

Lululemon Athletica (LULU):

Leadership Changes & Organizational Culture

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Background Summary on Lululemon's Leadership Trajectory

Lululemon athletica (TSX: LULU; officially branded as "lululemon") is a Vancouver-based designer, producer and retailer of athletic apparel and accessories for men and women founded by Chip Wilson in 1998 (Marketline, 2020). Despite its relative youth, lululemon maintains storefronts in 12 countries throughout North America, Europe, Australia, and Asia (Lululemon, 2017). The company is widely considered to be one of the main catalysts behind the age of athleisure and has solidified its position as one of the world's most powerful apparel brands. While experiencing multi-year growth, lululemon has faced a number of ethical challenges and received negative attention surrounding top brand executives that have plagued the otherwise thriving company. Behaviour from lululemon founder and former CEO, Chip Wilson has harmed the brand's reputation on multiple occasions, ultimately leading to lululemon's board advising Wilson to refrain from further public statements and eventually, his removal from any formal role in the company in 2015 (Peterson, 2015). Even after Wilson's tumultuous tenure came to a close, lululemon has continued to struggle with allegations made against company leadership and a shaky string of CEO scandals that have tainted the company's reputation, ultimately impacting its performance in the marketplace (Tozer, 2018).

Lululemon SWOT Matrix

Strengths: <ol style="list-style-type: none">1. Niche focus2. Culture of innovation3. Cult-like following4. Product quality	Weaknesses: <ol style="list-style-type: none">1. Intensity of rivalry increasing from larger brands such as Nike, Adidas and Under Armor2. Influx of counterfeits damaging brand value3. Chip Wilson's unpredictability
Opportunities: <ol style="list-style-type: none">1. Global growth2. Large untapped market in China3. Increased demand for athleisure and changing attire standards during COVID-19 pandemic	Threats: <ol style="list-style-type: none">1. Overdependence on US market2. Overstretched supply chain3. Leadership issues and public scandals

Strengths

While many brands compete in the yoga and fitness apparel space, lululemon has positioned itself as an industry leader by building community around its brand. In an increasingly crowded marketplace within athletic apparel, lululemon's single greatest strength is the cult-like following it has procured among its target audience of educated, health-conscious, and high-income customers. This has shielded the company against increasing competition in the space and internal scandals that otherwise would have been detrimental to the brand's reputation (Saibil, 2019). Despite its premium price point, lululemon continues to attract customers due to the unrivalled quality of its products (Sacks, 2016).

The company's focus on product design and development provides it competitive advantage over its peers, and while competitors such as adidas and Nike focus on online retail formats, lululemon is capitalizing on experiential consumerism through the aggressive addition of physical locations with plans to grow its square footage annually, a good sign for the company which has seen lululemon stores ringing up on average \$1,800 in sales per square foot, compared with only \$600 for competitors such as J. Crew and Abercrombie & Fitch (Sacks, 2016). The company's stock rose to an all-time high in June 2020, and the brand appears to be positioned extremely well as demand for activewear has remained comparatively robust throughout the pandemic and the brand's value is at an all-time high, creating opportunity to grow its brick-and-mortar presence and add a projected \$10 billion to its market capitalization this year (Kent, 2020).

Weaknesses

Though the company has presences across Canada, the United States (US), Australia, New Zealand, the United Kingdom (UK), Singapore and other countries in the world, lululemon depends on the US for the majority of its revenue (Danzinger, 2019). In 2019, the company generated 71.9 per cent of its revenue from the US. With 285 stores out of 440 based in the US, a significant share of the retail stores is getting stale, and in many stores the shopping experience doesn't match the company's premium price points. As a premium brand, any downturn in the region's socioeconomic condition, coupled with constantly changing consumer behaviour makes demand for its products harder to predict, thus potentially restricting the company's market share and growth opportunities in the future (Marketline, 2020).

Additionally, the company is subject to a disproportionate level of uncertainty in regards to its supply chain (Datamyne, 2013). According to Datamyne, the company's signature Luon

fabric, a blend of 86 per cent nylon – 14 per cent Lycra with a trademarked brand name and a secret formula that is the intellectual property of lululemon's Taiwanese supplier. Thus, while the quality of materials separate lululemon from its competitors, the preservation of said quality and the production capacity lies in the hands of third parties. Lululemon has cautioned that its rapid growth may outpace its ability to manage operations and protect its brand, thus creating missed opportunities due to the company's over-stretched supply chain (Datamyne, 2013).

