

## LULULEMON ATHLETICA'S PRODUCT, EMPLOYEE AND PUBLIC RELATIONS ISSUES<sup>1</sup>

*Stefanie Beninger, Simon Pek, Karen Robson and Adam J. Mills wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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2012 finished on a high note for Lululemon Athletica. Sales were growing fast, and Lululemon was poised for expansion in Europe and Asia. At the beginning of 2013, the company faced a multitude of what some would call luxury problems, as they struggled to keep up with high customer demand. Some Lululemon Athletica outlets, such as stores in Florida, struggled to keep the shelves stocked, while other locations had to bring in security guards to manage the flood of customers.<sup>2</sup> However, by spring 2013, Lululemon faced the first of many public relations (PR) crises that would accumulate throughout that year. The crises spanned company operations and included product quality and sourcing, as well as employee, customer and public relations.

The ongoing controversies surrounding the brand started to impact Lululemon's bottom line. Though sales continued to grow into early 2014, revenue growth was below expectations, resulting in substantial drops in share price in their fourth quarter ending January 2014.<sup>3</sup> Commentators in the media and executives began raising concerns about the company's future. When announcing Lululemon's reduced financial outlook on January 13, 2014, Chief Financial Officer John Currie noted, "Since the beginning of January, we have seen traffic and sales trends decelerate meaningfully." These comments were foreshadowed by a similar statement in December 2013, in which Currie acknowledged that Lululemon had experienced "lots of PR issues" that year.<sup>4</sup>

The target of increasingly unfavourable press attention, Lululemon underwent several leadership changes in 2013. Dennis J. "Chip" Wilson resigned first from his position of chief innovation and branding officer in 2012<sup>5</sup> and then from his role as chairman of the board in 2013.<sup>6</sup> Chief executive officer (CEO) Christine Day resigned in 2013, and, in early 2014, Lululemon began a new chapter under the leadership of Laurent Potdevin, the former CEO of TOMS Shoes, effective January 2014.<sup>7</sup> With numerous PR issues to address, the company needed to decide what changes to make and which to prioritize. It was even debated whether any changes needed to be made at all, considering sales had continued to increase throughout 2013 despite the negative PR. If Potdevin decided that changes were called for within this fast-growing and iconic brand, what would be the best way forward, and what obstacles and roadblocks might the company face?

## BACKGROUND

### Lululemon Athletica

Lululemon Athletica Inc. was an upscale athletic apparel company founded in 1998 by Wilson, a Canadian businessman and philanthropist. When he founded Lululemon, Wilson built on his previous experience launching the well-known brand Westbeach Snowboard Ltd, which produced surf, skate and snowboard clothing. After selling Westbeach in 1997<sup>8</sup> and becoming interested in yoga, Wilson opened a clothing design studio aimed at yoga in 1998 that also sold yoga apparel and offered yoga classes. In 2000, Lululemon's "first real store"<sup>9</sup> opened in the trendy area of Kitsilano in Vancouver, Canada. This was done at a time when, in Wilson's own words, "Yoga was growing like a hockey stick upramp."<sup>10</sup>

Despite yoga's thousand-year history and lofty principles (compassion, truthfulness and humility chief among them),<sup>11</sup> it was not until the 1990s that it received much attention from the mainstream international market. By launching a new clothes category to outfit yoga practitioners, Lululemon was credited as one of the first major businesses to service this growing industry.<sup>12</sup> Wilson's success with Lululemon was reflected by his net worth, estimated at \$2.9 billion in March 2013.<sup>13</sup> Lululemon itself had grown rapidly, with a net revenue of more than \$1 billion in 2012 (Exhibit 1).

According to its mission statement, Lululemon was dedicated to "creating components for people to live longer, healthier, fun lives,"<sup>14</sup> and the Lululemon Manifesto was a collection of more than thirty sayings that served to guide the organization's values and culture.<sup>15</sup> Topics ranged from health advice (floss your teeth, keep cleaning chemicals off kitchen counters, decrease stress) to relationship advice (friends are more important than money). The manifesto also included self-help and inspirational sayings, such as "living in the moment could be the meaning of life," "do it now, do it now, do it now!" and "successful people replace the words 'wish,' 'should' and 'try' with 'I will.'" Notably, the manifesto also suggested that success was an important guiding principle: "Nature wants us to be mediocre because we have a greater chance to survive and reproduce. Mediocre is as close to the bottom as it is to the top, and will give you a lousy life." The core values of Lululemon emphasized developing the "highest quality products, operating with integrity, leading a healthy balanced life, and instilling in our employees a sense of self responsibility and personal achievement."<sup>16</sup>

