

SCC Winter Case Competition 2020

LULULEMON ATHLETICA



STRETCHED THIN
OR
PROPELLING TO
NEW HEIGHTS?

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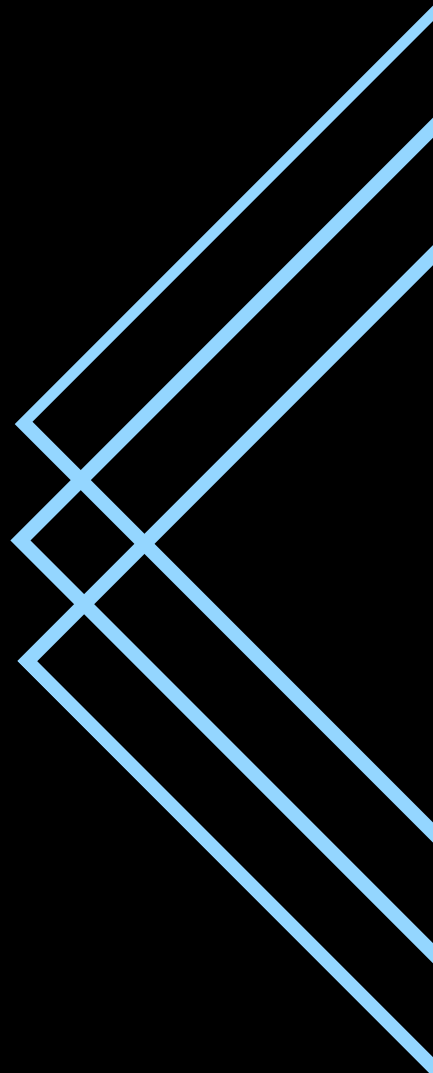


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Introduction

It was one of those rare snowy days in January, 2020, and Lululemon CEO Calvin McDonald sat in his office in Vancouver, Canada watching the snowfall. With the murmurs of unease from China due to the novel coronavirus, McDonald was prompted to reassess the company's goals and trajectory.

For the last decade, more and more women have grown to love the Lululemon community, and embraced the Lululemon "sweatlife." However, from 2019, the company has set itself three key goals to be achieved in 5 years: *double men's revenue, double digital sales and quadruple their international presence.*

Now, as the economy tries to recover from the COVID-19 shutdown, the Lululemon management team is reassessing its three-pronged ambitious approach. In order to ensure they do not stretch themselves thin, the company has asked you for a recommendation on which of these 3 areas is most important for Lululemon to focus on pursuing from now on, and why? How should Lululemon develop and implement an action plan to achieve certain goals within that area, and secure its place as not just a world leading sports apparel brand, but also as a world-renowned lifestyle?



Business Overview

Lululemon Athletica, Inc. (LULU)

Lululemon Athletica is a yoga-inspired athletic apparel retailer which has rapidly chartered the globe, since founded in 1998, with 491 international stores. Primarily popular with female customers, the Lululemon brand has successfully cultivated itself as a lifestyle rather than merely a product. It prides itself on forging deeper connections with its customers, termed “guests” by the company. Lululemon leverages its unique branding, community-based marketing, customer loyalty, and digital innovation to both acquire and retain its guests, and has also been proactively trying to expand its demographics in recent years.

Products

Lululemon describes their product line as “healthy lifestyle inspired athletic apparel and accessories”.

Apparel: Whilst Lululemon is originally best known for its women’s yoga apparel, rising to fame from its popular women’s yoga pants products, expansion of its apparel line has been a key focus in recent years. Lululemon’s apparel assortment also includes items such as shorts, tops, and jackets designed for a healthy lifestyle and athletic activities such as yoga, running and training. Lululemon began selling women’s and men’s athletic shoes in 2017 and launched Lab, as a luxury streetwear brand, in several North American stores in 2019.

Accessories: Lululemon also offers fitness-related accessories, including items such as bags, socks, underwear, yoga mats and equipment, and water bottles.



Production Process

Lululemon leverages its international scale and operates a global supply chain in its product innovation and craftsmanship.

Product design and development

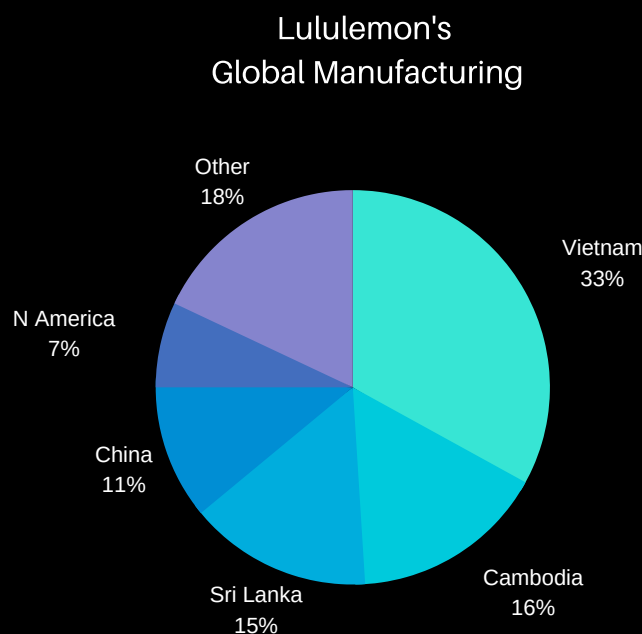
The product design and development efforts are led by a team of researchers, scientists, engineers and partnered international designers who embody Lululemon’s design philosophy and dedication to premium quality. Lululemon’s design and development team focus on sourcing technically advanced fabrics, with a new feel and fit, and crafting innovative functional features for their products. For example, its new Nulu Fabric was developed as part of its Naked Sensation innovation to provide a next-to-nothing lightweight feeling enhancing existing technical performance quality.

