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Lululemon Athletica Strategic Audit

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

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May 20, 2023

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Abstract

Lululemon Athletica Inc. (Lululemon) is principally a designer, distributor, and retailer of technical athletic apparel, footwear, and accessories with a vision to create transformative products and experiences that build meaningful connections, unlocking greater possibility and wellbeing for all (Lululemon). This paper will examine Lululemon to understand its market position and competitiveness within the athletic apparel industry. The analysis uses PESTEL and Porter's Five Forces analyses to evaluate the changing external environment and industry Lululemon operates in.

Keywords: Lululemon Athletica, Lululemon, strategy, apparel, technology, competition, manufacturing, wellbeing, Porter's Five Forces, PESTEL

History of Lululemon Athletica

Lululemon Athletica (Lululemon) was founded by Chip Wilson in Vancouver, Canada, in 1998. What started as a design studio by day and yoga studio by night soon became a standalone store in November of 2000 on West 4th Avenue in Vancouver's Kitsilano neighborhood. The Lululemon vision for the store was to create, not only a place where people could get gear to sweat in, but a community hub where people could learn and discuss the physical aspects of healthy living, mindfulness, and living a life of possibility (Lululemon).

The company's first designs were yoga pants and gear made for women to wear during yoga. Today, it designs athletic apparel for yoga, running, cycling, and training, lifestyle apparel, accessories, and personal care products for both women and men. Lululemon has over 500 stores worldwide, sells online, has approximately 29,000 employees and a current market capitalization of \$49.14 billion.

There have been several significant developments for Lululemon since the company's initial public offering in 2007, which raised \$327.6 million. Christine Day, former co-president of Starbucks, became CEO in 2008. In 2013, Lululemon made its third consecutive appearance on Fortune's Fastest-Growing Companies list. Later that year, founder Chip Wilson resigned as chairman, and former president of TOMS Shoes, Laurent Potdevin, became CEO. In 2014, Lululemon opened its first store in Europe, in Covent Garden, London, and in 2015, Wilson announced he was resigning from the board. Michael Casey, former lead director of the board, replaced him. In 2018, CEO Laurent Potdevin resigned after just five years, and today's CEO Calvin McDonald stepped in.

Calvin McDonald is a growth-oriented leader with a proven track record of helping large organizations scale, innovate, and elevate customer engagement. Since McDonald assumed the position in 2018, Lululemon has delivered double digit revenue growth annually and has accelerated initiatives to make 100% of Lululemon products with sustainable materials by 2030 (Lululemon). He sits on the Board of Directors composed of ten other reputable and experienced individuals.

Business Overview

Products & Services

Lululemon Athletica is in the athletic apparel industry and offers a comprehensive line of apparel and accessories. Its apparel assortment includes pants, shorts, tops, and jackets designed for a healthy lifestyle, including athletic activities such as yoga, running, training, and other sweaty pursuits. Its accessories include yoga mats, bags, backpacks, hats, gloves, training equipment, water bottles, hair clips, and more. Lululemon also provides services, such as memberships, online local pickup, shopping appointments, payment services, and a Guest Education Center. Seasonality heavily affects its business as it offers new products each season based on trends common to the retail apparel industry. As a result, net revenue is weighted more heavily toward its fourth fiscal quarter to reflect its strength in sales during the holiday season, while operating expenses are more equally distributed throughout the year.

Segments & Market

The company primarily conducts its business through two channels: company-operated stores and direct-to-consumer. They also operate outlets and temporary locations, conduct business through MIRROR, an interactive mirror for at-home workouts, serve certain wholesale accounts, have license and supply arrangements, and hold warehouse sales occasionally. In 2021, net revenue by segment was 45% company-operated stores, 44% direct-to-consumer, and 11% other.

