

University of Nebraska - Lincoln

DigitalCommons@University of Nebraska - Lincoln

---

Honors Theses, University of Nebraska-Lincoln

Honors Program

---

5-2023

## Lululemon Athletica Inc. Backhaul Strategic Audit

Hadley Hiatt

*University of Nebraska - Lincoln*

Follow this and additional works at: <https://digitalcommons.unl.edu/honorsthesis>



Part of the [Gifted Education Commons](#), [Higher Education Commons](#), and the [Leadership Commons](#)

---

Hiatt, Hadley, "Lululemon Athletica Inc. Backhaul Strategic Audit" (2023). *Honors Theses, University of Nebraska-Lincoln*. 614.

<https://digitalcommons.unl.edu/honorsthesis/614>

This Thesis is brought to you for free and open access by the Honors Program at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Honors Theses, University of Nebraska-Lincoln by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

# **Lululemon Athletica Inc. Backhaul Strategic Audit**

An Undergraduate Thesis Submitted in  
Partial Fulfillment of  
University Honors Program Requirements  
University of Nebraska-Lincoln

By Hadley Hiatt  
Bachelor of Science in Business Administration  
Finance  
College of Business

May 20, 2023

Faculty Mentor:  
Marijane Look England, Ph.D., Management

## **Abstract**

Lululemon Athletica Inc. (Lululemon) is an athletic apparel company headquartered in Canada. Lululemon targets consumers who strive to live a healthy, active lifestyle. Its business model is based on the “Power of Three x 2” focusing on three strategic pillars, product innovation, guest experience, and international expansion. This analysis seeks to understand Lululemon’s face paced growth and unique business strategy through the use of a PESTEL analysis of macro environment, Porter’s Five Forces analysis of the competitive environment of the industry, analyzing the company’s strategy, major strategic objectives, competitive advantages, resources that may lead to a sustainable competitive advantage, and major issues the company may face within the coming years.

**Key Words:** Lululemon, strategic audit, PESTEL, Porter’s Five Forces, strategy, Power of Three, competitive advantage

## **History of Lululemon Athletica Inc.**

The 1970s and 1980s were marked by the idea of the “power woman,” the woman who could have it all including a career and family. The 1990’s resulted in increased divorce rates, an increase percentage of woman on the pill, and higher rates of breast cancer due to more women on the pill. (Popular Times, 2023). In 1998 Lululemon Athletica Inc. (Lululemon) was founded in Vancouver, Canada by Chip Wilson on the basis current social trends. It began as a design studio during the day and operated as a yoga studio at night until 2000 when it opened a standalone store in Kitsilano. Originally Lululemon only designed for women’s yoga wear, but has since expanded to add cycling, training, running, and other activewear for women and men. (Lululemon, 2023).

Lululemon expanded internationally, opening its first store in Santa Monica, California in 2003. Since then, it has opened more than 600 stores in 18 countries with over 29,000 employees. (Statistica, 2022). In 2005 Lululemon invented and trademarked its iconic Luon fabric that contains high amounts of nylon and is still being produced today. (Media, 2017). The company was listed on the NASDAQ in 2007, raising \$327.6 million by selling 18.2 million shares, and is currently one of the largest public athletic apparel companies according to Forbes. (Fortune Business Insights, 2021). Founder Chip Wilson left the company in 2013 after several controversial interviews. In 2015, Wilson moved to sell all his stake in the company worth \$1 billion. (Popular Times, 2023). Lululemon's current CEO is Calvin McDonald, and its current mission is to elevate human potential by helping people feel their best. The company is based on core values of personal responsibility, connection, inclusion, courage, and fun. Most recently the company has expanded into the exercise equipment industry with its investment in 2019 and

acquisition of Mirror in 2020. It is currently expanding its Mirror acquisition to include exercise classes and memberships. (Retail Dive, 2021).

### **PESTEL Analysis**

A PESTEL analysis will be used to analyze and monitor the external environment and factors that impact the athletic apparel industry. The six factors of a PESTEL analysis include Political, Economic, Social, Technological, Environmental, and Legal. These factors are used to identify threats and weaknesses that are not analyzed in a SWOT analysis. (Libguides).

