

Wilson's vision was to create high-quality and stylishly designed clothing for yoga and related sports activities using the very best technical fabrics. He built up a design team, but outsourced manufacturing to low-cost producers, primarily in South East Asia. Rather than selling clothing through existing retailers, Wilson elected to open his own stores. The idea was to staff the stores with employees who were themselves passionate about exercise, and could act as ambassadors for healthy living through yoga and other sports such as running and cycling.

The first store opened in Vancouver, Canada, in 2000. It quickly became a runaway success, and other stores soon followed. In 2007 the company went public, using the capital raised to accelerate its expansion plans. By 2013, Lululemon had over 210 stores, mostly in North America, sales in excess of \$1.4 billion, and a market capitalization of \$8 to 9 billion. Sales per square foot were estimated to be around \$1,800—more than four times that of luxury department store Nordstrom, making Lululemon one of the top retailers in the world on this metric. Along the way, Chip Wilson stepped up into the chairman role. Wilson hired Christine Day to be the CEO in 2008, while he continued to focus on branding. Day had spent 20 years at Starbucks overseeing retail operations in North America, and then around the world.

As it has evolved, Lululemon's strategy focuses on a number of key issues. Getting the product right is undoubtedly a central part of the company's strategy. The company's yoga-inspired athletic clothes are well designed, stylish, comfortable, and use the very best technical fabrics. An equally important part of the strategy is to only stock a limited supply of an item. New colors and seasonal items, for example, get 3- to 12-week life cycles, which keeps the product offerings feeling fresh. The goal is to sell gear at full price, and to condition customers to buy when they see it, rather than wait, because if they do, it may soon be "out of stock." The company only allows product returns if the clothes have not been worn and still have the price tags attached. "We are not Nordstrom," says Day, referring to that retailer's policy of taking products back, no questions asked.

The scarcity strategy has worked; Lululemon never holds sales, and its clothing sells for a premium price. For example, its yoga pants are priced from

\$78 to \$128 a pair, whereas low-priced competitors like Gap Inc.'s Athleta sell yoga pants on their websites for \$25 to \$50.

Lululemon continues to hire employees who are passionate about fitness. Part of the hiring process involves taking prospective employees to a yoga or spin class. Some 70% of store managers are internal hires; most started on the sales floor and grew up in the culture. Store managers are given \$300 to repaint their stores (any color) twice a year. The look and interior design of each store are completely up to its manager. Each store is also given \$2,700 a year for employees to contribute to a charity or local event of their own choosing. One store manager in D.C. used the funds to create, with regional community leaders, a global yoga event in 2010. The result, Salutation Nation, is now an annual event in which over 70 Lululemon stores host a free, all-level yoga practice at the same time.

Employees are trained to eavesdrop on customers, who are called "guests." Clothes-folding tables are placed on the sales floor near the fitting rooms rather than in a back room so that employees can overhear complaints. Nearby, a large chalkboard lets customers write suggestions or complaints that are sent back to headquarters. This feedback is then incorporated into the product design process.

CEO Christine Day is not a fan of using "big data" to analyze customer purchases. She believes that software-generated data can give a company a false sense of security about the customer. Instead, Day personally spends hours each week in Lululemon stores observing how customers shop, listening to their complaints, and then using their feedback to tweak product development efforts. On one visit to a store in Whistler, British Columbia, Day noticed that women trying on a knit sweater found the sleeves too tight. After asking store associates if they had heard similar complaints, she canceled all future orders.

Despite the company's focus on providing quality, it has not all been plain sailing for Lululemon. In 2010, Wilson caused a stir when he had the company's tote bags emblazoned with the phrase "Who is John Galt," the opening line from Ayn Rand's 1957 novel, *Atlas Shrugged*. *Atlas Shrugged* has become a libertarian bible, and the underlying message that

Lululemon supported Rand's brand of unregulated capitalism did not sit too well with many of the stores' customers. After negative feedback, the bags were quickly pulled from stores. Wilson himself stepped down from any day-to-day involvement in the company in January 2012, although he remains chairman.

In early 2013, Lululemon found itself dealing with another controversy when it decided to recall some black yoga pants that were apparently too sheer, and effectively "see through" when stretched due to the lack of "rear-end coverage." In addition to the negative fallout from the product itself, some customers report being mistreated by employees who demanded that

customers put the pants on and bend over to determine whether the clothing was see-through enough to warrant a refund! Despite this misstep, however, most observers in the media and financial community believe that the company will deal with this issue, and be able to continue its growth trajectory going forward.

Sources: Dana Mattoili, "Lululemon's Secret Sauce," *Wall Street Journal*, March 22, 2012; C. Leahey, "Lululemon CEO: How to Build Trust Inside Your Company," *CNN Money*, March 16, 2012; Tiffany Hsu "Panysgate to Hurt Lululemon Profit: Customer Told to Bend Over," *latimes.com*, March 21, 2013; and C. O'Commor, "Billionaire Founder Chip Wilson out at Yoga Giant Lululemon," *Forbes*, January 9, 2012.

CASE DISCUSSION QUESTIONS

1. How would you describe Lululemon's market segmentation strategy? Who do you think are Lululemon's typical customers?
2. What generic business-level strategy is Lululemon pursuing? Does this strategy give it an advantage over its rivals in the athletic clothing business? If so, how?
3. In order to successfully implement its business-level strategy, what does Lululemon need to do at the functional level? Has the company done these things?
4. How might the marketing and product missteps cited in the case impact upon Lululemon's ability to successfully execute its business-level strategy? What should Lululemon do to make sure that it does not make similar mistakes going forward?

NOTES

¹Derek F. Abell, *Defining the Business: The Starting Point of Strategic Planning* (Englewood Cliffs NJ: Prentice-Hall, 1980).

²M. E. Porter, *Competitive Advantage* (New York: Free Press, 1985); and M. E. Porter, *Competitive Strategy* (New York, Free Press, 1980)

³C. W. L. Hill, "Differentiation Versus Low Cost or Differentiation and Low Cost: A Contingency

Framework," *Academy of Management Review* 13 (1988): 401–412.

⁴M. E. Porter, "What Is Strategy?" *Harvard Business Review*, On-point Enhanced Edition Article, February 1, 2000.

⁵W.C. Kim and R. Mauborgne, "Value Innovation: The Strategic Logic of High Growth," *Harvard Business Review*, January–February 1997.

⁶Porter, *Competitive Advantage*; and, *Competitive Strategy*.

⁷The story was told to the author, Charles Hill, by an executive at Apple.

⁸Kim and Mauborgne, "Value Innovation: The Strategic Logic of High Growth."

⁹W.C. Kim and R. Mauborgne, *Blue Ocean Strategy* (Boston, Mass: Harvard Business School Press, 2005).