In 2000, the first Lululemon retail store opened in Vancouver, Canada, and, by February 2013, Lululemon grew to include more than 6,000 employees and 211 stores, primarily in North America. The company also sold its products online and in stores across Europe, Asia and Australasia, as well as through strategic sales dealers in 14 additional countries, including Mexico, Japan and Turkey. Though originally focused on yoga wear, Lululemon grew its product line to include a range of athletic clothing and accessories, including pants, shorts, skirts, dresses, shirts, jackets, underwear and bags. Lululemon stated in a quality commitment that they designed a "majority of [the] product line to withstand five years of intended use," with the caveat that that number varied based on the particular product, the user, and the conditions under which the products were used.<sup>17</sup> Products were made of both synthetic and natural fabrics, such as petroleum-based materials and cotton.<sup>18</sup>

Lululemon worked with third-party suppliers to manufacture its products. By the end of 2013, Lululemon manufactured in 15 locations around the world, primarily in Asia — specifically, China, Taiwan, South Korea, India, Bangladesh, Indonesia, Malaysia, Cambodia, Sri Lanka and Vietnam.<sup>19</sup> In 2012, Lululemon had approximately 50 manufacturers across the world, though 60 per cent of its products were produced by five primary suppliers. In addition to general production, Lululemon also worked with these suppliers to "formulate innovative and technically-advanced fabrics and features"<sup>20</sup> for its product lines. For example, Lululemon's signature Luon performance fabric was developed in partnership with a single

manufacturer, Eclat Textile Co. in Taiwan,<sup>21</sup> using fabrics sourced from one company. Lululemon also partnered with companies who inspected and certified these new items and fabrics, “testing for a variety of performance characteristics, including pilling, shrinkage, abrasion resistance and colorfastness.” Lululemon did not have any formal long-term agreements with any of their manufacturers, noting in their 2012 Annual Report that “producers of [their] fabrics could be obtained with little or no additional expense...and/or delay in the timeliness of our production process.” Despite this, also in their 2012 Annual Report, Lululemon noted that relying on a limited number of third-party suppliers was a risk factor, as it could be a challenge to find alternate and acceptable suppliers at an appropriate price and in a timely fashion

Lululemon described its target customer as a “sophisticated and educated woman who understands the importance of an active, healthy lifestyle. . . to achieve physical fitness and inner peace.” This customer was also described as being “increasingly tasked with the dual responsibilities of career and family.” While the company primarily targeted adult women, it had also successfully developed products for men and youth. In 2009, Lululemon launched a brand aimed at the female youth market, *ivivva atletica*, described as dance-inspired products. The organization strove to educate its customers about the new product categories, as well as the diversity of uses of the main lines for non-yoga-related activities, like running, cycling and general athletics.<sup>22</sup>

## PUBLIC RELATIONS ISSUES

Early on, bad PR plagued Wilson and, by extension, Lululemon, when the founder’s controversial comments on subjects like the Japanese, child labour, plus-size customers, feminism and women’s bodies surfaced on various blogs and in traditional media. Articles with provocative titles like “12 Utterly Bizarre Facts About The Rise Of Lululemon”<sup>23</sup> and “Lululemon Founder Chip Wilson’s 5 Most Controversial Quotes”<sup>24</sup> were released in late 2013.

After being recognized as Entrepreneur of the Year in Canada by the National Post 2005, Wilson wrote a special citation for the National Post. In it, he described how the company name, Lululemon, was designed with Japanese consumers in mind, as the letter ‘L’ was not present in Japanese phonetics and would allow Lululemon to be viewed as authentically North American.<sup>25</sup> Wilson, when reflecting on a previous company he had sold to Japanese investors, said:

L is not in [the Japanese] vocabulary. It’s a tough pronunciation for them. So I thought, next time I have a company, I’ll make a name with three Ls and see if I can get three times the money. It’s kind of exotic for them. I was playing with Ls and I came up with Lululemon. It’s funny to watch them try to say it.”<sup>26</sup>

Later in 2005, *TheTyee.ca*, an independent online news magazine, accused Wilson of condoning child labor. Wilson was reported as having said in a conference presentation that child labor provided much-needed wages to impoverished youth and suggesting that Canadian street youths could also benefit from factory work.<sup>27</sup>

Lululemon also faced criticism from some employees and consumer advocates regarding its treatment of plus-sized customers. Staff reported that, while most merchandise was attractively showcased throughout the showroom, plus-sized clothing was often stored in a shoddy manner at the rear of the store and was rarely restocked.<sup>28</sup> In 2005, Wilson was reported by Canada’s *Calgary Herald* as referring to plus-sized clothing as a “money loser,” citing pricing considerations. Wilson allegedly told the reporter that it took