Sourcing, supply and manufacturing

Lululemon outsources almost all of its productions, in line with the apparel market trends due to cost advantages. Lululemon does not hold any long-term contracts with the majority of their suppliers or manufacturing sources for the production and supply of their fabrics and garments. Therefore, it faces competition with other companies for fabrics, raw materials, and production.

Manufacturing

Lululemon does not own or operate any manufacturing facilities and utilises approximately 39 global vendors to manufacture their products. In 2019, its products were predominantly manufactured in South and Southeast Asia, including Vietnam (33%), Cambodia (16%), Sri Lanka (15%) and China (11%). Only 8% of its products were manufactured in North America to ensure speed to market for its products.



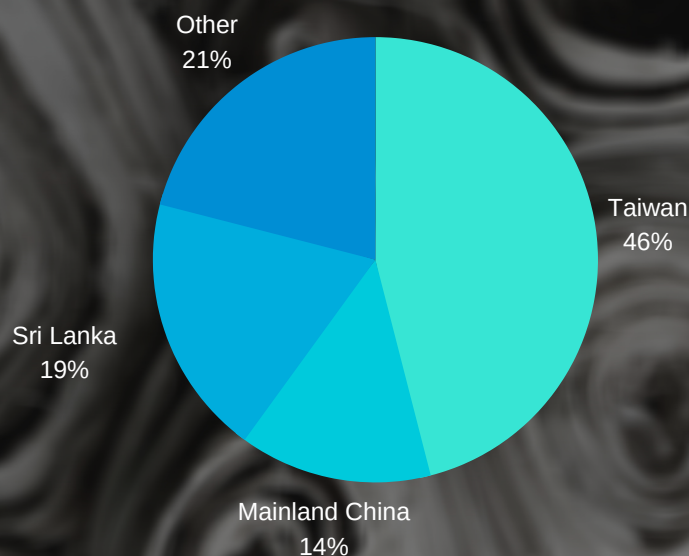
Suppliers

Lululemon sources its necessary fabrics from a select group of approximately 76 global suppliers. In 2019, the geographic makeup of its fabric sourcing was dominated by Taiwan (46%), followed by 14% from Mainland China, 19% from Sri Lanka and the remainder from other regions. Its trademarked Luon fabric is its top fabric requirement at 30% of its total fabric use and is sourced from a single supplier. The other raw materials which are required include content labels, elastics, buttons, clasps and drawcords are sourced from suppliers located predominantly in the Asia Pacific.

Distribution

Lululemon operates and distributes finished products from their distribution facilities in the United States, Canada, and Australia. It holds ownership of its distribution center in Columbus, Ohio, and leases the other distribution facilities including Vancouver (Canada), Sumner (Washington) and Melbourne (Australia). Lululemon also utilises third-party logistics providers to warehouse and distribute in China and the Netherlands. The effective routing of orders through its distribution centers is key to fulfilling the company's needs, especially in upholding sales growth.

Lululemon's Fabric Sourcing 2019



Channels

Lululemon primarily conducts its business through two main channels: its company-operated store network and direct to consumer. It also generates net revenue from sales to wholesale accounts, outlets, warehouse sales, sales from temporary locations and through license and supply arrangements.

Store network

Lululemon operates a comprehensive company-owned store network of 491 stores in the United States, Australia, New Zealand, Canada, the United Kingdom, and Singapore. Through its vertical retail strategy, Lululemon can optimally collect customer feedback and incorporate unique performance and fashion needs into the design process.

Direct to Consumer

Lululemon also sells directly to customers through online sales, substantially representing 28.6% of net revenue in 2019. Lululemon believes that the e-commerce channel enhances convenience and brand image and is effective in building brand awareness, especially in new markets.

Other Channels

Wholesale: Lululemon's wholesale customers include premium health clubs, fitness centres and yoga studios. Its wholesale channel is not intended to be a significant contributor to overall sales, but rather servicing to build brand awareness, including outside of North America.

Temporary Locations: Its temporary locations, including seasonal stores, are typically opened for a short period of time in markets in which Lululemon may not have an existing presence.

Outlets & Warehouse Sales:

Lululemon utilises outlets as well as physical warehouse sales, which are held from time to time, to sell slow moving inventory and inventory from prior seasons to retail customers at discounted prices.

License & Supply Agreements:

Lululemon enters into license and supply arrangements from time to time when it believes it is advantageous to partner with companies and individuals with significant experience and proven success in certain target markets.