#### ***Political***

Political factors affecting the athletic apparel industry include government policies, political stability, international leadership, and regulations on manufacturing practices. Changes in any of these factors can impact a company's operations and sales. Other political factors with the potential to negatively impact the athletic apparel industry are trade regulations and tariffs, intellectual property protection, and trading partners.

Trade regulations have developed recently and can be costly to a company's production. The American Society for Testing and Materials has developed a technical standard for a range of products and materials for manufacturers and importers to aim to achieve. Some standards include performance specifications, material requirements, and ASTM testing. The US Federal government also requires that all imported clothing must bear some kind of permanently fixed label. (Compliance Gate, 2023).

For example, Lululemon has operations in different countries, so they are subject to more restrictions and regulations coming from foreign countries. Lululemon was originally established in Canada and has since expanded internationally to 17 different countries including the US,

China, Australia, and the UK. (Lululemon, 2023) If the Canadian government made a regulation that all products exported must be manufactured in a certain area of Canada, Lululemon would have to follow this regulation.

Lululemon must also be cautious of political factors such as income taxes. For example, in 2017 Lululemon had an increased tax rate which resulted from a provisional income tax expense of \$58.9 million due to the enactment of the US Tax reform. (Trefis, 2020)

### *Economic*

Exchange rates, interest rates, and unemployment rates are all economic factors that affect the athletic apparel industry. One way companies can combat the exchange rate threat is to use a variety of currencies in the countries in which they operate rather than relying on one currency. By using different currencies companies can naturally offset some of their currency exposure. (Fashion Network, 2015).

Lululemon should consider how exchange rates in the different countries they operate in are impacting their finances. For example, because the exchange rates between Canada and most other countries leads to an increased cost of Lululemon products for customers who are outside of Canada. (Pestle analysis)

Discretionary income, interest rates, and unemployment rates all impact the amount of money consumers will prefer to spend on goods in the athletic apparel industry, therefore affecting the profitability and demand of those companies. If someone is unemployed, they are unlikely to spend their savings on workout clothing. On the other hand, if consumers had a higher discretionary income, they would be more likely to spend extra money on said products.

Lululemon, like many other retail companies, is also impacted by the interest rate by the central bank. If the central bank raises the interest rate people will decrease their expenses for

luxury or premium goods and save money, causing a decrease in the demand for Lululemon. On the other hand, if the central bank decreases the interest rate people will increase their spending and likely increase the demand for Lululemon products.

The threat of a coming global recession in 2023 has the potential to scare consumers into saving money and limiting spending reducing the demand for Lululemon and decreasing its revenue.

### ***Sociocultural***

Sociocultural factors influencing the industry include cultural changes, attitudes toward health and environmental consciousness, the power structure in society, and leisure interests. A society's way of doing things impacts consumers preferences and attitudes towards industries. (Fern Fort University, 2023). A recent increase in environmental consciousness can lead to stricter critiques on products by consumers, while an increase in positive attitudes towards health along with an increase in athletic activities for leisure enjoyment can increase the demand of athletic apparel products in society.

In a study done by Mordor Intelligence based on 2018-2028 predictions, the sports apparel market is projected to register a CAGR of 7.55% over those five years due to the increasing health concerns and humans desire to have an active lifestyle and incorporate more fitness into their daily lives. (Mordor Intelligence)

According to another study done by Statistica, the market value in 2021 for the women's activewear market was \$177.586 billion and is expected to reach \$269.046 billion by 2029. The increase in the activewear trend is supported by data from the World Economic Forum that stated in September of 2020 their data showed that in the first half of 2020 fitness apps had witnessed a rise of 50% in usage. (Fortune Business Insight)

One factor impacting Lululemon on the sociocultural front is the increasing amount of attention being drawn to the fitness and athletic apparel industry. Women and men are more considerate of their overall physical health and have dedicated more time and money to improving their wellbeing. Many celebrities and influencers of customers have begun to expand into the athleisure industry as well. One example is Beyonce's new line of apparel from TopShop that included an athleisure line targeted towards women who want to go to the health clubs or do yoga. (Intelligence Node)

### ***Technological***

Technology has recently made a gigantic impact on almost every sector of society including the athletic apparel industry. Although not always apparent, a large impact technology makes comes from digital/social media. Due to improved technologies. sports coverage is available almost all of the time, everywhere. Sports coverage is constantly showing athletic apparel brands, covering news stories on them, and sharing information with the public more than ever before. (Inc., 2020). Consumers are posting reviews on social media and tagging the companies they are wearing. Social media influencers are also on the rise and consumers have access available to reviews and influence at their fingertips.