Lululemon's largest market is North America, representing 85% of 2021 net revenue. The company plans to expand internationally across the People's Republic of China, the rest of Asia Pacific, and Europe via a decentralized model, allowing local community insight and consumer preferences to inform their strategic expansion (Lululemon). Lululemon's customers seek a combination of performance, style, and sensation in their athletic apparel. The company believes the credibility of the Lululemon brand and the authentic community experiences it offers expands its potential market beyond just those who pursue an active, mindful, and balanced life. Although its largest customer group is guests who shop for women's products, representing 67% of 2021 revenue, its revenue from men's products continues to grow as more guests discover its premium quality (Lululemon).

Industry & Competition

The market for athletic apparel is highly competitive. Competition in the industry is based on brand image, recognition, quality innovation, style, distribution, and price. Lululemon believes it successfully competes based on its premium brand image and technical product innovation (Lululemon). The company sets itself apart from the competition by its ability to

introduce new product innovations, combine function and fashion, and connect through in-store, online, and community experiences.

Tight competition results from established companies expanding production and marketing and frequent new entrants into the market. Lululemon competes directly with wholesalers and direct sellers of athletic apparel brands like Nike, Adidas, Under Armor, Columbia, and women's athletic apparel from Gap, Victoria's Secret, and Urban Outfitters. New entrants include brands such as Athleta, NOBULL, and Alo.

PESTEL Analysis

A PESTEL Analysis is an analytical tool for strategic business planning. It can be used to identify and analyze key drivers of change in external environments, including the Political, Economic, Social, Technological, Environmental, and Legal environments. All aspects are important in analyzing the external operating environment, and can help businesses identify opportunities in markets while avoiding costly mistakes or risks. (Oxford College of Marketing)

Political

Political factors influencing Lululemon include government policy, political stability, tax policy, labor laws, trade restrictions, fiscal policy, and environmental laws. Since Lululemon is an international company, foreign trade policy can impact revenues. An example of Lululemon being proactive in the event of a policy change occurred in 2019 when the U.S. placed a levy of 15% on clothing coming from China. Lululemon reduced imported goods from China by 8% and shifted production to Vietnam and Cambodia (Barron's). For Lululemon to maintain its current market share and revenues, it must continue to adapt to the ever-changing political environment.

Economic

Economic factors affecting Lululemon include economic growth, interest rates, exchange rates, inflation, disposable income of consumers and businesses, taxation, wage rates, and financing capabilities. Lululemon operates in several countries with different economies, but most of its operations are in the U.S. The U.S. economy today is in a state of high inflation. The Federal Reserve is raising interest rates to reduce spending and lower inflation, without leading the economy into depression. Inflation and interest rate changes brought by the Federal Reserve led to changes in prices for raw materials, which directly impacts Lululemon in a non-favorable way.

In a 2022 earnings call, Lululemon CFO Meghan Frank told analysts “As we look into 2023, in terms of pricing, we’re taking modest price increases on about 10% of our assortment.” The price hike results from Lululemon seeing increasing costs for raw materials such as petroleum (Yahoo Finance), Citi analyst Paul Lejuez estimated that 75% of Lululemon’s products are petroleum-based. But, despite raising prices, Lululemon has continued to experience demand increases.

Social

Social factors impacting Lululemon include population growth, age distribution, career attitudes, consumer buying trends, demographics, and health consciousness. Lululemon has built its brand around encouraging a healthy and active lifestyle and well-being. The company continues to promote health and well-being, and consumers worldwide are adopting healthier lifestyles. According to an article by the New York Post, “over 70% of Americans are more

health-conscious post-pandemic.” Lululemon has experienced rapid growth in clothing and accessories sales due to the change in consumer buying trends.

Technology

Technological factors impacting Lululemon’s business include emerging technologies, communicating with target markets, distributing goods and services, potential copyright infringements, and increased training to use innovation. In the athletic apparel industry, technology applies to the fabrics and materials used in products, the machinery used in the production of products, online shopping, in-store computers and handheld devices, and data analytics. Nanotechnology, microfibers, and insulators are some common technologies being used in athletic wear. Companies in the industry with the most advanced technology and innovation are also companies finding the most success.