Consumer Analysis

Lululemon's "Guest" Strategies



 lululemon

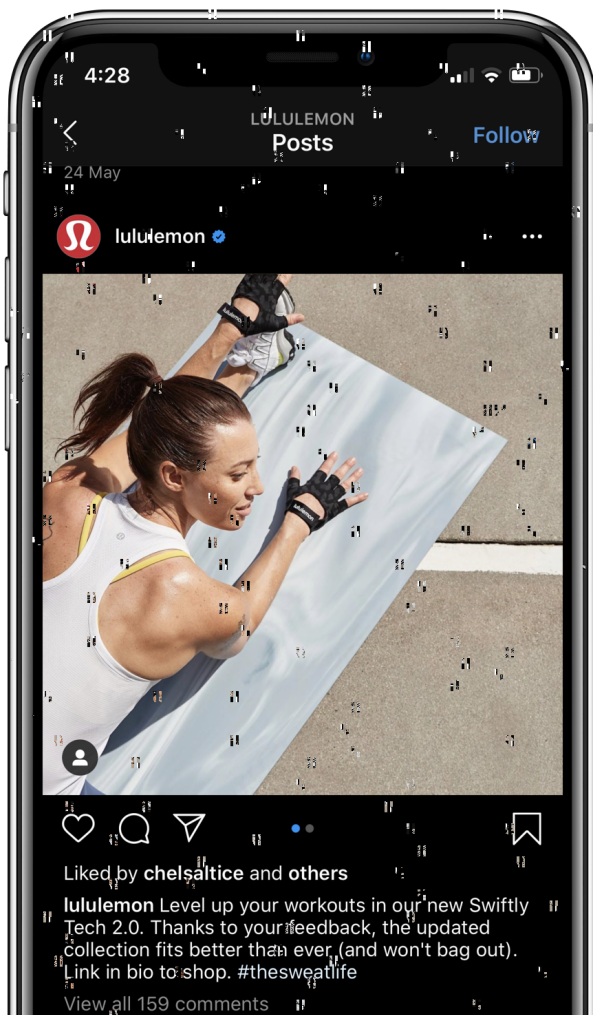
Athleisure as a Lifestyle

Lululemon's primary target customer is a sophisticated and educated woman who understands the importance of an active, healthy lifestyle. She is increasingly tasked with the dual responsibilities of career and family, and is constantly challenged to balance her work, life and health. Lululemon markets its products as functional, high-quality and integral parts to leading a balanced lifestyle. This propels the potential addressable market from just athletes, capturing all those who desire to pursue an active, healthy and happy lifestyle. This messaging has resonated with Lululemon's predominant target market, which can be defined as educated, middle to high income level health-conscious women from the ages of 21-55.




Community-based Marketing

As part of its strategy to present the brand as an integral lifestyle choice, Lululemon relies heavily on grass-roots marketing. Led by approximately 1,500 brand ambassadors, who are described as “leaders who sweat, compete and create at the highest level”, Lululemon is able to acquire new customers primarily through social media marketing. Brand ambassadors include Lululemon’s wholesale partnerships with fitness studios and groups, as well as local trainers, athletes and online influencers.



Brand ambassadors receive Lululemon products to test, and later communicate their testimonials to their followers as well as send feedback directly back to Lululemon.

From here, promotion of the brand is generated from its customers, rather than by Lululemon itself. For example, the Instagram hashtag #TheSweatLife has created a platform for more than 1 million posts in which customers have shared testimonials of their brand experiences with Lululemon. User-generated content (defined as any type of content that has been shared by unpaid contributors or fans) such as this have created a ‘community’ aspect, which is particularly appealing to the millennial demographic, who want to interact with brands on a more intimate level and communicate with like-minded people. As such, Lululemon’s customer acquisition costs are extremely low relative to customer lifetime value. In contrast, its peers such as Nike or Adidas rely heavily on expensive push-marketing such as celebrity endorsements (e.g. Michael Jordan) and paid advertising. The creation of a Lululemon community mindset has been the cornerstone of Lululemon’s rapid customer acquisition.



Innovative Guest Experiences

Leveraging its community branding, Lululemon has also appealed to its customers by introducing a range of interactive events to enhance the Lululemon guest experience.

Lululemon created and hosted more than 4,000 local events in 2019, notably its large-scale SeaWheeze half-marathon in Vancouver and 10K runs in Edmonton, Toronto and San Diego, Lululemon's first in the United States. Lululemon held Sweatlife festivals in London, Paris, and Berlin, and in Mainland China, and it hosted their 4th annual Unroll China event in 2019. These festivals and events

Loyalty Programs

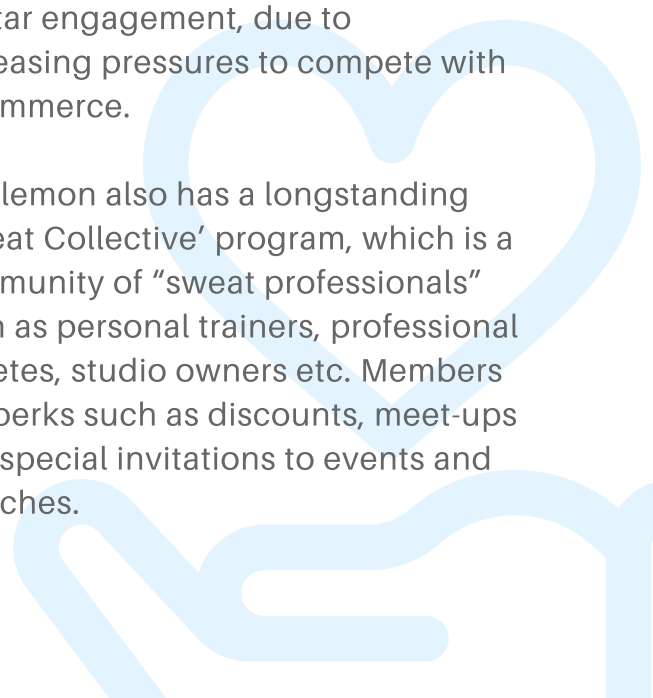
Customer loyalty is always essential to a brand's success. Lululemon has recently piloted a new membership program in Edmonton, Canada, to further its customer retention strategies. This loyalty program charges members \$128 a year for a pair of pants or shorts, the ability to attend curated events, workout classes and free expedited shipping on all orders. It is unclear whether this program will be successful, whether Lululemon will maintain this program, or choose to modify and roll it out across all countries. The program may

brought together guests, educators, ambassadors, and other members of the local community to engage in sweat classes, yoga, personal development, and meditation.

