

lululemon athletica inc.

INTRODUCTION

Based in Vancouver, Canada, lululemon athletica inc. is an upstart company that provides premium quality athletic apparel at a premium price. While the worldwide economy has been in decline, lululemon has been producing financial gains in every major measure of performance. Furnishing excellent examples of foundational strategic management concepts, this case illustrates the power of entrepreneurial thought, vision, and strategy to produce results in stark contrast to forces in the external environment.

The case describes lululemon's niche strategy, inimitable corporate culture, and leadership values, as well as conditions in the external environment. As details of economic, competitive, and stakeholder pressures unfold in the case, it is evident that the company is rapidly facing new challenges. Given the evolving situation, the question arises as to whether lululemon can maintain and nurture the effectiveness of community-centered and symbiotic relationships as it attempts to grow the business and expand globally.

ANALYSIS

- ***Define lululemon's tangible and intangible resources. What is (are) the company's source(s) of strategic competitiveness? How does the company vision affect its ability to achieve organizational objectives?***

Intangible resources can be as important to an organization as tangible resources. This is certainly the case for lululemon athletica inc. Both types of resources at lululemon are identified and described in the table below.

Tangible	<i>Financial Resources</i>	Cash – valued at more than 50% of total assets Credit line – but currently holding no debt Business growth – substantially outpaces industry in revenue and profitability Returns – rising on equity and assets
	<i>Organizational Resources</i>	Strategies – to achieve vision Marketing systems and processes – to collect market intelligence Environmental scanning systems and capabilities – to identify threatening and opportunistic trends and make projections of anticipated outcomes Market driven research and development processes – to incorporate ideas from users into new product designs
	<i>Physical Resources</i>	175 stores in Canada, U.S., Australia, and New Zealand Distribution centers in U.S. and Canada
	<i>Technological Resources</i>	High tech fabrics – to produce high performance products Silver thread technology – to enhance high tech product

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		features E-commerce sales channel – to facilitate online and global expansion
Intangible	<i>Human Resources</i>	Employee stewardship of company culture and vision – shared values and customer relationships Culture – embedded in associate’s behaviors and actions In-depth knowledge of target audience – feedback mechanisms flowing into product development Focus on employee development – continuous training Associate product knowledge – applied in store setting Leadership – experience and skills of management team Yoga instructor ambassadors –input and promotional resources outside of the organization
	<i>Innovation Resources</i>	Product design – ability to develop style and performance features to meet specific target market needs Unique store experience – interactive community hub for multiple aspects of healthy living
	<i>Reputational Resources</i>	Word-of-mouth, grassroots, lifestyle marketing Associate-customer relationships – authentic connections with enthusiasts Product quality standards – enable premium pricing Committed, cult-like brand following Perception of brand exclusivity In-store experience

Lululemon’s success demonstrates that the capacity to manage intellectual and systems capabilities and to convert it into useful products and services creates value, strengthens the company’s competitive position, and produces superior results. Intangible resources are a superior source of capabilities and core competencies. Unlike most tangible resources, they can be leveraged to create additional product and service attributes that are attractive to customers. For example, knowledge gathered from customers during in-store visits can be shared throughout the organization to develop valued product characteristics and to deepen the relationships associates have with other customers. Also, intangible resources are less visible and more difficult for competitors to understand, purchase, imitate, or substitute for.

Core competencies, and ultimately competitive advantages, derive from the organization’s tangible and intangible resources. When the firm formulates and implements a value-creating strategy based on its available resources, strategic competitiveness is achieved. At lululemon, strategic competitiveness results from a vision and focused differentiation (niche product market) strategy built upon brand equity and the power of the company’s culture. Virtually all of lululemon’s employees, ambassadors, and guests participate in yoga and/or running, and the company’s unique feedback collection methodologies ensure that the brand and culture are perpetuated.