Environmental

Environmental factors for Lululemon include declining raw materials, pollution, greenhouse gas emissions, promoting positive business ethics and sustainability, reducing carbon footprint, climate and weather, environmental legislation, and geographical location and accessibility. The sport apparel industry has major challenges concerning sustainability because of the use of harmful chemicals and high consumption of energy and water in production processes (The Design Society). Companies in the industry with a positive image take action to address the pressing social and environmental issues that impact people, communities, and the planet. Lululemon has implemented three pillars to address the pressing social and environmental issues that impact people, communities, and the planet.

Legal

Legal factors impacting Lululemon include health and safety, equal opportunities, advertising standards, consumer rights and laws, product labeling, product safety, safety standards, labor laws, and future legislation. One trend seen today is an increase in transparency from companies on reporting supply chain and human rights practices. Regulators are increasingly requiring companies to report how they are following regulations and holding appropriate safety standards. Social media plays a factor, as companies are often quickly caught and punished if they aren't meeting health and safety standards.

Porter's Five Forces Analysis

Porter's Five Forces

Porter's Five Forces is a model that identifies and analyzes five competitive forces that shape every industry and helps determine an industry's weaknesses and strengths. The model can be applied to any segment of the economy to understand the level of competition within an industry. A company can use it to enhance long-term profitability. Porter's Five Forces are: Competitive Rivalry, Power of Suppliers, Power of Customers, Threat of Substitutes, and Threat of New Entrants. (Investopedia)

Competitive Rivalry

Competition in the athletic apparel industry is high due to numerous reputable companies competing for market share. Competition is based on brand image and recognition, product quality, innovation, style, distribution, and price. High competition in the industry leads to pressure on companies to continuously provide the most innovative products to keep up with

consumer trends to maintain market share. An example of one of Lululemon's main competitors with a significant market share is Nike. Lululemon successfully competes based on its premium brand image, technical product innovation, ability to introduce new product innovations, combine fashion and function, and connect customers through in-store, online, and community experiences (Lululemon). Since its beginning, Lululemon has influenced competition in the industry by offering the highest quality of athletic apparel. "Lululemon dupes," or brands attempting to duplicate Lululemon apparel, have become increasingly common in clothing stores.

Power of Suppliers

The power of suppliers is high in the apparel industry, as suppliers often sell materials to competing companies. Larger buyers can obtain cheaper prices by ordering larger quantities than smaller companies. (Investopedia) High-quality or rare materials offered by a small number of suppliers leads to high pricing power for suppliers and little room for negotiation by buyers.

Lululemon relies heavily on suppliers since it does not manufacture products or raw materials for products. Many specialty fabrics it uses are technically advanced textile products developed by third parties and may be available from only one or a limited number of suppliers. Lululemon also does not hold any long-term contracts, so they do not have the opportunity to lock in lower prices through periods of inflation. The company has experienced disruptions in the supply chain of fabrics or raw materials, where it could not locate alternative supplies of similar quality. Lastly, Lululemon has an extensive process for identifying suitable suppliers that satisfy

its quality control, service, financial stability, and ethical practices requirements, leading to production delays (Lululemon).

Power of Customers

Customers hold high power over the athletic apparel industry. Consumer preferences for products are ever changing, and customers can strongly dictate pricing. There are numerous brands to choose from with a wide range of pricing, so customers are easily able to make spending decisions that fit their needs. Online shopping allows customers the ability to shop for the lowest price quickly and easily for similar products. Brand recognition also plays a large part in customers' decision-making. For companies to attract and maintain customers, a common strategy in the industry is to sponsor athletes and celebrities to create perceived value for customers.