Given the importance of its own-brand retail store sales, Lululemon has also invested heavily into an experiential store experience. Its dynamic new store formats combine a typical retail store with a fitness "sweat studio" and "fuel bar" for healthy refreshments. Experiential stores offer guests an opportunity to test out selected Lululemon gear in real classes before they make their purchase. There are currently two experiential stores, including a 25,000-square-foot store in Lincoln Park in Chicago equipped with yoga studios, meditation spaces, healthy juice and food and areas for community gathering and another in Mall of America near Minneapolis.

be an attempt by Lululemon to enhance the experiential aspect of the brand and drive more brick-and-mortar engagement, due to increasing pressures to compete with e-commerce.

Lululemon also has a longstanding 'Sweat Collective' program, which is a community of "sweat professionals" such as personal trainers, professional athletes, studio owners etc. Members get perks such as discounts, meet-ups and special invitations to events and launches.





Branching Out: Menswear

In the men's category, shifting dress codes influenced by a booming sneaker culture have supported the increasing desire for comfortable, functional sportswear that could also be fashionable. Sportswear is creeping further into the luxury category also, with a partnership between the NBA league and Louis Vuitton emerging in 2020.

In recent years, Lululemon has focussed greater efforts to engage with male customers and build male brand awareness. In 2014, Lululemon launched a mens-only concept store in Toronto and Manhattan. Inspired by the idea of a "workshop," the store offered something Lululemon called "joinery," in which four pairs of shorts could be given customized liners. Store layout, interior design and music were all curated to cater to the male demographic. However, Lululemon closed the men only stores mid-2019, despite recognising a 26% comps (same-store sales) rise and 33% revenue growth in Q1, 2019. The company cited that its guests responded better to Lululemon as a "dual-gender brand", and that it would focus its energy to co-located stores that create "space to merchandise the men's assortment in a more impactful way".

Lululemon

Financial Performance

Key Historical Trends

Lululemon's top line revenue growth and profitability have been growing robustly over the last few years. Total revenue growth reached 21% for the fiscal year ending February 2020, and has been consistently above 13% for the last 3 years. Gross profits have also increased from 50.9% to 55.9% over a 5 year period, which is considerably higher than most sports apparel players including Nike at ~45% margins.

Notably, the Lululemon share price has also risen five-fold over the last three years to reach over 289 USD (as at 27 June, 2020), with the markets viewing great growth potential for the company.

It should also be noted that the company has been rapidly expanding its physical footprint, experiencing 18% square footage growth driven by new stores in 2019. During fiscal 2019, their sales per square foot was \$1,657.

Coronavirus Response

What makes Lululemon different from many retailers is that it has strong liquidity including \$1 billion in cash and no long-term debt - the only recurring large financial liability for Lululemon are its capital lease obligations. Lululemon's spokespeople have assured investors that the company has modeled several different COVID-19 scenarios and thinks it has the ability to adapt. Lululemon can also tap a US\$400m revolving credit facility.

Industry Overview

Geographic Trends

The global sports apparel industry is estimated to reach US\$248.1 billion by 2026, registering a CAGR of 5.1% from 2019 to 2026. The mens' segment dominates the market with more than half of the total sports apparel market share, and is expected to grow at 4.6% CAGR.

Asia Pacific

Asia-Pacific is the fastest growing market, with an estimated CAGR of 6.8% from 2019-2026. According to the Global Wellness Summit (GWS)'s wellness trends report (2019), over 104 million people in China have at least one fitness app on their phones and 15 million consumers have a gym membership in China, partly owed to the rising affluent population. Meanwhile, China was home to approximately 500 gyms in 2001 but has since grown to over 37,000 fitness facilities in 2019. Despite China's gender imbalance — there were 31.6 million more males than females at the end of last year — women account for 55% of online spending, significantly more than their proportion of the population. This new "sheconomy," wherein Chinese women spend 81% more than they did 5 years ago, also means that the female population typically drives consumer trends such as the push for health consciousness.



The sports apparel industry has scrambled to take advantage of this new fitness wave in Asia. Driven by China's sportswear market which is projected to grow to 269.6 billion yuan in 2021, the Asia-Pacific's spending on sports-related goods and services increased 17.1% on the year in the first half of 2019, outpacing the 10.4% growth in broader retail consumption during the period. Whilst international brands such as Nike and Adidas still dominate the Chinese market, its domestic sports brand Anta is a close third.

Facilitated by e-commerce marketplaces linking them directly to global consumers as well as Chinese buyers, Asian players are set to intensify their competition with western brands in the coming years. Some brands, such as China-based Maia Active and Particle Fever, have also looked to differentiate themselves by catering more specifically to the Asian market through style, fit and branding. Ranging from more versatile athletic wear for women, to avant-garde designs to appeal to the younger Chinese woman's desire for individuality and adventure, smaller brands are finding their own place in the market.

Lululemon opened its first three stores in mainland China in late 2016, with more in the pipeline. CEO Laurent Potdevin said in a recent earnings call that he expects China to represent up to 70% of Lululemon's Asia-Pacific market by 2021. US-based brand Under Armour Inc. has opened more than 210 stores across China since its initial entry in late 2013. It is building its brand image in China using popular NBA star Stephen Curry, and positioning itself as a professional brand with training and running gear.