During lockdowns and gym closures due to the pandemic in 2020 many customers began turning to retailers to provide workout advice and equipment. At one point in the pandemic the demand for Peloton was so high it ran into supply chain constraints, and there was a dumbbell shortage. (RetailDive). Many athletic apparel companies are using technology to expand their presence in the market by adding product lines such as athletic equipment. Although Lululemon is mainly known as an athleisure retailer, in June of 2020 it acquired an at-home fitness company Mirror. One year prior, Lululemon had joined in a \$34 million Mirror investment round.



New technology investments present a great opportunity for athletic apparel companies to continue expansion into. Lululemon's first technical breakout product, Mirror was expected to generate between \$250-\$275 million in the first year of release. One caution in proceeding with these technological advances will be for Lululemon to analyze the return to gym trend as covid-19 restrictions have let up and many customers are returning to their former in-person gyms.

### ***Legal***

Legal factors that have the potential to impact athletic apparel companies include employment laws, health laws, copyrights, patents, and intellectual property laws, along with data protection laws. Many athletic apparel companies have intellectual property rights along with designed patents to defend against counterfeiters. It is important to have trademarks for innovations to protect them as well. Legal factors can negatively impact sales and an organization's reputation.

Legal factors that affect Lululemon's brand include business laws such as patent laws. In January of 2022 Nike filed a lawsuit against Lululemon accusing the company of patent infringement. Nike said the patent infringement against Lululemon's new at-home Mirror fitness equipment and mobile applications. On the other hand, Lululemon has filed a lawsuit against Peloton for an infringement on the design of its sports bras and. Legal issues and lawsuits can impact a company's reputation and have financial repercussions. For example, Nike's lawsuit against Lululemon caused Lululemon's shares to fall 4.8% during the day.

### ***Environmental***

Main environmental factors that could impact the athletic apparel industry include sustainability efforts, waste management, recycling, environmental pollution laws, and consumer attitudes toward ecological products. Consumers today are becoming more conscientious

advocates for environmentally friendly items. Recycling has increased along with stricter pollution laws. Athletic apparel companies must comply with these laws and analyze how conscious they are of the environment around them. Many companies are addressing their efforts to become more “green” and reduce the amount of waste created in the production of their products.

Environmental factors that Lululemon must address include sustainability and eco-friendliness. Lululemon states its “journey to better products includes innovating more sustainable materials, creating circularity through new guest models, using less water.” (Lululemon, 2023). The company has undertaken initiatives to innovate more sustainable material. One goal is to achieve at least 75% sustainable materials for its products by 2025. Lululemon is focused on using materials from traceable sources and continuously assesses the impacts of the materials on the environment by using the Sustainable Apparel Coalition Higg Materials Sustainability Index. Lululemon is investing in a transformation towards a circular ecosystem including resell, repair, and recycling options for all products extending its product life. The company is striving to leave a positive impact on the environment. (Lulu website sustainability page)

### **Porter’s Five Forces**

The concept of Porter’s Five Forces was published in a 1979 Harvard Business Review article by Michael Porter. The Five Forces framework is used to help understand the competitive forces in an industry and the way they drive economic value. The five forces include the threats of potential new entrants, substitute products or services, supplier bargaining power, buyer bargaining power, and rivalry among existing competitors. (Harvard Business School, 2023).

### ***Potential of New Entrants***

The threat of potential new entrants into the athletic apparel industry is relatively low due to large capital cost requirements limiting the entry of new players into the market. There are extensive established brands that hold significant market shares in the industry with well-known brands and high customer loyalty. New entrants would have to spend large amounts of money on marketing, research and development, establishing supplier and distribution channels when compared to the existing players in the industry. One potential threat of new entrants could come from already existing athletic companies who are not yet in the apparel side of the industry. Such a threat has occurred in the past, for example, some companies like Peloton, known for their workout equipment, have created an athletic apparel line.