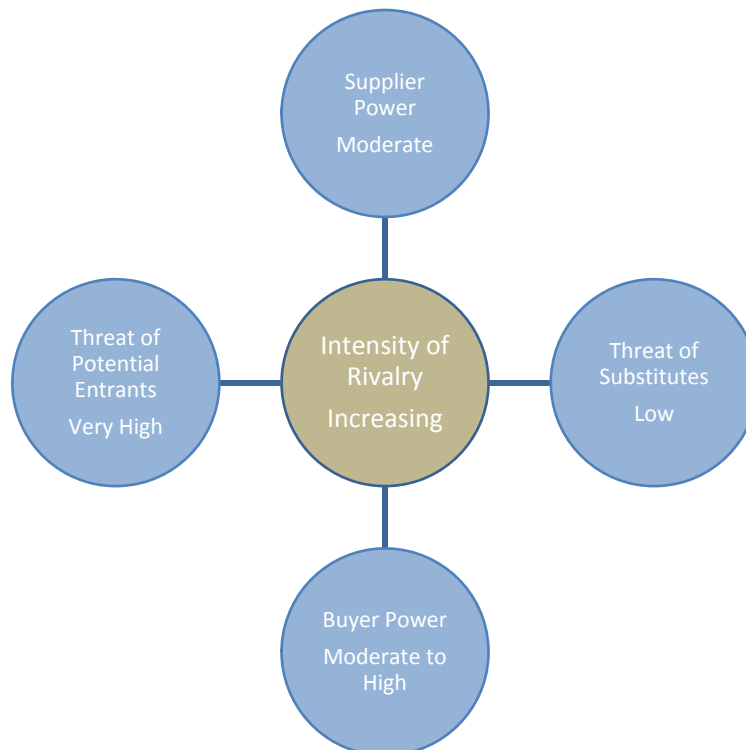
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Lululemon's vision is "To be a community hub to provide our guests with knowledge, tools and the components for people to live longer, healthier and more fun lives." This statement informs stakeholders and gives shape to the intended future of the company, challenging employees in the process. The alignment of capital market, product market, and organizational stakeholders with the company's vision is a testament to its effectiveness.

- ***Complete an analysis of competitive forces in the external environment using the five forces model of competition and a competitor analysis. How big is the impending competitive threat? Is lululemon prepared for changes in the competitive environment?***

Lululemon is in the athletic apparel industry. Until recently, it has been unchallenged in serving a distinct premium yoga niche for women. Because of increased popularity of the sport and sustained above-average earnings in the segment, new competitors are now seeking to capture a share of the growing market. And some of these new competitors have substantial capacity to make an impact.

Analysis using the five forces model of competition reveals that the intensity of rivalry in this segment of the sports apparel industry is beginning to increase. The strength of competitive forces in lululemon's external environment is summarized in the graphic below and is further explained in the section which follows.



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- Threat of Potential Entrants – The threat of new competitors entering the market is very high. Several large, well-known athletic apparel companies have already launched yoga clothing lines – some in direct competition with lululemon’s products. In addition, retailers are taking advantage of low entry barriers. And so long as the segment produces above-average returns, competition will continue to increase. Some of the company’s competitors have significant resources and staying power to earn a solid share of the market, at lululemon’s potential peril.
- Supplier Power – While supplier bargaining power is not necessarily a strong competitive force, lululemon uses a rather concentrated sourcing strategy, depending heavily on five key suppliers in the Asian-Pacific region. This poses some environmental and political risks for the company – in particular for margins, which could deteriorate if the company was to see cost increases or was forced to alternative source in North America due to disruptions in supply.
- Buyer Power – Customers do maintain a moderate to high level of bargaining power. Switching costs are not a factor, and buyers have many product options available across the pricing spectrum. However, lululemon’s brand equity and artificial scarcity tactics provide some protection against buyer bargaining power, creating demand and enabling the company to charge premium prices for its products.
- Threat of Substitutes – Substitute products do not present much of a challenge. Yoga enthusiasts are going to want the features offered by companies who understand their product needs and deliver them in superior form. Their needs cannot be satisfied by alternatives.
- Intensity of Rivalry – Rivalry is not yet intense. Segment sales are growing, and profits can still be earned by companies with strong capabilities and good products. But, as more competitors enter the market, rivalry will undoubtedly increase. Lululemon is already predicting lower sales growth (by half) for 2013, and the company saw its traditionally-low inventory levels go up by 85% in 2012. These could be signs that the competitive environment is beginning to intensify and to affect the company’s outcomes.

Further analysis of competitor strengths and weaknesses, objectives, and strategies can enable lululemon to formulate a response to anticipated predatory actions by helping the company understand, interpret, and predict competitor behavior. Comparative information for lululemon’s largest competitors is accumulated and presented in the table below. Collecting and discussing this information should provide insight into potential competitive actions and prepare the company to address forthcoming threats and competitive challenges.