China's Sportswear Market in 2021

¥269.6 Bn

Asia-Pacific Spending on Sports-related Goods & Services 2019

17.1%

US & Europe

By region, the US is the largest market for sports apparel accounting for approximately US\$45b alone, followed by Europe. The adoption of sports apparel has been consistently high in the United States, largely due to its highly evolved retail structure and higher adoption from aggressive advertising and celebrity brand endorsement.

The increasing popularity of sportswear worn as casualwear, as well as the prevalence of high-profile sports events such as FIFA World Cup, Cricket World Cup, and Olympics have further contributed to the demand for sports apparels. Point of sales have begun to shift online, however department/wholesale channels and brand-owned brick and mortar still account for most sportswear sales. The ageing population and increasing health consciousness, coupled with a preference for non-organised sport, has bolstered brands such as Lululemon which encourage a holistic fitness lifestyle.



Competition

The largest global competitors Lululemon faces include Nike, Adidas and Under Armour. All three brands have been accelerating their innovation efforts, notably to collect more of the female market that Lululemon has traditionally been dominant in. Marketing efforts like Nike's "Dream Crazier" campaign, focusing on women's excellence in sports, and the increased inclusion and utilisation of more diverse body shapes in advertising reflect these companies' interest in the women's sportswear market. In women's activewear, Nike maintains the top spot, followed by Lululemon, Victoria Secret, Under Armour and Adidas. Russ Kahn, senior vice president of Puma North America Retail, sums up the mood in saying "for a long time athletic brands said,

'We can just shrink it and pink it and that will be good enough for the female consumer.' And good enough is not good enough anymore."

Operators like Lululemon face competition from department stores, like Kmart and Target, who offer a cheaper range of apparel that caters to a mass market audience with lower purchasing power. Whilst the quality of their range can be perceived as inferior to the products sold by industry leading brands, these stores offer price-conscious consumers an accessible range, which has proven popular also among children's sportswear. Target is positioning itself especially within the plus-size market, where an All In Active collection caters sizes from XS - 4X for women and 3X for men.

Largest Global Competitors



Department Store Competitors



In Australia, for fashion-conscious consumers, Accent Group, composed of shoe brands and shoe retailers including Hype, Vans, Sneaker Lab and The Athlete's Foot have successfully leaned into sneakers, where the boundaries of athletic shoes and lifestyle shoes is blurring more and more. Accent Group holds the largest market share (28%) in the Fitness and Athletic Clothing Stores (Australia) market. Following Accent Group is Super Retail Group, taking 26% market share with Rebel sports and Macpac stores. The latter is an outdoors-focused retailer, catering to mountain climbers, campers and hikers. Rebel sports offers a large range of sporting equipment, clothing and footwear from large brands including Nike, Adidas and Under

Armour. The UK's JD Sports entering Australia in 2017 aligns itself closely with the new intersection of sports and fashion clothing, selling on-trend, newly released sneaker and sports clothing lines from global brands.

As sportswear trends more into fashion and streetwear, brands face competition from fashion retailers innovating their offering too. H&M collaborated with Alexander Wang on an activewear collection in 2014 and Victoria Sports, the athleisure division of the lingerie-fashion brand Victoria Secret, was launched in 2016. Fast fashion brands are also coming onto the scene, with international players like ASOS, Boohoo and FashionNova offering their own athletic and athleisure clothing lines.



rebel



JD



H&M

Online Competitors

A multitude of online competitors compete with Lululemon in the lifestyle sportswear space. The online environment for these players are highly fragmented, however seek to differentiate themselves in the market in different ways.

Gymshark

One of the largest online competitors for sportswear is UK-founded Gymshark. With more than 40% of sales coming from the US, and with aims to have 25 international online stores by 2021 (up from 11 at present), Gymshark has an estimated turnover of £100m turnover. Since being founded in 2012 by Ben Francis at the age of 19, it has reached astronomical growth rates reaching more than 200% per year. Gymshark's success is attributed to its rapidly amassed social media following. Although it operates a solely online platform, Gymshark has indicated that it has the optionality of opening brick and mortar stores in the future.

Year of Ours

Year of Ours is a female-led, LA-based brand with an inclusive, "team spirit" ethos at their core. It differentiates itself with a more patriotic aspect, describing their clothing as an "homage to the bold, utilitarian aesthetic of classic American sportswear" and with all products manufactured in the USA, rather than through Asia like Lululemon.

Nylora

Nylora is another female-centric brand focused on "neither active nor ready-to-wear, versatile pieces [that] feel as good at the gym as they look on the street." It operates exclusively through its online stores, as well as in partnership with 24 stockist websites including Revolve, Cotidien.com and Barneys New York.com.

The Girlfriend Collective

The Girlfriend Collective is a brand which leverages the increased consumer awareness on sustainability to create recycled and ethical female sports apparel. It has gained a following for its transparency in recycled materials used in its production, as well as its continued improvement in ethical supply chains and manufacturing. The brand also prides itself on its size inclusivity, with products catering to all body shapes.