Opportunities

The athleisure trend that lululemon helped create has paid off in a big way: global demand for these products has allowed the company to capitalize early by expanding internationally, particularly in China. The company plans to quadruple its international revenues by 2023 (Lululemon, 2019). Lululemon's recent success in its international markets is indicative that athleisure has not yet reached its peak across much of the world and presents considerable growth potential for the brand. This demand has been elevated by the current COVID-19 pandemic (Kent, 2020), which has all but solidified lululemon as the world's leading brand in this new category. While the fashion industry as a whole is facing a bleak outlook, lululemon has benefited from enduring demand for comfortable clothes during the COVID-19 crisis, even as most major apparel categories have struggled.

Threats

The threat of new competitors entering the market is very high. Several large, well-known athletic apparel companies including Nike, Adidas and Under Armor are heavily invested in displacing lululemon as the industry leader in athleisure (Marketline, 2020). Moreover, lululemon's business model relies on superior product quality and innovation to justify its premium price point, leaving it vulnerable to potential technological breakthroughs

from competitors who have significant resources at their disposal (Marketline, 2020). Increasing competition and availability of cheaper products could lead to pricing pressures, which, in turn, could reduce the company's profits.

In addition to increased rivalry, one of the main threats to the financial and organizational well-being of lululemon is, ironically, the company's founder and largest individual stakeholder: Chip Wilson (Newstex, 2014). Wilson, who is known for making controversial public remarks both about and on behalf of lululemon, has had a tumultuous relationship with the brand and its leadership since moving on in 2015; he has repeatedly criticized the company (Metcalf, 2019). According to Metcalf, Wilson even went as far to write a book – titled *Little Black Stretchy Pants* – that both attacked lululemon's performance and made claims about the brand that severely damaged its reputation and affected the company's stock. Despite being a contended figure, Wilson's continued and unpredictable interference with lululemon and its board of directors should be monitored closely, as his platform and status could have lasting implications on public perception of lululemon's company culture as a whole.

Recommendations

Lululemon has a leadership problem. At the time of writing, lululemon has all the makings of a powerhouse brand that is poised for both short and long-term success, with one glaring exception that is holding it back: steady leadership. In fact, even five years removed from Chip Wilson's era, lululemon athletica's current brand identity has been heavily influenced and curated by the decisions of its eccentric founder. Since becoming publicly traded in 2007, the brand has found itself in hot water on more than one occasion for unconventional behavior not reflective of a company mature enough to challenge established global leaders in an already crowded marketplace, despite remarkable early success. In order for lululemon athletica to be

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taken seriously as a dominant force in the apparel industry and to be seen as a true rival to the likes of Nike and Adidas, ethical and transparent leadership is absolutely vital to sustainable and long-term success. Successive public scandals over quality, culture and leadership have held lululemon back and tarnished the company's growth. It must prove to investors and challenge public perception that as a company, it is ready to take itself seriously and make that leap. With recently announced leadership changes that reflect these goals, I am cautiously optimistic that the company is up to the task.

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Appendix of Data

Note: Data tracked is indicative of the three days before, the day of, and three days after lululemon's leadership appointments were announced. The Toronto Stock Exchange was closed the weekend of October 31, 2020 and November 1, 2020 so the next closest dates were included in the data as a result.

Table One: Instagram Followers (Social Blade, 2020)

DATE	FOLLOWERS
October 28, 2020	3,452,012
October 29, 2020	3,452,340
October 30, 2020 (appointments announced)	3,452,664
October 31, 2020	3,453,129
November 1, 2020	3,454,277
November 2, 2020	3,454,630
November 3, 2020	3,455,215

Table Two: TSX Stock Price (Closing price; TMX Money, 2020)

DATE	STOCK PRICE
October 28, 2020	\$329.475 CAD
October 29, 2020	\$330.104 CAD
October 30, 2020 (appointments announced)	\$319.248 CAD
November 2, 2020	\$315.472 CAD
November 3, 2020	\$326.957 CAD
November 4, 2020	\$340.016 CAD
November 5, 2020	\$347.096 CAD

Appendix (News Release):

Lululemon Athletica Inc. Announces Leadership Appointments As Company Continues To Focus On Growth, Innovation, And Diversity & Inclusion

VANCOUVER--(BUSINESS WIRE)--Oct. 30, 2020-- lululemon athletica inc. (NASDAQ:LULU) today announced several leadership appointments, including the promotion of Meghan Frank to Chief Financial Officer (reference CP style -- this job title should not be capitalized). Ms. Frank joined lululemon in 2016, and, effective Nov. 23, will become the company's first female CFO. Company veteran Celeste Burgoyne will also become the first executive to serve at the president level in her role leading the Americas and Global Guest Innovation teams. The company also announced the hire of longtime Adidas executive André Maestrini to serve as EVP, international and lead the company's international expansion. These appointments will allow lululemon to continue to make progress against its Power of Three growth strategy.