### ***Threat of Substitutes***

The threat of substitutes in the technical athletic apparel industry is moderate to low. There are alternative types of apparel that people can wear to exercise such as streetwear or generic clothing, but those substitutes do not offer the functionality or performance-enhancing features the athletic apparel does. Many substitutes come from other apparel industries and are typically worn more for leisure than for athleisure. It is more common to wear athletic apparel for leisure than formal attire for leisure.

### ***Supplier Power***

The bargaining power of suppliers in the athletic apparel industry is moderate. There are a limited number of suppliers for raw materials used in the production of apparel such as nylon, however, suppliers have bargaining power when it comes to prices and delivery. Some companies in the industry have patents on the material used to produce their apparel and own the manufacturing facilities where their apparel is produced to reduce supplier power.

On the other side, some companies are very particular about the materials used in production and only source materials from one location, giving the supplier more power. For example, for the past decade, Lululemon only sources its Luon fabric from Eclat Textile Co in Taiwan. (Medium Luon article)

### ***Customer/Buyer Power***

The bargaining power of buyers is very high in the athletic apparel industry. Buyers have access to a wide range of stores, products, and brands allowing them to look for the best deals and prices. Some customers are price sensitive. Searching for the best deal means being willing to switch to a competitor based on price alone. Other customers may be quality sensitive and search for the highest quality product based on quality and reputation rather than price.

### ***Rivalry/Competition***

Competition and rivalry in the athletic apparel industry is extremely high. There are many well-known established brands that are fighting for market shares. Well-known brands in the industry include Nike, Adidas, Puma, Under Armor, Athleta, and Lululemon. These brands invest substantial amounts of capital into marketing, research, and innovation to gain market share. The athletic apparel market is highly saturated making the industry strategically challenging to compete in. The industry also sees low market growth rates due to this oversaturation with highly aggressive marketing efforts. (Panmore Institute, 2023).

### **Strategy and Objectives**

Lululemon is driven by the vision to “create transformative products and experiences that build meaningful connections, unlocking greater possibility and wellbeing for all.” (Lululemon, 2023). The company has five core values: personal responsibility, connection, inclusion, courage, and fun.

Lululemon is committed to focusing its strategy on three core pillars: product innovation, guest experience, and market expansion. Product innovation includes innovating in existing categories such as Run, Train, Yoga, and On the Move, along with entering new categories such as Tennis, Golf, and Hike. The company has already launched a new footwear category. For its guest experience pillar, Lululemon projects to double its digital revenues through creating world-class experiences based on guest relationships. Earlier in the year, it launched a new two-tiered membership program with the intent to build a strong brand, community, and product engagement in the fitness industry. (Lululemon, 2023). For the market expansion pillar Lululemon plans to follow a Power of Three x2 growth strategy. The company plans to open its first stores in Spain and Italy, focusing on local relevance and engaging more communities.

By 2026 Lululemon plans to double revenue to \$12.5 billion by doubling men's and digital revenue and quadrupling international revenue while continuing to grow its core business. Other financial drivers of Lululemon's strategic plan include operating income growth exceeding revenue growth annually, modest SG&A leverage and gross margin expansion annually, annual capital expenditures of 6-8% of revenues, and total annual revenue growth in the low teens for the next five years. (Lululemon, 2023). According to PJ Guido, Lululemon's Chief Financial Officer, the company's new five-year strategic plan reflects the potential it sees across several business areas. The three main growth pillars are consistent with the company's prior plan and should continue to grow the company's core business while driving earnings growth and shareholder returns. (Lululemon, 2023).

## **Competitive Advantages**

One competitive advantage Lululemon has over many of its competitors is its favorable pricing terms. Unlike Nike and other competitors, Lululemon's products are almost exclusively sold in its store or website. Lululemon does not rely on retailers for sales, therefore, allowing it to price its products on favorable terms and increase margins. (Bob Cut Magazine, 2022).

Lululemon also has a high level of customer brand loyalty. Customers have created blogs such as "Lululemon Addict" where they admit to waking up early on the day Lululemon updates its "We Made Too Much" page, where it offers discounted prices on specific items. Other customers claim Lululemon's products are "addictive" and claim the shopping experience is also an "addictive experience." The company offers free yoga classes, running clubs, and free alterations in stores. The offers give customers an experience with the brand, often a rush that makes them want to return. (Business Insider, 2015).