Alo Yoga

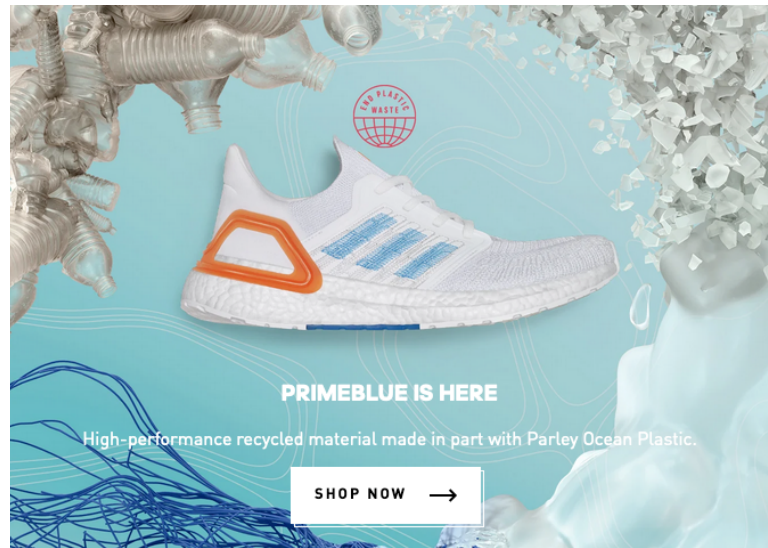
LA-Based Alo Yoga is another online phenomenon that directly competes with Lululemon's product offerings. Although it has 12 physical stores which closely mirrors Lululemon's experiential stores with the inclusion of studios and juice bars, Alo Yoga also sells products through online retailer platforms including Revolve and StyleRunner. The brand has also branched into online content to support its physical stores, acquiring the Seattle-based yoga app Cody in 2018, rebranding it to Alo Moves, and flipping it into a subscription business. Alo Yoga has a turnover of roughly US\$200 Million.

Growth Trends

Rise of the Athleisure Category

As sports participation rates rise and demand for gym memberships grows, consumers are positioned to purchase athletic apparel as the rise in health consciousness and the role of regular exercise is forecast to continue. Once niche segments like yoga apparel and equipment have become staple product lines that Nike, Adidas and Under Armour continue to invest in as the practice has become synonymous with a culture of healthy living and self-care.

As more people wear athletic apparel as streetwear, consumers are demanding more fashionable sports apparel that they can wear beyond the gym. Lululemon and Lorna Jane have been particularly successful in attracting a young female market interested in this athleisure offering. The same brands have also focused on catering to specific types of exercise, and crafting product lines around each, such as running and yoga.



Premiumisation

In response to increasing industry competition, operators are leaning into premium high-performance products that can command a higher price point, such as moisture wicking material. Consumers have proven willing to invest in premium, high-quality sports apparel and footwear, but this is constrained by discretionary income. Consumers in the 35 - 55 age bracket, with established careers and income streams, usually prefer to pay a premium for high quality, durable products. Younger consumers (under 35) are typically more responsive to changing trends and purchase new products as styles change, but often have lower discretionary incomes and cannot purchase as frequently.

As sustainable and ethical products become higher in demand, retailers like Adidas and Reebok have formed partnerships with eco-friendly startups to innovate their shoe-making inputs.



Tech & Digital Innovation in Apparel

The technological revolution has also hit the apparel industry. High-end players vying for customers have continually developed new products that boast better moisture-wicking technology, more durability, greater stretch, as well as more comfort during movement. Some brands have gone the extra mile, developing patented technologies that have become a cornerstone to marketing of its respective products.

For example, Climachill sportswear are woven with small aluminium-silver dots which pull heat away from the body, the North Face FlashDry technology uses high-filament materials designed to have greater 'moisture and temperature regulation' by pushing moisture or sweat to the surface of the garment.

Most notably, Adidas has been a pioneer in digital innovation. In late 2015, Adidas opened the 'Speedfactory,' with technologies including 3D printing, robotic arms and computerised knitting to manufacture Adidas running shoes. Using digital designs and prototypes, the Speedfactory provided Adidas with an opportunity to forgo shipping delays and expenses from manufacturing overseas.

It was also suggested that this would open a great new window of opportunity for personalisation and customisation for the European sneakerhead community, as it greatly reduced the turnover time from design to manufacture to delivery. Adidas tested this in 2017 through a pop up store in Berlin, simply coined the 'Storefactory'. Here, customers could receive machine-knit merino wool sweaters, made to order on the spot. Customers stepped up for body scans inside the showroom and then worked with an employee to design their bespoke pullovers. The sweaters, which cost the equivalent of about \$250 apiece, then materialized behind a glass wall in a matter of hours.

The Asian market also pioneers trends in sports technology. In the e-textiles area, researchers are using 3D printing to make materials that can harvest and store electricity. For example, Xenoma, a Japanese company specialising in smart apparel technology, has developed the "e-skin" that monitors fitness and health with Printed Circuit Fabric (PCF) technology. The search for the next generation of sportswear is well underway. The global smart-textile market is expected to grow from the current \$93 billion to \$475 billion by 2025 (including fashion, but also other industries, e.g., medical and military).

Looking to the Future

“Power of Three” Strategy

Lululemon has constructed a five-year “Power of Three” strategic plan (2019-2023) to “double men’s, double digital, and quadruple international” revenues with three major growth priorities:

Product Innovation

“Continue to grow our core product categories, expand our merchandise range, and deliver new innovation through our Science of Feel development platform.”

1 Growth in the Male Segment

One of Lululemon’s key objectives is to double the size of its men’s revenues by 2023. As CEO Calvin McDonald analyses, “We have very low brand awareness with men. The opportunity isn’t just to be known,” he said, “but also being understood” as a brand that men, not just women, can shop. Lululemon has a dedicated mens’ Instagram account with 244k followers, compared to its main account with 3.3m followers.

2 Continued Expansion in Women’s and Accessories Businesses

As a pioneer of the athleisure movement, Lululemon continues to tap into consumers’ preference for athletic fashionable products whilst facing increasing competition from Nike and Under Armour in their plans to target female shoppers with new yoga pants and sports bras.

