

Teaching Note

Lululemon Athletica and a Series of Bad Marketing Decisions

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Critical Incident Overview

Lululemon Athletica, known for high-end yoga apparel, faced a series of bad public relations events starting in 2006 and continuing until 2013. The company first faced some questions about product claims. Then they were in the news because an employee murdered a co-worker within a Washington D. C. outlet store. Next, the company decided to switch to an overseas manufacturer, a decision that resulted in the production of low quality, sheer yoga pants that consumers felt violated their privacy. Finally, a decision to not produce and sell pants over a size 12 caused a backlash as well. CEO Chip Wilson ended up resigning from the company in December of 2013; despite his departure, the brand's image was badly damaged, and several questions remained about how the company would regain consumer trust and restore its brand image.

This critical incident is designed for undergraduate courses in marketing communications, public relations, and marketing strategy.

Learning Outcomes

After completing this assignment, students should be able to:

1. Identify the social implications of selecting a specific target market
2. Explain how brand image can be damaged
3. Develop strategies for improving a company's brand image
4. Judge the impact of consumer forgiveness related to a company's marketing mistakes

Research Methods

Lululemon Athletica is an international, publicly traded company that is based in Vancouver, British Columbia. This descriptive critical incident was based completely on secondary research. No data or names were disguised in the critical incident and all material was developed from secondary sources.

Discussion Questions

1. Why was the chosen Lululemon Athletica target market controversial? (LO 1)
2. How was the brand image of Lululemon Athletica tarnished? (LO 2)
3. From a marketing strategy perspective, what should Lululemon Athletica do in order to
4. improve the company's brand image going forward? (LO 3)
5. In your opinion, what factors will contribute to whether consumers will forgive Lululemon Athletica for its mistakes? (LO 4)

Answers to Discussion Questions

1. Why was the chosen Lululemon Athletica target market controversial? (LO 1)

Lululemon Athletica appeared to target thin, upscale women. As explained in the critical incident, the company's products were expensive and they did not sell sizes larger than 12. Furthermore, yoga pants sizes 10 to 12 were not usually displayed in the stores. This type of sizing strategy (i.e., targeting women who wore a size 12 or smaller), was contrary to the average dress size for American women, which was size 14 at the time of the critical incident (Crow, 2010).

Selecting this thin, upscale target market could be perceived by consumers as Lululemon Athletica discriminating against consumers who have larger body sizes. Furthermore, this perception may have been reinforced by quotes from the CEO, Chip Wilson, who stated that it cost the company too much because larger sizes took too much top-of-the-line, expensive fabric to produce. His comment that, "some women's bodies just don't work for us" (Lustrin and Pantinkin, 2013), outraged many, including those who were previously unfamiliar with the brand. These comments may have been perceived as derogatory and insulting to women who were larger than size 12.

Interestingly, there have been other companies who have also chosen target markets that appeared to discriminate and upset consumers. Abercrombie & Fitch, for example, faced similar criticism when CEO, Mark Jefferies, said that the brand was "profoundly exclusionary" in targeting popular teens (Stebner, 2013). Furthermore, companies who target larger size consumers, such as Lane Bryant and Torrid, also limit their product offering. Lane Bryant and Torrid offer apparel in only plus sizes and do not sell smaller sizes. However, these companies have not faced backlash over their targeting practices.

2. How was the brand image of Lululemon Athletica tarnished? (LO 2)

Brand image "represents the associations that are activated in memory when people think about a particular brand" (Shimp and Andrews, 2013, p. 35). According to Keller (1993), the success of a company's brand image is based on whether those brand image associations are favorable, strong, and unique. Lululemon Athletica's brand image was fashionable, trendy, expensive, and high-end. However, the brand image was tarnished when the company repeatedly misled consumers about the product. The problems began with false product claims, inappropriate hidden messages, questionable employee behavior, followed by the production of low-quality,

see-through pants. After that, issues about the company's targeting practices surfaced and the CEO's response to consumer concerns was not adequate. This series of negative events caused consumers to lose trust in the brand and the brand image was then tarnished.

Because Lululemon Athletica was a luxury product, brand image should have been of utmost importance to the company. According to Song et al. (2012), in the context of luxury brands, brand trust directly enhances brand loyalty behaviors and reduces the perceived risk consumer's associate with purchasing a brand. Furthermore, Song et al. (2012) state that when a customer is satisfied with a brand, she feels a greater commitment to the brand and, therefore, trust of the brand increases. In contrast, when a customer is not satisfied with the brand, she loses trust and their brand loyalty falters.

The important thing to note is that luxury brands are perceived differently from other brands in the marketplace. Luxury brands raise consumers' expectations about a product or service, which, in turn, makes it difficult to regain consumer trust when it is lost. In other words, when a company asks consumers to pay a premium for a product (i.e., \$98 for a pair of exercise pants at Lululemon Athletica, as opposed to \$18 for a pair at Target), the consumer expects that the product will be high quality and perform as advertised. In addition, the consumer may also expect more from a luxury brand with respect to the company's ethical, sustainable, and socially acceptable business practices. If the luxury brand does not perform at the level expected for the consumer who is paying a premium, then the image of the brand quickly diminishes in the mind of the consumer.