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	lululemon	Nike	Adidas	Under Armour	VF Corp.
Strengths	Culture Brand equity Customer relationships R&D Innovative product Segment focus Grassroots marketing	Global brand Product breadth Global scope Unrivaled Financial power	Global brand Product breadth Accessories by sport Global scope Footwear Financial power	Strong brand Rapid growth Aggressive U.S. marketing High performance product	Multiple brands and product categories Highly diversified Broad distribution channels Geographic scope Retail experience
Weaknesses	Dependence on single segment High price point	Unproven in yoga segment Limited focus and experience in yoga	Limited yoga line	Smaller than large rivals Worldwide brand awareness Focus is on other (non-yoga) lines	Not well-known in U.S. Yoga represents small portion of brand portfolio Financial status
Vision	Community hub – healthier lives	Inspiration and innovation	Passion to provide the best gear	Performance enhancement and innovation	Branded lifestyle apparel
Yoga Line	Premium niche	2011 – part of Dri-Fit line	Limited – very different styling – different target market	Recent launch – similar styling, but limited selection	lucy – close comparison – not just yoga – active women’s wear
Price Point	Pants - \$103	Tops - \$30 Pants - \$55	n/a	All - \$70 Pants - \$85	Tops - \$57.50 Pants - \$62.50

<i>cont.</i>	lululemon	Nike	Adidas	Under Armour	VF Corp.
Revenue	\$1 billion	\$23.42 billion	\$17.64 billion	\$1.47 billion	\$9.4 billion
Income Before Tax	\$0.32 billion	\$3.5 billion	\$1.7 billion	\$0.20 billion	\$1.2 billion
Financial Performance	Strong	Strong	Strong	Strong	Weak
Cash on Hand	\$0.41 billion	\$4.6 billion	\$1.6 billion	\$0.175 billion	\$0.34 billion
Cash as % of Assets	50%	30%	12%	19%	3%
Debt	None	Minimal	Moderate	Very Low	Substantial
Market Cap/Employee	\$1.8 million	\$1.3 million	\$.40 million	\$2.9 million	n/a
Revenue/Employee	\$172,206	\$616,316	\$434,087	\$816,667	n/a
Capacity to Compete	Good, w/ limitations	Substantial	Solid	Good, w/ limitations	Weak

Based on this analysis, lululemon will surely see its competitors make inroads in the yoga apparel market, even in its high-end segment. However, the market is still growing and there are advantages to the company’s singular focus on safeguarding a meaningful, exclusive community of yoga enthusiasts. The experience and value lululemon creates for its dedicated customers cannot be replicate or “bought” by big corporate brand names like Nike and Adidas, which represent the antithesis of the

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company's culture. Under Armour might attract serious practitioners with high-performance product features, but the company has a stronghold in other team-oriented sports and is unlikely to significantly increase its focus on yoga. Even though similar to lululemon's product offering, VF Corporation's brand for women (lucy) is not well-known, is only a minor component of the company's total portfolio, and does not have the financial footing to make a huge impact on the market. In addition to these major competitors, other small firms might enter the market segment and attempt to create a similar brand following, but lululemon should be able to effectively defend and fortify its position by reinforcing its community approach to serving the market. Others may be on the bandwagon, but only lululemon's culture-inspired strategy effectively satisfies authentic needs of this specific market segment.

- ***Consider the impact of the external environment on lululemon's past performance. Does the company's experience corroborate the resource-based or industrial organization (I/O) model of above-average returns?***

The industrial organization (I/O) model of above-average returns emphasizes the external environment's dominant influence on a firm's strategic actions. It suggests that the industry in which a company chooses to compete has a stronger impact on performance than the choices and actions made by the company. Since lululemon's founding, it has seen tremendous growth and success offering a premium niche product to a growing market segment. The company has steadily expanded geographically, and sales have continued to grow for the past twelve quarters. Some of this success has been fueled by the popularity and growth of yoga. However, consumers around the world have cut their discretionary spending because of the global economic downturn. Considering the economic turbulence of the past several years and the fact that lululemon products are at the high end of the price spectrum, the company's strong financial results have defied expectations.