3 New Product Lines

Lululemon also plans to continue its product collaborations, especially through expanding its line of office luggage and travel bags, and pursue new opportunities, such as selfcare items. Lululemon has moved beyond the test phase of its new assortment of self care personal-care products such as deodorants, moisturizers and shampoo and had an initial rollout in 50 stores and online.

Omni Guest Experiences

“Focus on offering an integrated guest experience across channels which are intended to inspire, provoke and celebrate guests who live a healthy and mindful lifestyle...”

Dynamic New Store Formats

The experiential store model is described by CEO Calvin McDonald as “the pinnacle expression of our vision”. Lululemon must now consider how else its unique stores can deliver an elevated sense of community in the shopping experience beyond selling clothing and personal care products. By 2023, about 10% of Lululemon’s total bricks-and-mortar fleet will be considered ‘experiential’ like the Chicago store. A second key objective of its growth strategy is to double its digital sales revenues by 2023. The digital sales channel offers innumerable benefits and opportunities for Lululemon. Lululemon is considering how it can offer its experiential strengths and community feel key to its store network on the digital platform.



Membership Program

After seeing initial success, Lululemon is looking to continue to expand and revise its membership program to ensure that the benefits it offers are ones that its customers truly value.

Events

After hosting a record number of local events in the last year connecting together the Lululemon community, Lululemon is eager to consider even bigger and better event concepts. Lululemon’s run clubs and yoga partnerships have long been a staple of its community-based foundations and success.

Market Expansion

“Continuing to capture growth potential in our strong U.S. and Canadian markets, as well as translate the sweatlife across cultures and geographies especially expanding across China, the APAC and EMEA regions”

In the coming years, Lululemon’s future growth is in part dependent on its expansion efforts outside of North America. Its limited operating experience and brand recognition in new international markets may limit its expansion and threaten business growth.

In 2019, Lululemon opened 51 net new company-operated stores, including 19 in North America, 24 in Asia Pacific and 8 in Europe. In 2019, Lululemon grew 20% in North America, while total growth in international markets was 32%.

Lululemon’s growth efforts in Asia were anchored by the opening of the first store in Osaka, Japan, and the first airport store in Hong Kong. In Asia, it has also opened its first stores in Malaysia and launched a local e-commerce site in Japan.

Lululemon has expanded into two new markets in Europe during the year, the Netherlands and Norway, and launched local market ecommerce sites in Germany and France.

2019 Lululemon

North America Growth

20%

Total International
Market Growth

32%

How should Lululemon envision its expansion in the future, in a way that ensures its brand value doesn’t become lost in translation?

Conclusion

Last Words

Overwhelmed by all the trends and opportunities arising in the market, Calvin McDonald is feeling lost. Just as the snow falling outside his office limits visibility, the path forward for Lululemon remains hazy and unclear.

However, he is looking forward to listening to your innovative ideas at the upcoming board meeting. With your help, he has high hopes that Lululemon can continue to grow and soar to new heights as a global brand.

Foremost on his mind are the 3 strategic pillars -- which of these areas should Lululemon focus its efforts on in the future, and how should the company's success or growth be assessed? For your recommendations, the executive board is also expecting your help with coming up with an implementation plan for them.

Best of luck, and the Lululemon board looks forward to hearing your ideas.