To support and accelerate lululemon's recently announced Inclusion, Diversity, Equity and Action (IDEA) efforts, the company also announced that Stacia Jones will become vice president, Global Head of IDEA to drive these strategies forward.

"I am excited to announce these senior leadership appointments, which will enable us to continue to drive our business forward and further strengthen lululemon's leadership team," said CEO Calvin McDonald. "Celeste has been instrumental in lululemon's growth, and from her first day with our company almost 15 years ago, she has made tangible contributions to our culture and our business that have helped us become the lululemon we are today."

Mr. McDonald continued, "We are also thrilled to welcome both André Maestrini and Stacia Jones to lululemon. André is an experienced global leader with an established record of success, who will enable us to build upon our momentum and drive our international expansion in key markets including China, as well as the broader APAC and EMEA regions. Stacia is a dynamic leader with demonstrated success helping retail organizations diversify and grow, and she'll enable us to deliver on our commitments related to inclusion, diversity and equity."

Burgoyne and Maestrini will report to McDonald. Jones will work directly with the IDEA Senior Leadership Team Steering Committee, and will report to Susan Gelin, lululemon's Senior Vice President of People and Culture.

Meghan Frank Chief Financial Officer

Ms. Frank has more than 20 years of experience within the retail industry. She joined lululemon in 2016 as Senior Vice President of Financial Planning and Analysis and, since April, has served as interim co-CFO, along with Alex Grieve, Vice President, Controller for the company. Previously, Ms. Frank held senior roles at Ross Stores and J.Crew, where she served for nearly a decade. She earned her B.A. from Colgate University. As CFO, Ms. Frank will assume responsibility for the finance, tax, treasury, investor relations, asset protection, facilities, operations excellence, and strategy functions. (re visit cp style in relation to job titles)

Celeste Burgoyne**President, Americas and Global Guest Innovation**

Celeste Burgoyne oversees all channel and guest-facing aspects of the North American business, including stores and e-commerce. In addition, she is responsible for leading and incubating guest innovation for lululemon globally. Celeste joined lululemon in 2006 to lead U.S. expansion and has since held a series of roles of expanded responsibility, most recently as Executive Vice President, Americas and Global Guest Innovation. Celeste started her career with Abercrombie & Fitch, where she held various leadership positions during her 10 years with the company.

André Maestrini**Executive Vice President, International**

André Maestrini spent 14 years at adidas in various senior roles and across several of the company's global offices. He has a demonstrated record of growth and unlocking opportunities by leveraging the brand and categories across multiple channels, and most recently, he oversaw a multibillion-dollar business as the Senior Vice President, Global General Manager, Sports Business Units, Running, Training, Football, Basketball & Heartbeat Sports. At Adidas, he also successfully grew the business in China and served as GM of the business units in France and Latin America. Prior to adidas, André held marketing roles at The Coca-Cola Company, Danone, and Kraft Jacobs Suchard. He received a master's degree in Marketing from ESSEC Business School in Paris, France. He will join lululemon in January 2021.

Stacia Jones**Vice President, Global Head of IDEA**

Stacia Jones spent over a decade at Abercrombie & Fitch, most recently as Associate General Counsel and the company's Chief Diversity & Inclusion Officer. While at A&F, Stacia helped the company increase its diversity in the U.S. by more than 400 percent. She has a deep understanding of how D&I initiatives are built and scaled globally, and is the recipient of awards naming her EDI Lead of the Year (2019, National Centre for Diversity) and Head of Diversity of the Year (2018, European Diversity Awards). She received a Juris Doctor degree from Ohio State University. She will join lululemon in November 2020.

About lululemon athletica inc.

lululemon athletica inc. (NASDAQ:LULU) is a healthy lifestyle inspired athletic apparel company for yoga, running, training, and most other sweaty pursuits, creating transformational products and experiences which enable people to live a life they love. Setting the bar in technical fabrics and functional designs, lululemon works with yogis and athletes in local communities for continuous research and product feedback. For more information, visit www.lululemon.com.

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