Since Lululemon products come from expensive, high-quality materials, it may lose revenues if forced to lower prices on products. On the other side, Lululemon's high-quality, high-cost strategy places some pressure back on customers. Once a consumer purchases their first clothing item from Lululemon, the quality and comfort are immediately noticeable. The customer then becomes more understanding of the high price and more willing to return to Lululemon for more products. Lululemon focuses on introducing innovative new products based on seasonality, making customers feel inclined to shop for the next best Lululemon apparel regardless of the high prices.

Threat of Substitutes

The threat of substitute products is high in the athletic apparel industry. There are countless athletic apparel brands that all state they offer the best quality and most innovative and stylish products. Consumers have endless choices of how they want to spend their money on clothing and how they want to style themselves. “Athleisure” clothing is comfortable and sharp-looking, but jeans or sweatpants and a t-shirt or jacket fit the same purpose. No one needs athletic wear – it may just be preferred.

Style and fashion trends play a significant role. Worldwide interest in sports and athletic activities continues to rise, and the demand for athletic clothing and accessories is expected to grow. Lululemon has taken advantage of these trends, and has built a brand image that draws customers toward their products over substitute products. Although the threat of substitutes is high, Lululemon leads the industry in innovation and has created a following that keeps the company growing and its clothing products in customers closets.

Threat of New Entrants

The barriers to entry for a diversified athletic apparel company are high. It takes significant financial and human capital to develop products, manufacture them with quality and affordability, and push products into the appropriate distribution channels (Investopedia). It is more likely for a new entrant to succeed if they enter smaller niches of the industry. For example, a new entrant to the industry only focuses on offering the best yoga pants. In that case, Lululemon’s line of yoga pants may face competition. It is extremely difficult for a new entrant to provide a diversified portfolio of products like Lululemon’s and match its revenues and brand image.

Strategy & Strategic Objectives

Lululemon holds a unique platform from which to inspire change and a broad vision and strategy to help transform the industry and create a healthier world. The company's purpose is to “elevate human potential by helping people feel their best” (Lululemon), and it has ambition to “accelerate positive social and environmental change by embracing the interconnectedness of its product, people, communities, and planet.” Lululemon's strategy is organized into three pillars: *Be Human, Be Well, and Be Planet.*

Be Human focuses on the topics of Inclusion, Diversity, Equity, and Action, Employee Empowerment, and the People Who Make Our (Lululemon) Products. In 2021, Lululemon established goals of reflecting the diversity of communities it serves and operates in, being a place where people come to develop and grow into leaders for the world, creating wellbeing programs, and achieving Fair Labor Association (FLA) accreditation.

Be Well focuses on the topic of Inclusive Access to Wellbeing and Advocacy. Lululemon's goals for this pillar include providing access to wellbeing tools and resources and investing to advance equity in wellbeing through the Lululemon Centre for Social Impact after it had successfully introduced the Centre in 2021.

Lastly, *Be Planet* focuses on the topics of Climate Action, Sustainable Product & Material Innovation, Circulatory & New Guest Models, Water & Chemistry, and Packaging & Waste. The company created goals of meeting 2030 science-based climate targets, sourcing renewable electricity to power facilities, making products with sustainable materials, offering guests new business models that extend the life of its products, reducing freshwater use intensity, and reducing single-use plastic packaging.

Lululemon makes it clear to consumers and investors that the company aims to create healthier environments by inspiring positive change, focusing on eliminating waste, making progress towards clean water, and addressing climate and energy across its communities, supply chain, and operations. Lululemon has implemented a climate strategy to address carbon emissions and a sustainable packaging policy to ensure packaging is fully recyclable (Lululemon). The company also states that over 90% of damaged or excess products are resold, donated, or recycled through its internal initiatives and strong partnerships. Four of its five global distribution centers have achieved zero waste, which means they have consistently reused and recycled over 90% of waste materials for over a year (Lululemon). “The wellbeing of people, communities, and the planet are intricately intertwined. We (Lululemon) developed our Impact Agenda with these connections at the forefront: three distinct pillars designed to work together to achieve a rapid, equitable, and more sustainable transition” (Lululemon, 2021).