Other competitive advantages setting Lululemon up for success stem from its customer satisfaction. Lululemon is known for free shipping for online purchases that come directly from the factory which in turn saves the company time, money, and valued resources. The company is also known for making its customers its number one priority. Lululemon offers a wide array of discounts to its targeted members including fitness instructors, athletes, and other customers in that industry. Another way Lululemon offers top end customers support is by free adjustments and alterations to any Lululemon product, so customers do not have products that are too big, or too long, ensuring more satisfaction. (Bob Cut Magazine, 2022).

## **Resources**

One unique resource that Lululemon utilizes compared to competitors is having ordinary people with a passion for an athletic lifestyle as brand ambassadors. (Amity Co., 2023). The

company does not spend money on celebrity endorsements for which Nike and Adidas are known. Lululemon uses “homegrown influencers” to create an organic buzz around its products and establish a genuine connection within communities. The company also uses its brand ambassadors for real-time feedback on products before they launch. The feedback allows Lululemon to make design and fabric changes based on how the product is intended to be used. (Amity Co., 2023).

Another resource that helps Lululemon dominate its competitors is its 45 patented materials used to make athletic gear. Along with patents, Lululemon trademarks fabrics and products. By trademarking specific products, the company is protected legally from counterfeiters. Along with trademarks and patents, the company thrives in the innovation department. Lululemon dedicated an entire department to researching, developing, analyzing, experimenting, and advancing specific product lines based on the material. Material families include the Luon family, which is its signature yoga fabric, the Luxtreme family dedicated to fast absorption, the Swift family, which is lightweight material for athletic events, and the Silverescent material which is anti-bacterial and anti-stick material. (Bob Cut Magazine, 2022).

### **Challenges and Future Positioning**

In the coming years Lululemon will face several challenges to maintaining their growth and current success. Competition is one of the largest challenges Lululemon is expected to face. The company currently has a very strong brand image, but athleisure is one of the fastest growing spots in the market attracting many new entrants and established players like Nike.

(Seeking Alpha, 2023). The company will need to continue a heavy focus on brand loyalty and customer experience along with innovation to stay relevant in the competitive environment.

Another challenge facing Lululemon is expansion into the athletic equipment/workout industry. In 2020, Lululemon purchased an interactive home gym startup called Mirror for \$500 million during the height of COVID lockdowns when customers had to work out at home, (Moon, 2022). As customers began returning to in person gyms in 2021, Lululemon dropped its sales outlook for Mirror from between \$250-257 million down to \$125-130 million (Moon, 2022). The company has been making efforts to launch membership services that require the Mirror fitness device such as creating a Lululemon Studio membership. The membership helped increase Mirror's performance, but still did not meet expectations. (Sozzi, 2023). Lululemon will need to consider selling the investment to attempt to recover or take a loss from the original investment or consider partnering with local gyms to add new classes to its Studio membership. Lululemon could offer free trials, partner with large corporations to install Mirror in offices, etc. to increase its presence.



## References:

- Agrawal, AJ. "3 Ways Technology Has Changed the Sports Industry | Inc.com." *Inc.*, 2020, <https://www.inc.com/aj-agrawal/3-ways-technology-has-changed-the-sports-industry.html>.
- De Vor, Sera. "Lululemon's Community-Led Growth Strategy." *Amity Co.*, 31 Mar. 2023, <https://www.amity.co/blog/lululemons-community-led-growth-strategy>.
- Department, Strategic Management. "Big 5 Sporting Goods Corporation Pestel Analysis & Environment Analysis." *Fern Fort University*, Fern Fort University, 2023, <http://fernfortuniversity.com/term-papers/pestel/nyse4/2603-big-5-sporting-goods-corporation.php>.
- "The Five Forces." *The Five Forces - Institute For Strategy And Competitiveness - Harvard Business School*, 2023, <https://www.isc.hbs.edu/strategy/business-strategy/Pages/the-five-forces.aspx>.
- Guyot, Oliver. "How Nike Has Adapted to Exchange Rate Fluctuations." *FashionNetwork.com*, Fashion Network, 23 Mar. 2015, <https://ww.fashionnetwork.com/news/How-nike-has-adapted-to-exchange-rate-fluctuations,474522.html>.
- "Libguides: Industry Research: Pestel Analysis." *PESTEL Analysis - Industry Research - LibGuides at Washington State University*, <https://libguides.libraries.wsu.edu/c.php?g=294263&p=4358409>.