Appendix

Exhibit 1: Lululemons' bestseller products

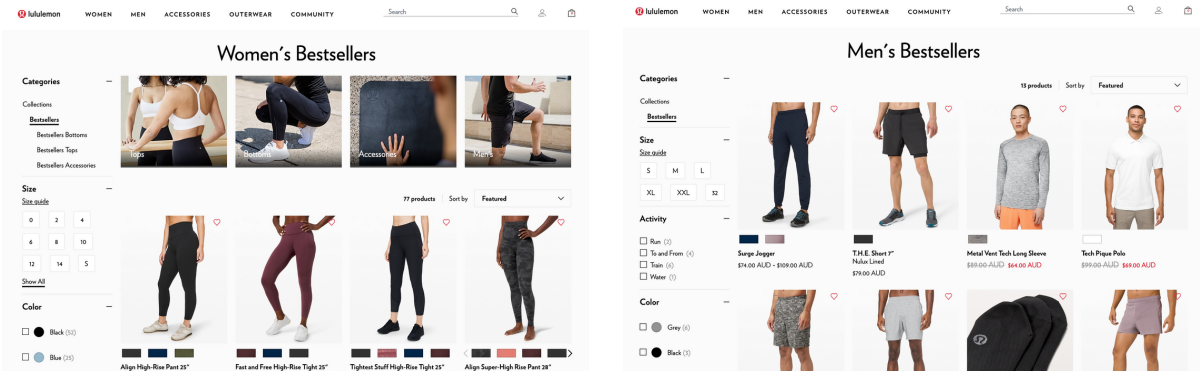
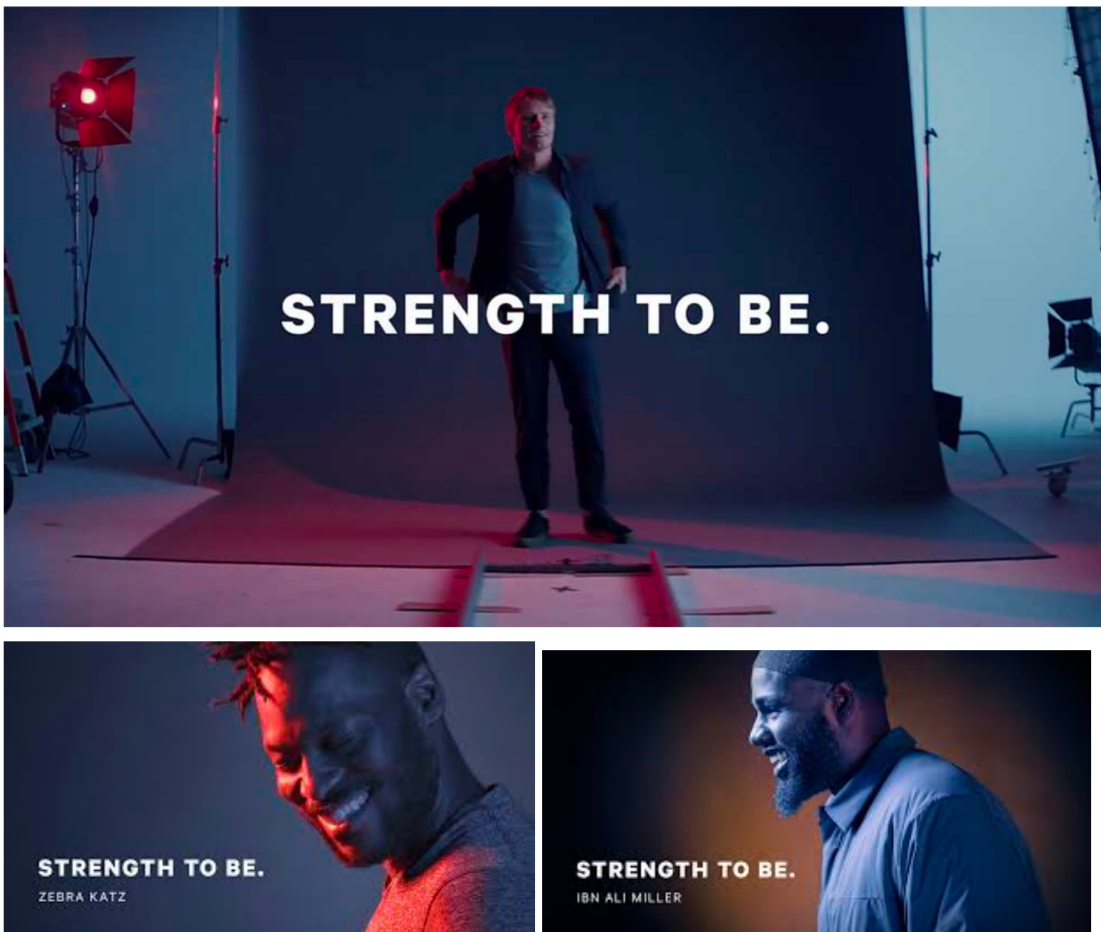


Exhibit 2: Lululemon's first men's campaign "Strength to Be" (2017)



The campaign, “Strength to Be”, feature five short films including Muslim social justice speaker and community leader Ibn Ali Miller, rapper Ojay Morgan (known as Zebra Katz), champion boxer Orlando Cruz and professional surfer Mark Healey. Lululemon’s men’s brand director Karl Aaker explains that the campaign highlights “five men who bring diverse perspectives to the idea of internal strength and self-awareness”.

Exhibit 3: Financial Statements

	Fiscal Year Ended				
	February 2, 2020	February 3, 2019	January 28, 2018	January 29, 2017	January 31, 2016
	<i>(In thousands, except per share data)</i>				
Consolidated statement of operations and comprehensive income data:					
Net revenue	\$ 3,979,296	\$ 3,288,319	\$ 2,649,181	\$ 2,344,392	\$ 2,060,523
Cost of goods sold	1,755,910	1,472,032	1,250,391	1,144,775	1,063,357
Gross profit	2,223,386	1,816,287	1,398,790	1,199,617	997,166
Selling, general and administrative expenses . . .	1,334,276	1,110,451	904,264	778,465	628,090
Asset impairment and restructuring costs	—	—	38,525	—	—
Income from operations	889,110	705,836	456,001	421,152	369,076
Other income (expense), net	8,283	9,414	3,997	1,577	(581)
Income before income tax expense	897,393	715,250	459,998	422,729	368,495
Income tax expense	251,797	231,449	201,336	119,348	102,448
Net income	<u>\$ 645,596</u>	<u>\$ 483,801</u>	<u>\$ 258,662</u>	<u>\$ 303,381</u>	<u>\$ 266,047</u>
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment	(7,773)	(73,885)	58,577	36,703	(64,796)
Comprehensive income	<u>\$ 637,823</u>	<u>\$ 409,916</u>	<u>\$ 317,239</u>	<u>\$ 340,084</u>	<u>\$ 201,251</u>
Basic earnings per share	\$ 4.95	\$ 3.63	\$ 1.90	\$ 2.21	\$ 1.90
Diluted earnings per share	\$ 4.93	\$ 3.61	\$ 1.90	\$ 2.21	\$ 1.89
Basic weighted-average number of shares outstanding	130,393	133,413	135,988	137,086	140,365
Diluted weighted-average number of shares outstanding	130,955	133,971	136,198	137,302	140,610

	As of				
	February 2, 2020	February 3, 2019	January 28, 2018	January 29, 2017	January 31, 2016
	<i>(In thousands)</i>				
Consolidated balance sheet data¹:					
Cash and cash equivalents	\$ 1,093,505	\$ 881,320	\$ 990,501	\$ 734,846	\$ 501,482
Inventories	518,513	404,842	329,562	298,432	284,009
Total assets	3,281,354	2,084,711	1,998,483	1,657,541	1,314,077
Total liabilities	1,329,136	638,736	401,523	297,568	286,595
Total stockholders' equity	1,952,218	1,445,975	1,596,960	1,359,973	1,027,482

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