

BMGT353 Section 0101

Group E

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History and Background

Lululemon is an athletic apparel store which specializes in athletic clothing for primarily yoga, dance, and running. Lululemon was founded in 1998, in Vancouver BC, Canada by businessman Dennis “Chip” Wilson. The original business plan by Wilson was to open just one store where the Vancouver community could gather and discuss physical well being and living an active lifestyle. However, as the store became too crowded Wilson decided he was going to have to expand to survive as a business. Lululemon currently operates over 200 stores with the majority within North America while a small number are scattered throughout Australia and New Zealand. Chip Wilson instilled a strong training program in which Lululemon employees would be experts in their field and would be able to “positively influence their families, communities, and the people walking into the stores” (Lululemon Website). As a result, customers felt comfortable walking into the stores looking for products. In addition to the the training, Lululemon offers complimentary yoga classes in their stores to create a community of fitness.

Lululemon became a public company in June of 2007 after announcing an initial public offering in May 2007. Following the public offering Lululemon “raised \$327.6 million from Canada’s largest initial public offering this year” (Bloomberg). As a result of the IPO Lululemon was able to open more stores and gain market share in athletic yoga apparel throughout much of North America. Lululemon is in direct competition with several other retailers within the athletic apparel industry. While there are several athletic retailers, the major ones who compete with Lululemon’s distinct product are The Gap, Nike, and Adidas. As of last year, Lululemon had fiscal year end net sales of about \$1.6 billion. Although these are up from previous years, the exhibit

shows revenue growth has been on the decline since 2011. As a result, we are going to discuss the importance of the men's clothing line for Lululemon to stay on top of the industry.

Overall Strategy

Target Market

According to the 2014 annual report from Lululemon, they state their target market as “a sophisticated and educated woman who understands the importance of an active, healthy lifestyle” (Lululemon 10-K). The report goes on to describe how their target market values their family and their career and are able to balance their work with their physical well being. In addition, Lululemon's target market is women who tend to shop in upscale areas with several brand name stores in a centralized street or area. The report does mention briefly that they are designing products for men and young females but it is clear that the current consumers are women ranging from 25-34. While the clear-cut target consumer market is individuals who are already in their early adult life, over the past few years they have made attempts to broaden their market.

Retail Format

Lululemon operates corporate owned retail stores with the majority located in North America. According to the 2014 annual report the breakdown of Lululemon stores is 171 stores in the United States, 54 stores in Canada, 25 stores in Australia, and 4 stores located in New Zealand. Stores are typically located on street locations, lifestyle centers, and malls. Many of the stores are in close proximity to other brand name stores. For example, the Lululemon in Georgetown is located on M street next to stores such as Lucky Brand, Coach, and Levi's. In addition to the many

retail stores located throughout these regions, Lululemon has online presence through their website which was created in 2009. In addition to the Lululemon brand name, which has stores for the young adult market, they have a brand name Ivivva that sells products targeted primarily for young women. As mentioned earlier, Lululemon continues striving to increase their mens brand throughout their stores. They had planned to open their first men's store in SoHo New York. While there women stores tend to focus more towards yoga this men's store is going to focus more on "running and cross training apparel" (NY Daily News).

Competitive Advantage

Lululemon athletica has several competitive advantages based on its 2014 annual report. These competitive strengths differentiate Lululemon from its main competitors and they are very important to the business's success: Premium Active Brand- Lululemon has always position itself as high quality premium athletic apparel company which involves technically advanced fabric, innovative functional features and style. Distinctive Retail Experience- in order to bring different retail experience to its consumers, Lululemon locates stores in street location and lifestyle malls. This strength particularly allows Lululemon to be involved in the local communities. Innovative Design Process incorporates feedback-based design process, which actively requires cooperation from consumers and fitness lovers. Also the close collaboration with suppliers helps Lululemon to facilitate product innovation and production. Community-Based Marketing Approach- series of marketing strategy such as social media, local ambassadors help Lululemon to build brand awareness and customer loyalty. Deep-Rooted Cultural Centered on Training and Personal Growth- it provides guidelines for employees to be passionate about the company's business and culture. Experienced Management Team with Proven Ability to Execute- Lululemon's new

executive who has more than twenty years of experience in athletic apparel industry works closely with the management team to further accomplish the long-term growth strategy.