3. From a marketing strategy perspective, what should Lululemon Athletica do in order to improve the company's brand image going forward? (LO 3)

A company facing a damaged brand image is a common occurrence in the marketplace. For quite some time, practitioners have been sharing advice on how companies can improve their damaged brand images. Kalb (2011) presents a series of activities a company can do to rebuild its broken brand image, several of which are relevant to Lululemon Athletica and its bad marketing decisions, including:

1. Create a new marketing information system
2. Use reliable crisis management tools to turn evil into good
3. Create a "Don't be Evil" fund
4. Remind consumers of the heroic stands the company has taken
5. Make nice with the press

Kalb's (2011) first recommendation is to build a marketing information system to help track consumer complaints. It is unclear in the critical incident whether Lululemon Athletica has an information system that tracks this type of data. If the company does not have such a system, it needs to spend time interviewing and surveying consumers and building a database with the information that they provide. Other data, such as comments on social media sites should also be tracked and added to the information system. The company could then regularly analyze the data, identify consumer concerns as they emerge, and quickly address concerns before they become larger issues.

Another valuable recommendation of Kalb (2011) is that the company should use reliable crisis management tools to turn evil into good. Kalb explains that companies should, “admit the problem, apologize, limit the scope, and propose a solution so it will not happen again.”

Admitting the problem, apologizing to consumers, and implementing a solution is a common process utilized by companies in dealing with public relations crises. Lululemon Athletica followed these same steps when consumers expressed concern over the inappropriate language on the bag and when they complained about see-through yoga pants. However, the company did not appear to follow these steps for other difficulties that they faced.

Kalb’s (2011) third recommendation is that companies that want to repair their brand image need to create a fund that recognizes and rewards people for doing good. Following this advice, Lululemon Athletica should develop a fund in which they strategically donate to social causes that put the firm in a positive light. For example, through such a fund, Lululemon Athletica could donate to non-profit organizations that support children’s fitness such as the Boys and Girls Club or Girls on the Run.

Next, Kalb (2011) recommends that a company that is trying to improve its brand image needs to remind consumers of the heroic stands that they have taken in the past. According to Kalb (2011), consumers quickly forget the positive impact that a company has made on society. Therefore, companies need remind consumers about their past activities and how those activities have benefited the environment and larger society. Thus, once Lululemon Athletica establishes a fund that donates to social causes, then the company should communicate about their efforts through social media and other forms of advertising.

Finally, Kalb (2011) also recommends that companies trying to improve their brand image should “make nice with the press.” If they do not have a public relations firm on retainer, Lululemon needs to hire such a firm to improve the company’s relationship with the press. A public relations firm can help Lululemon Athletic strategically communicate about its successes with the press to help obtain more positive press coverage. In addition, the public relations firm can help Lululemon do a better job in responding to negative press when it emerges. This firm could, for example, coach the CEO on how to appropriately respond to sensitive questions in interviews.

4. In your opinion, what factors will contribute to whether consumers will forgive Lululemon Athletica for its mistakes?(LO 4)

Marketers have found that consumers often forgive a brand for its transgressions (Chung and Beverland, 2006; Mogilner, 2008; Tsarenko & Tojib, 2011). Furthermore, those consumers who have an emotional connection with the brand are even more likely to forgive the brand when it does wrong (Mattila, 2001; Wolf, 2011). There are many examples of consumer forgiveness in the marketplace. One example is the data breach at Target and Neiman Marcus that occurred during the holiday season of 2013 when customer credit card information was stolen. Despite this data breach, neither retailer suffered any long-term damage. Consumers have also forgiven sports celebrities and politicians for their mistakes. For example, golf enthusiasts forgave Tiger Woods for this infidelity and a few brands, such as Nike, reinstated him as a spokesperson.

Many Americans forgave former President Clinton for his infidelity and for lying to Americans about his marital indiscretions. Thus, it is likely that consumers will also forgive Lululemon Athletica for its marketing mistakes.

However, research also shows that consumer forgiveness depends on a variety of factors, such as the recency of the event and the acknowledgement of the transgression by the company (Mogilner, 2008). As explained in the critical incident, Lululemon Athletica committed multiple transgressions and, as soon as one transgression died down, another one seemed to emerge. Thus, there was continued recency to the controversies for Lululemon Athletica. It appeared that consumers were beginning to lose faith in the brand because of the number, frequency, and persistence of the company's transgressions over time.

Furthermore, as indicated in the critical incident, Lululemon Athletica did attempt to address the concerns of consumers as they emerged. Thus, the company attempted to acknowledge the concerns of consumers. And, in the end, the Chairman of the Board for Lululemon resigned in favor of new leadership. While a new Chairman of the Board does not necessarily provide an immediate fix for a company, it is likely that new leadership for the company will immediately work toward cleaning up the damaged brand image and put systems in place to prevent future transgressions. If the company can avoid future negative press, it is likely that consumers will again embrace the brand as time passes and memories of past transgressions begin to fade.

General Discussion

To foster a general class discussion, the instructor may want to show Chip Wilson's actual apology video that was posted on YouTube (<https://www.youtube.com/watch?v=7oJ8dFIOfVU>), along with some of the negative press he received about the apology video (<https://www.youtube.com/watch?v=u4jIBITIkSk>).

This critical incident has implications for public relations, strategy, and operations management, in addition to marketing. The instructor could use role-play to help the students address the many issues presented in this case. For example, a student could be assigned to play the role of Chip Wilson and express his concerns over being ousted from the company. Another student could be the VP of Public Relations and explain the strategy needed to repair the brand and consumer trust. Students could also take on roles of board member, head of operations, store managers, and customers (both a loyal consumer and non-loyal consumer perspective could be presented).

Epilogue

In 2014, a lawsuit was brought against Lululemon for the sheer pants issue. However, the case was dismissed and the company was not found guilty of misleading consumers (Stempel and Ax, 2014). Also, in the spring of 2014 Lululemon's stock price started to recover, as sales for the product started to rise again.

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