“Lululemon Announces Five-Year Growth Plan to Double Revenue by 2026 to \$12.5 Billion.”

*Lululemon*, 20 Apr. 2022, <https://corporate.lululemon.com/media/press-releases/2022/04-20-2022-113017957>.

“Lululemon (Lulu): 2023 Could Be Challenging Even as Momentum Continues.” Edited by

Simple Investing, *Seeking Alpha*, 5 Jan. 2023, <https://seekingalpha.com/article/4567972-lululemon-stock-2023-could-be-challenging-even-as-momentum-continues>.

Lutz, Ashley. “Lululemon's Effective Technique for Hooking Customers.” *Business Insider*,

*Business Insider*, 21 Mar. 2015, <https://www.businessinsider.com/how-lululemon-gets-customers-2015-5>.

MoMo, Chuiyan. “Sportswear Product Regulations in the United States: An Overview.”

*Compliance Gate*, 7 Mar. 2023, <https://www.compliancegate.com/sportswear-regulations-united-states/>.

Moon, Mariella. “Lululemon to Launch a Subscription Service That Requires a Mirror Home

Fitness Device.” *Engadget*, 29 Sept. 2022, [https://www.engadget.com/lululemon-studio-mirror-](https://www.engadget.com/lululemon-studio-mirror-042119277.html#:~:text=Lululemon%20purchased%20interactive%20home%20gym,to%20work%20out%20at%20home)

[042119277.html#:~:text=Lululemon%20purchased%20interactive%20home%20gym,to%20work%20out%20at%20home](https://www.engadget.com/lululemon-studio-mirror-042119277.html#:~:text=Lululemon%20purchased%20interactive%20home%20gym,to%20work%20out%20at%20home).

“Our Impact.” *Lululemon*, 2023, <https://corporate.lululemon.com/our-impact>.

Popular Times. “History of Lululemon Athletica in Timeline - Popular Timelines.”

*Populartimelines.com*, 2023, <https://populartimelines.com/timeline/Lululemon-Athletica>.

Rowland, Christine. "Nike Inc.. Five Forces Analysis (Porter's Model)." *Panmore Institute*, 25 Jan. 2023, <https://panmore.com/nike-inc-five-forces-analysis-porters-model>.

Sozzi, Brian. "Lululemon's Ill-Timed Mirror Acquisition Is Now Almost Worthless." *Yahoo! Finance*, Yahoo!, 29 Mar. 2023, <https://finance.yahoo.com/news/lululemons-ill-timed-mirror-acquisition-is-now-almost-worthless-124822875.html>.

"Sportswear Market Size, Share & Covid-19 Impact Analysis, by Product Type (Footwear, Apparel, and Wearables), End-User (Men, Women, and Children), Distribution Channel (e-Commerce Stores and Retail Stores), and Regional Forecast, 2021-2028." *Fortune Business Insights*, 2021, <https://www.fortunebusinessinsights.com/sportswear-market-102571>.

Trefis. "Why Lululemon's 2019 Profits Should Have Grown Nearly 30% despite a Sharp Increase in Expenses." *Trefis*, 16 Jan. 2020, <https://www.trefis.com/stock/lulu/articles/480597/why-lululemons-2019-profits-should-have-grown-nearly-30-despite-a-sharp-increase-in-expenses/2020-01-16>.

Tighe, D. "Lululemon Locations Worldwide 2019-2022." *Statista*, 26 July 2022, <https://www.statista.com/statistics/291231/number-of-lululemon-stores-worldwide-by-country/>.

Vembar, Kaarin. "What's next for Lululemon's Tech Ambitions?" *Retail Dive*, 14 June 2021, <https://www.retaildive.com/news/whats-next-for-lululemons-tech-ambitions/601500/>.

Yang, Qinshu. "Luon - a Trademark of Lululemon." *Medium*, Global Threads, 31 Aug. 2017,  
<https://medium.com/global-threads/luon-a-trademark-of-lululemon-1b2e2c74d0cc>.