

IS LULULEMON ATHLETICA ON ITS WAY OUT?

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ABSTRACT

Lululemon Athletica, Inc. was founded in 1998 by Chip Wilson with a focus on comfortable, innovative athletic wear for women dedicated to a healthy, fit lifestyle. The company went public in 2007 and has been plagued with product and management issues ever since. Expected revenues for 2017 have been revised downward after a slow first quarter. Growth in the women's apparel industry is predicted to be -0.4% in the next five years. The 'athleisure' clothing trend is losing its luster. Can lululemon athletica, Inc. survive?

INTRODUCTION

Chip Wilson founded lululemon athletica, Inc. in 1998 and grew the company into a popular yoga apparel business. It became known for its high-quality yoga pants that sold for as much as \$98. Celebrities such as Reese Witherspoon, Gisele Bundchen and Kelly Ripa became fans of this brand and lululemon found its upscale merchandise becoming a fashion trend (Thompson & Peters, 2015). Trouble began in 2006, and by 2014 yoga students began to turn on lululemon. Issues have plagued the company off and on ever since. In January 2014, Laurent Potdevin began his work as the new CEO and major challenges awaited him: developing a better supply chain, product quality issues, re-engaging core customers, and delivering growth (Warnica, 2014).

A poor start in the first quarter of 2017 is making investors, experts, and investment advisors wonder if the company will rebound or if it will follow the way of other retailers – declining sales, closing stores, and losing the confidence of investors.

COMPANY SUMMARY

lululemon athletica, Inc. was founded in 1998 by Chip Wilson with a focus on comfortable, innovative athletic wear for women dedicated to a healthy, fit lifestyle. The company has since then expanded to include a men's line and a girl's line (ivivva brand).

lululemon has been plagued with a number of product and image issues. In 2006, the Vitasea line was marketed as being made with seaweed when in fact it was made of a cotton fabric. Colors in some products bled when washed. In 2008, a bag with inspirational quotes was sold, but when washed less than inspirational notes appeared. It was discovered in 2010 that reusable shopping bags contained lead and the product had to be pulled from shelves. The fiasco of the see-through black yoga pants occurred in 2013, which resulted in the pants being pulled from store shelves and refunds being offered to customers. The US Consumer Product Safety commission found dangerous elastic tips in elastic drawstrings of certain jackets and hooded tops in 2015, which resulted in a recall and products pulled from shelves.

In addition to product issues, the company has had management issues. Chip Wilson made disparaging remarks about women when the transparent yoga pant issue came to light. His comments angered many women and the company lost some loyal customers. After the company went public in 2007, a new CEO was hired. Christine Day attempted to re-align the company with Wilson's original vision, but Chip Wilson's 'control freak' mentality and his actions and interference caused confusion among employees and created tension with Day and other managers. When Laurent Potdevin was hired in 2014, the Board sent Wilson into exile forcing him to relinquish shares and not be involved in management. Potdevin has been working to restore the company and he hired a CFO to oversee the supply chain, product quality and develop an internal infrastructure to help the company run more smoothly.

By 2017, lululemon operated 406 company operated stores in 12 countries and earned 19.3% of its revenues from its internet sites. The company works with 65 suppliers who provide fabric and 35 suppliers who manufacture the product. The company relies on a 'grassroots' marketing program to promote the brands.

The competitive landscape is changing in the retail women's apparel and women's athletic apparel industry. Companies such as Nike, Adidas AG, Under Armour, and The Gap (Athleta brand) sell specialty women's athletic apparel and Target and Wal-Mart have added a limited selection of low-price yoga pants and athletic wear to their product lines. Consumers are shopping more online and brick-and-mortar stores are seeing less traffic. The industry is predicted to have negative growth in the next 5 years, is very competitive, and is considered a saturated market.

SUGGESTIONS FOR USING THE CASE

This case is appropriate for marketing or management courses. Marketing topics include building a brand, brand management, and brand reputation. Management topics include analysis of the macro and competitive environments, leadership and what happens when the company out-grows the founder, ensuring appropriate operations, and identifying actions a company can take when the market becomes highly competitive and saturated with slow growth.

Learning Objectives

1. Analyze company actions by applying Brand Management principles.
2. Analyze the macro-environmental forces.
3. Analyze the competitive environment using Porter's Five Forces Analysis.
4. Evaluate the leadership and actions taken.
5. Make recommendations for future courses of action.

Suggested Assignment Questions

1. How might a company build a brand in a niche market?
2. What is brand/reputation management and how might that be applied to lululemon?
3. What actions should lululemon take to grow/maintain its brand in a changing retail market?
4. Prepare an analysis of macro-environmental factors and discuss how they impact the industry and lululemon using a SWOT analysis
5. Prepare a Porter's Five Forces analysis of the industry.
6. What are some issues typically encountered with the Founder when a company outgrows its simple corporate structure? Evaluate the actions taken by Chip Wilson and the Board of Directors.

7. What are appropriate actions a company might take in a slow growing, saturated, highly competitive environment?
8. What recommendations would you make to Laurent Potdevin?

REFERENCES

(Available upon request)