30 per cent more fabric to produce plus-size clothing. He also said that it would not be possible to charge more for the clothing for two key reasons: first, heavier consumers would not be willing to pay the higher price; secondly, such a pricing scheme could result in him being taken to the human rights commission by plus-size people, as that demographic was “very sensitive.”<sup>29</sup> While many clothing companies reportedly pursued a similar strategy, critics were disappointed with Lululemon, given that its brand emphasized leading a healthy and balanced lifestyle and aspiring for better health.<sup>30</sup>

In 2009, Wilson angered some customers when he wrote a blog post explaining that Lululemon was created because “female education levels, breast cancer, yoga/athletics and the desire to dress feminine came together all at one time.” In the same post, he linked the introduction of the birth control pill to the “era of divorces,” which he argued led to overworked mothers and daughters who were preparing for their own future divorces. The birth control pill, according to Wilson, in combination with “taking on the stress previously left to men in the working world” also led to the rise of breast cancer in the 1990s.<sup>31</sup> Readers spoke out in the blog’s comment section and through other social media channels such as Twitter<sup>32</sup> and Facebook,<sup>33</sup> criticizing the remarks as insensitive and inaccurate.

## EMPLOYEE AND AMBASSADOR RELATIONS

Though Lululemon originally only hired yoga practitioners, the company switched hiring practices later on. In the words of Wilson in 2009: “When we first started, we hired nothing but yogis, but it didn’t work because they were too slow. So we started hiring runners who like yoga. They’re more on the ball, more Type A.”<sup>34</sup> Lululemon considered its employees and its corporate culture to be one of its competitive strengths. In the 2012 annual report, Lululemon noted that it offered a “supportive, goal-oriented environment” that encouraged employees to “reach their full professional, health and personal potential.” Towards these aims, Lululemon offered employees training, personal development workshops and goal coaching, maintaining the stance that its employee relations were exceptional.<sup>35</sup>

While Lululemon did not publish data about issues that previous and current employees had with the company, such as motivation, or their opinions of its culture, some employees did become vocal in sharing their concerns. Lululemon employees registered at GlassDoor.com—a website where people could rank and share feedback about their employers—gave the company an overall ranking of 3.3 out of 5, a ranking lower than all major competitors except Under Armour.<sup>36</sup> While many employees had positive feedback regarding factors such as options for personal development and employee discounts, other employees described the culture as “cult-like”<sup>37</sup> and high-pressured. Negative perceptions of the Lululemon culture were not helped by the murder of one employee by another at the Bethesda, Maryland, store,<sup>38</sup> which one former employee partially attributed to the high amount of pressure to conform and display only positive emotions that Lululemon placed on its workers.<sup>39</sup>

Lululemon forged relationships not only with their employees but also with the wider community. Lululemon said that it engaged primarily in grassroots and community-based marketing supported by store expansion. Though the company used social media and in-store advertising, it also used a network of yoga and fitness practitioners to promote the brand and solicit feedback.<sup>40</sup>

From the very beginning of Lululemon, Wilson gave clothing to yoga instructors and solicited feedback from them.<sup>41</sup> This grew into the Team Research and Development (R&D) program, which gave certified fitness instructors a 15 per cent product discount in return for product feedback.<sup>42</sup> Lululemon also set up a brand ambassador program comprised of both local and elite ambassadors. These brand ambassadors were described by Lululemon as individuals who embodied the corporate culture, used yoga in their

training and were judged to be respected by their community. Local ambassadors were given free clothing and, in return, taught promotional classes (free of charge) for Lululemon.<sup>43</sup> Elite ambassadors were top-level athletes who competed internationally and included Olympic skier Jenn Heil and world-ranked golfer Veronica Felibert.<sup>44</sup> The feedback from the Team R&D program and the ambassadors was used as inputs for product development by the design team.

In November 2013, two former local ambassadors, husband and wife Diana and John Vitarelli, cut ties with Lululemon and derided the company in a blog post.<sup>45</sup> The issues they wrote about included what they saw as a lack of safety in the free courses due to overcrowding. Furthermore, they pointed out inconsistencies between Lululemon and what they viewed as key principles of yoga, citing Lululemon's over-emphasis on the so-called ideal body image, the company's lack of organic clothing, the "owner's antics and politics, and [the company's] advertising and marketing campaigns, [which] have no place in the yoga room."<sup>46</sup> And the Vitarellis were not alone in doubting Lululemon's authenticity. Backlash against the formerly beloved organization was mounting,<sup>47</sup> such as from former employees like Mary Mann<sup>48</sup> and Elizabeth Licorish<sup>49</sup> and from media outlets covering the founder's comments, such as Fast Company's coverage of "some highlights" of the founder's comments, an article with more than two thousand shares on Facebook.<sup>50</sup>