Sustaining Competitive Advantage

Core Drivers

Lululemon is doubling down on its core drivers of success: *Product Innovation, Guest Experience, and Market Expansion* to achieve \$12.5 billion by 2026. From 2019 to 2022, Lululemon gained a larger market share in the adult active apparel industry more than any global brand. Over the next five years, Lululemon will continue to focus on its three strategic pillars to fuel revenue growth. As for Product Innovation, the company will leverage Science of Feel, its distinctive lens for innovation, to innovate across categories such as Core performance (Run, Train, Yoga, and On the Move), Play (Tennis, Golf, and Hike), and new categories such as footwear. As for Guest Experience, Lululemon projects to double its digital revenues by 2026.

“To accomplish this goal, the company will continue to create world-class experiences by harnessing the power of its guest relationships to build stronger connections across both the physical and digital landscape, cultivate its community and inspire through innovation” (Lululemon, 2021) Lululemon recently launched a new, two-tiered membership program to “create the most immersive fitness marketplace in the industry” in an effort to create a new path for connected fitness and to build stronger engagement with its brand, community, and products (Lululemon, 2021). As for Market Expansion, Lululemon expects to again quadruple its international revenues by 2026, with significant runway in both new and core markets. Lululemon is focused on ensuring local relevance and deepening connection as it continues to introduce the brand to more communities around the world. Engaging guests in China, growing its core markets, scaling and entering new countries across APAC and Europe, and opening its first stores in Spain and Italy will all be keys to expansion (Lululemon, 2021).

Technology

In January 2023, Lululemon partnered with Nedap, the global leader in RFID solutions, as its new provider for deploying Nedap ID Cloud to enhance its omni-guest experience across its 600+ stores globally (Retail Dive). This Cloud platform is crucial to unlocking real-time inventory data in stores. Another technological advancement made by the company was in 2020 when Lululemon acquired MIRROR, an at-home workout station for customers to stream dynamic training content and receive all the benefits available to Lululemon Essential members and more. Lululemon made this move expecting that at-home workouts would continue to be preferred by consumers past the Covid-19 pandemic. Lastly, Lululemon uses science, research, and development to engineer versatile, distraction-free apparel that moves with its guests. The

company works with its global network of ambassadors and guests to collect feedback and identify opportunities for innovation that push boundaries within the athletic apparel market (Lululemon).

Sustainability

Lululemon addresses sustainability concerns by adopting practices and creating solutions to minimize negative impacts and contribute to restoring the environment. The company has placed goals of reaching at least 75% sustainable materials for its products by 2025, 75% of sourced polyester to be recycled content, a transition from nylon to renewable or recycled content, and 100% of cotton sourced from more sustainable resources (Lululemon).

Manufacturing & Distribution

Lululemon Athletica does not own or operate any manufacturing facilities and instead relies on a limited number of contracted manufacturers for production. The company works with approximately 41 vendors that manufacture its products and 65 suppliers to provide fabrics for products and sources other raw materials used in products. Lululemon has developed longstanding relationships with vendors, but they do not have any long-term contracts with most of its suppliers or manufacturing sources.

As for distribution, Lululemon operates and distributes products from facilities in the United States, Canada, and Australia. The company owns its distribution center in Columbus, Ohio, and leases other facilities. It also utilizes third-party logistics providers to warehouse and distributes products from locations in the United States, the PRC, and the Netherlands.

Lululemon has the human capital, supplier and distribution networks, and outreach to continue to expand and grow market share. Lululemon holds a meaningful and developed strategy, led by a strong management team. The company is experiencing increasing popularity year over year, and consumers are proving their preferences for the brand over competitors, as reflected in their increases in sales and revenues year over year. If Lululemon can achieve its goals similarly to how it has in previous years, the company will sustain competitive advantages and continue to lead the industry.

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