Collaboration

Lululemon has its own ambassadors that embody and advertise the Lululemon lifestyle (Lululemon website). These ambassadors are usually fitness lovers or professionals and they are very passionate about the local communities. Also, all the Lululemon locations frequently hold events and classes that are unique to the neighborhood. What is more, Lululemon has a teamwear program that serves for sport teams obviously. This allows athletes to provide feedback and advices on the product.

Four P's

Price

Based on our research on the price of yoga pants, we found that almost all the Lululemon's competitors such as Nike and Reebok (see picture in Appendix) use the same material as Lululemon does to product their yoga pants (Peterson, Hayley). However, Lululemon always prices its products at a higher price than its competitors. We believe that it is simply because Lululemon wants to maintain its premium active brand image.

Product

Lululemon's apparel assortment includes fitness pants, shorts, jackets and tops. The fitness-related accessories include series of items like bags, socks, underwear, yoga mats and water bottles (annual report).

Promotion

As mentioned earlier, Lululemon has ambassadors to advertise the company's lifestyle. Frequently held activities and classes in store have improved and deepened Lululemon's brand image in the consumer's mind.

Place

Based on the results from store layout assignment, we found a brief floor plan for Lululemon's store in Georgetown, which can be found in the Appendix. Once the consumers enter the store, they can see the women's apparel section directly. On the right hand side of the store, consumers can shop for men's apparel, accessories and some clearance items. At the back of the store, the huge dressing rooms create a relaxed atmosphere for the customers.

Market Environment

Competition

Overall, the competition in the athletic apparel industry is very intensive. The competition is primarily based on the company's brand image, product quality, innovation, style, distribution and price. According to the annual report, Lululemon believes that it has already successfully competed on the basis of its premium brand image, focuses on women's apparel and production innovation. In addition, vertical retail distribution allows Lululemon to be more efficient and effective than its competitors.

The market for athletic apparel is also growing. Direct competition from well-established competitors such as Nike, Inc and Under Armour, Inc and specially competition on women's

apparel from The Gap, inc further increases Lululemon's burden and motivates it to be more efficient and innovative.

Changing Environment

With the increasing competition in the athletic industry, Lululemon might want to focus on its price strategy. Since the material for making the yoga pants are almost the same among athletic apparel companies, consumer might choose to go to the stores that have cheaper yoga pants but same material.

Like other business in apparel industry, Lululemon is influenced by the general seasonal trends. For instance, a large portion of Lululemon's operating profit comes from the sales on holiday seasonal (Annual report.)

Main Issues

One of the major challenges Lululemon faces is its lackluster sales in its men's department. This can be traced to a number of issues. As discussed before, the company's brand image and its corresponding perceived target market is mainly geared towards established, professional females with the disposable income to afford the company's premium product. Any high cost product will naturally have a smaller market, but the product's feminine image further cuts out potential male customers. Overcoming this bias is imperative if the company wishes to expand into the men's apparel segment. However, this is a major challenge since much of the male consumer market is opposed to be seen wearing a female brand item.

Potential Actions

In analyzing the market environment and current situation Lululemon is experiencing, we have determined three potential courses of actions they, as a company, can consider applying.

The first course of action is an action plan we have named the “Lululemon Revamp.” This strategy suggests extending the men’s department to be of slightly lesser or equal size to the women’s department in Lululemon stores and online. This expansion will help communicate that the target market Lululemon is centering on includes both men and women without preference. In addition to adding more men’s products, Lululemon will need to take additional marketing and retail management actions. In stores, athletic activities will not just focus on the martial arts and yoga, but also more male-centric athletics such as fencing, running, soccer, and the like. The male section will not only occupy the entrance of the store, but an entire half of the store which is seen in other retailers such as Gap, Under Armour, and Old Navy. To communicate a new brand image, Lululemon will need to launch a new marketing campaign featuring co-ed groups exercising in Lululemon clothing with intensity and vigor, suggesting that despite the previous feminine image of the brand, Lululemon will enhance rather than stunt performance.