### PRODUCT QUALITY AND SOURCING ISSUES IN 2013

In March 2013, Lululemon made the news when customers complained that their black Luon women's pants were see-through. The signature black yoga pants were form-fitting, and the fabric became sheer when stretched.<sup>51</sup> Lululemon estimated that the quality issues affected about 17 per cent of black Luon pants purchased at the time.<sup>52</sup> The company issued a statement regarding the quality concerns on its main blog and, in a press release, cited issues with suppliers leading to the increased sheerness.<sup>53</sup> Lululemon offered customers an exchange or full refund for the affected clothing and pulled products from their stores and website. The company warned of impending shortages in stores and online due to the recall and downgraded their revenue expectations from an expected 11 per cent sales increase to an increase of between 5 and 8 per cent.<sup>54</sup> By 10 a.m. the next day, Lululemon shares had dropped more than 5 per cent.<sup>55</sup>

In April 2013, a subsequent internal investigation by Lululemon revealed that the fabric used in the product had not been subjected to complete testing and was "on the low end of Lululemon's tolerance scale."<sup>56</sup> However, Lululemon's supplier of the sheer pants, Taiwan's Eclat Textile Co Ltd, stated that the issue was not due to fabric quality issues but rather was a result of "a gap between Lululemon's expectations and reaction from the market," and that they had followed Lululemon instructions.<sup>57</sup> Eclat Textile had been a Lululemon supplier for more than a decade.<sup>58</sup>

Also in April 2013, it was announced that the company would undergo a reorganization and that the chief product officer would be leaving Lululemon that month.<sup>59</sup> A few months later, in July 2013, Lululemon was accused of fraudulently hiding product defects leading to the sheerness of the Luon pants, which led to a class-action lawsuit from shareholders in the United States, led by a Louisiana pension fund.<sup>60</sup>

Only a few months later, in November 2013, allegations about the poor quality of Lululemon's products continued, this time with respect to the high-performance fabric "pilling" as a result of friction from use and wear. In response to a question about the pilling by a reporter from Bloomberg, Wilson made one of his most controversial statements: "Frankly, some women's bodies just actually don't work for [wearing Lululemon pants]... it's really about the rubbing through the thighs, how much pressure is there over a

period of time, and how much they use it”<sup>61</sup> This statement made international news and sparked widespread outrage.<sup>62</sup> In response, Lululemon released a YouTube video of Wilson apologizing for the comment. The description provided with the video said, “We hear you. A message from Chip Wilson. Let’s stay in conversation.”<sup>63</sup>

Also in November 2013, another Lululemon store in Bethesda, Maryland—taking advantage of the fact that store managers have the freedom to decorate without corporate sign-off—posted a poem on the storefront that read, “Cups of Chai/Apple Pies/Rubbing thighs?” After the photo went viral on Twitter, the poem was taken down and the company issued an online apology: “We’re deeply sorry, the display is being taken down. We celebrate that thighs rub together - ours do too.”<sup>64</sup> The story was covered by major media outlets across the globe, including the United Kingdom’s Daily Mail and Canada’s Globe and Mail.

## THE FUTURE?

As 2014 kicked off, Lululemon faced a multitude of public relations crises. Like it said in Lululemon’s Manifesto, “Communication is COMPLICATED.” Would the old adage that there is no such thing as bad publicity hold true? Between the backlash to the founder’s comments, former employees and ambassadors speaking out against the company, and, the product quality and sourcing issues associated with their popular Luon pants, Lululemon had a myriad of issues to deal with. Should Lululemon address any of these issues and change its current strategy or chart a new course? How should these issues be prioritized and brought forward? What should the new CEO do?

## EXHIBIT 1: SELECTED FINANCIALS FOR LULULEMON

	2012	2011	2010
Net Revenue	\$1,000,839	\$711,704	\$452,989
Costs of Goods Sold	\$431,488	\$316,757	\$233,086
<b>Operating Expenses</b>			
Selling, general, administrative	\$282,393	\$212,784	\$136,161
Provision for impairment and lease exit costs	---	\$1,722	\$379
Income from operations	\$286,958	\$180,391	\$86,546
Other income (expense), net	\$2,500	\$2,886	\$164
Income before provision for income taxes	\$289,458	\$183,277	\$86,710
Provision for income taxes	\$104,494	\$61,080	\$28,429
Net income	\$184,964	\$122,197	\$58,281

Note: In thousands.

Source: Lululemon 2012 Annual Report, accessed January 1, 2014.

## ENDNOTES

- <sup>1</sup> This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Lululemon or any of its employees.
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