strong loyalty helps retain customers and earn more market power against competitors</li> </ul>	<ul style="list-style-type: none"> <li>Lululemon’s relationship with athletic apparel customers is hard to replicate as it takes time to build</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to imitate due to social complexity of Lululemon’s relationship with customers and the value of feedback</li> </ul>	<ul style="list-style-type: none"> <li>Lululemon effectively translates its strong relationships into a high level of sales</li> </ul>
Product and design quality	<ul style="list-style-type: none"> <li>Lululemon’s quality products and reliability leads to brand name recognition among customers</li> </ul>	<ul style="list-style-type: none"> <li>Intellectual property rights with suppliers are in place to ensure that Lululemon’s product designs are one-of-a-kind</li> </ul>	<ul style="list-style-type: none"> <li>Company uses customer feedback for its products which is hard to imitate as competitors do not receive same loyalty</li> </ul>	<ul style="list-style-type: none"> <li>Consumers are attracted to Lululemon’s products due to their high quality and unique design</li> </ul>
Effective culture	<ul style="list-style-type: none"> <li>Employees and customers motivated by healthy lifestyle will be more involved with company</li> </ul>	<ul style="list-style-type: none"> <li>Few firms have unique culture shared by company, employees, and customers alike</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to replicate unique experience that Lululemon offers to customers who comes into stores</li> </ul>	<ul style="list-style-type: none"> <li>Strong company culture translates into engaged and motivated employees</li> </ul>

## STRATEGY

### **Business-Level Strategy**

Lululemon continues to pursue a strategy of focused differentiation, concentrating on a consumer segment concerned with health and fitness. This strategy has its basis in a company manifesto that endorses a specific kind of lifestyle, supported by its products. The company preaches a pursuit of happiness through the enjoyment of life, emphasizing friendship, goal-setting and being active. Ultimately the business strategy is to brand the company as conducive to a particular way of living by offering free yoga classes to employees and customers, creating an ambassador program, and emphasizing the sustainability of their operations (Lululemon Athletica, 2013). With this strategy, Lululemon has transformed itself into a community-minded, eco-friendly business that does more than simply selling apparel and fitness gear, leaving the company with a unique and secure market position.

### **Corporate-Level Strategy**

There is a limited level of diversification in Lululemon's products. The business is based upon production and sale of both fitness apparel and equipment for yoga and Pilates. The sale of these complementary products allows Lululemon to gain market power by engaging in multipoint competition with companies producing apparel and specific types of sporting goods.

### **International Strategy**

The company follows a Global strategy for their international business. The company has stores in North America, Australia and New Zealand, with showrooms carrying key styles in North America, Europe and Asia. To access the countries they do not currently have stores in, the company offers shipping to the Middle East, Africa, and South and Latin America, in addition to the countries they operate stores in (Lululemon Athletica, 2013). Lululemon has consistent branding and standard products offered across regions; the company utilizes the overarching themes of fitness and positivity to reach customers in regions, rather than tailoring the approach for local markets.



## **Cooperative Strategy**

Lululemon has built their business upon a model of opening corporate stores in various regions. The business does not currently offer franchising opportunities, but operates strategic sales programs partnering with yoga and fitness facilities in order to feature Lululemon yoga equipment and apparel in studios. This strategy of partnering with community businesses and athletic teams provides valuable marketing opportunities that the company capitalizes upon instead of forming strategic alliances or alliance networks. The company is sizeable enough and has the requisite market power to allow it to meet competitive challenges while maintaining full control over the company's operations (Lululemon Athletica, 2013).

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