Because many conditions in the external environment seem to have had minimal impact on the company's performance, the I/O model may be less descriptive of lululemon's situation than the resource-based model of above-average returns (which credits the firm's internal resources and capabilities with high performance). The company's brand equity, combined with extremely loyal customers and a highly successful grassroots marketing campaign, has made lululemon a force in the industry despite poor economic conditions. Strong emphasis on intangible resources, strategic competitiveness, and effective vision (discussed in the section above) play a critical role in lululemon's ability to successfully execute a focused differentiation strategy and to outperform the industry.

Although company performance has so far been shielded from the effects of external forces, lululemon is predicting slower growth and is seeing inventory levels begin to rise. Moving ahead, it is unknown how the long-term effects of increased competition for segment share and the changing global economy will affect the firm's profitability. To deal with uncertainty and support strategic decision making, lululemon already practices environmental scanning. Because both the industry environment and the

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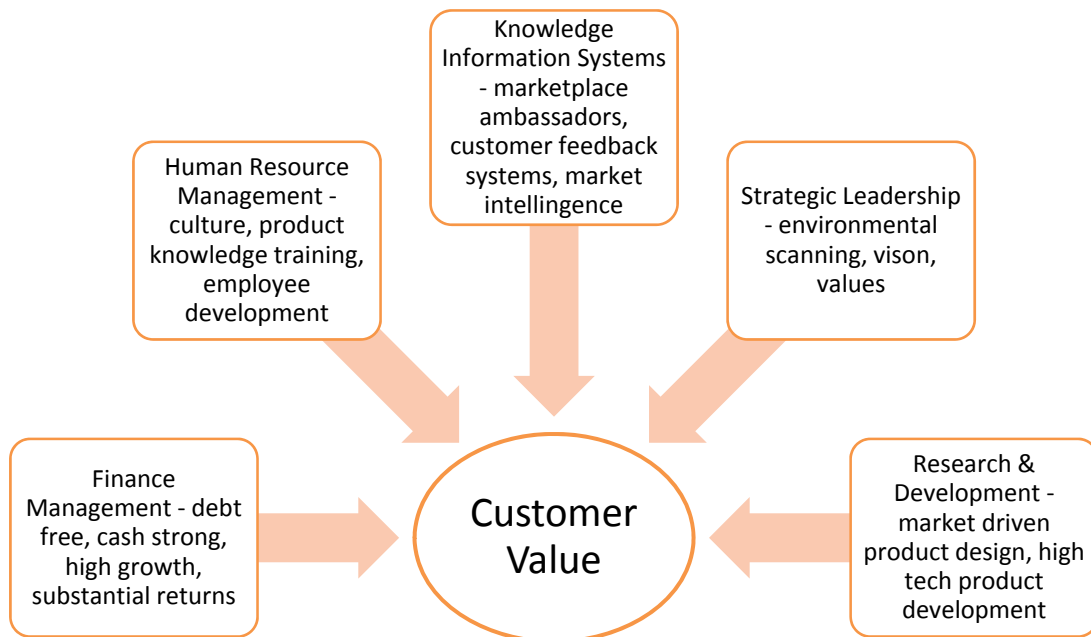
firm's internal assets will affect its performance over time, it will be important for lululemon to identify ways to enhance strategic flexibility and responsiveness to changing conditions.

STRATEGY

- ***Evaluate lululemon's value chain as it relates to the company's focused differentiation strategy. Discuss why lululemon has an advantage over competitors in terms of customer relationships. Based on available opportunities, what recommendations can you make to improve lululemon's likelihood of success?***

Lululemon engages in value-creating activities to execute an effective focused differentiation strategy. The support functions which contribute to producing customer value for the company are presented in the graphic on the following page. They include finance management, human resource management, knowledge information systems, strategic leadership, and market-driven research and development. Lululemon's primary functions which create value are also comprised in the graphic on the following page. They include supply chain management, marketing and sales, retail operations, and customer relationship management. To maintain success with its focused differentiation strategy, lululemon must continually strive to increase the value of the company's sources of strategic competitiveness.

Support Functions



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Primary Functions



Interestingly, there is a high level of interaction between lululemon's support and primary functions which delivers value in a way that is difficult for competitors to replicate. For instance, customer communication and market intelligence performed at the retail operation level is processed through knowledge information systems and shared throughout the organization to influence research, product design, associate product knowledge, marketing activity, and supply management.