The second course of action is a plan we have named the “Cut and Paste” action plan. In this case, Lululemon would cut the men’s department and invest all spending into development of the women’s department. Men’s clothing would not be offered in stores or online, and the area in the stores of which the men’s clothing originally occupied would then be occupied by a new line of clothing offered strictly to the female market. Advertisements would target specifically women, and in store classes would have a new image of “girls day out” where ladies can exercise in strictly female groups and indulge in post-workout activities such as wine tastings.

The third course of action is the “Vocalize” plan. In this action plan, the merchandise assortment will not be changed, but the communication processes would. Decor in the store would focus on both men and women. Commercials, promotions, and other marketing communications would emphasize a balance between men and women, often featuring both genders sitting or exercising together decked out in Lululemon merchandise. Spokespeople will include both genders, and potentially a famous actor to entice the male market to purchase Lululemon products.

We do not suggest lowering prices to appeal to the men’s target market because we do not want to skew the attitudes of consumers that Lululemon merchandise is, indeed, a high quality product worthy of premium pricing in comparison to competitors.

Recommendations

With careful consideration, our recommendation would be to put the first plan, “Lululemon Revamp,” into action. The second plan could potentially cause a great deal of negative publicity, suggesting that Lululemon is “anti-men” and sexist. This bad publicity would cause consumers to view Lululemon in a negative light, and they would in turn avoid spending money on the merchandise in store and online. Increased spending on new women’s merchandise would lead to limited profit margin, due to the severe decline in sales. The third plan is harmful because no action is most often the worst choice. If Lululemon does not address the issue on all fronts, as opposed to just advertisements, then it will appear that the brand image is not positively represented in stores and new consumers may feel lied to with the contrast between the market image and the store merchandise. We chose the first plan because integrated actions between all

functions of the company to implement a men's line equal to the size and quality of the women's line is the best way to satisfy both markets.

Appendix

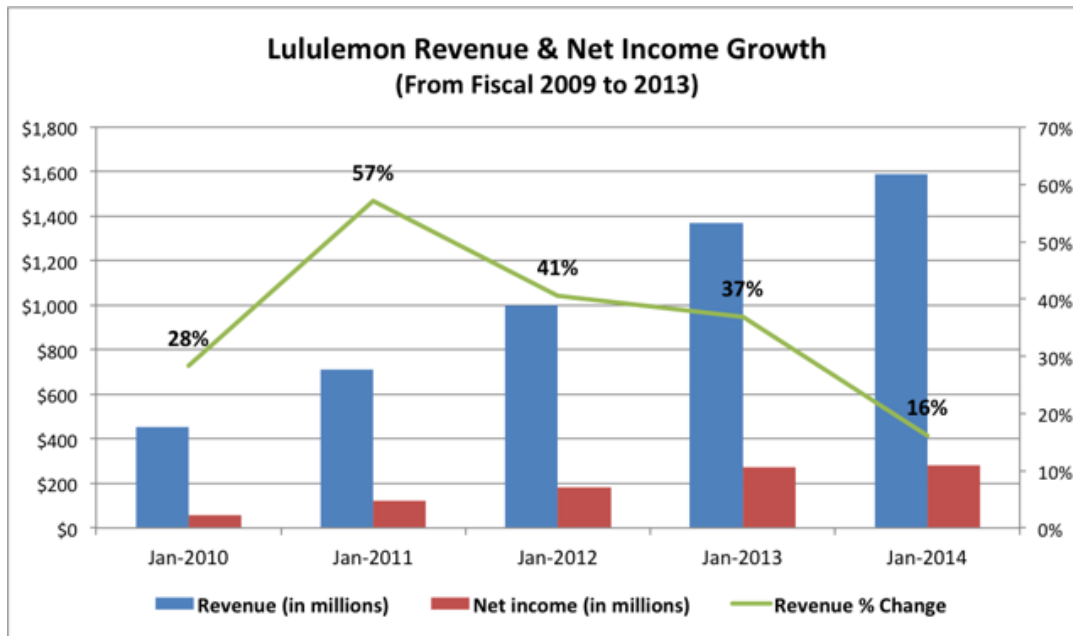


Figure 1



Figure 2



Figure 3

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