It is the linkages across its value-adding activities which produce higher margins for lululemon and can protect the company against competitive forces and competitor actions. Lululemon's strategy builds customer loyalty which reduces price sensitivity and disarms competitors who would use lower prices to gain market share. It also reduces the likelihood of loss to product substitutes. Additionally, widely-celebrated customer loyalty dissuades new entrants from attempting to compete directly against the company to earn market share, as the uniqueness of the differentiation presents substantial barriers to overcome.

The intensity of the relationship between the company and its customers is the foundation of lululemon's competitive strength. It enables the company to deliver superior value in terms of reach, richness, and affiliation dimensions. Through its knowledge-based information systems, lululemon knows its customers, knows which customer needs to satisfy, and fosters the internal capacity to satisfy those needs in ways that competitors cannot. This reduces uncertainty for the company and enhances the quality of decision making used to maneuver around competitive risks.

Despite these advantages, there are some risks involved with lululemon's focused differentiation strategy. For instance, customers may decide that the value of lululemon's products compared to competitors' products does not justify the price differential. Lululemon's source of differentiation may cease to provide value for which customers are willing to pay for. And competitors are flocking to the growing and profitable yoga apparel segment. Nevertheless, major competitors (like Nike and Adidas) are unlikely to

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be able to “out-focus” lululemon. The needs of the targeted segment are unlikely to approach or blend into the needs of the overall athletic apparel market, so lululemon’s early and deep connection with yoga enthusiasts can be expected to thwart competitor efforts. To maintain its focus, the company should be careful not to be distracted by unrelated lines of business as it looks for new growth opportunities.

To grow the business, lululemon is current taking steps to:

- » expand product variety,
- » target new market segments with the same interests as the target market – healthy lifestyles and stylish performance wear,
- » use e-commerce to expand its global base and online sales,
- » introduce a children’s line called ivivva, and
- » continue to open new locations.

These expansion plans are compatible with the company’s strategy, internal capabilities, and external conditions. They pose few, if any, obvious concerns. In addition, the company should consider an increased emphasis on using social media platforms to further solidify connections with target consumers, create an engaging brand experience, and enrich brand equity. Additionally, lululemon should continue to monitor industry (competitor) movements to remain alert to activity which threatens or changes conditions in ways that can marginally impact the company.

Additional Discussion Points

Analysis of lululemon’s current situation raises several topics which may generate interesting discussions. Consider using the following questions to enrich classroom dialogue about the case.

- What do you think about lululemon’s decision to target such a large age range of the female audience?
 - » Targeting women ages 15-65 is a broad market. It offers the company potential to establish a large customer base.
 - » Not all women age 15-65 need or want yoga apparel.
 - » The real market is the higher income client in that age range who can afford lululemon’s premium price.
- What do you think about the company’s practice of “forced scarcity”?
 - » The tactic increases interest in lululemon’s products and influences buying behavior.

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- » It could frustrate customers and unintentionally cause them to try rival products which are now more readily available in the marketplace.
- Is expansion into girls' athletic gear (with subsidiary ivivva) a good idea?
 - » Ivivva is a solid fit with the company's strategy and capabilities.
 - » The target market is likely to be a reachable and sustainable niche.
- What do recent increases in inventory levels mean for lululemon?
 - » It could be a sign that sales are slowing.
 - » It could be an indicator that the product is losing its appeal.
 - » It could suggest that the company's latest designs failed to meet customer expectations.
- How should the company manage its international expansion efforts?
 - » To expand the brand globally, lululemon should use a multidomestic approach, decentralizing strategic and operating decisions to units in vastly different regions to tailor products to the local market. The need for local responsiveness is high, and the need for global integration is fairly low.
 - » Its entry mode should be through wholly-owned subsidiaries to maximize control and achieve the greatest potential to produce value and maximize the company's strategic competitiveness.
- Do you see any promise or value in the company's wholesale line, which is currently only 2% of its business?
- What has been the impact of introducing shareholders into the mix by going public?
 - » The company is no longer accountable only to product market and organizational stakeholders, but needs to satisfy the expectations of capital market stakeholders as well. For instance, lululemon's revenue per employee is significantly lower than that of its competitors (see competitor comparison in the previous section). Pressure from capital market stakeholders to improve this measure would result in management taking steps that could interfere with the objectives of other stakeholder groups.
 - » The potential for conflict across stakeholder groups is increased.
 - » Dependency on capital market stakeholders increases the need to respond to their concerns. While dependency may not be high at this point, cash requirements for international expansion could make this a greater issue.