

LULULEMON ATHLETICA INC.¹

Kelly Huang (Arman) wrote this case under the supervision of Professor Dante M. Pirouz 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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Near the end of November 2013, Lululemon Athletica Inc. (Lululemon) found itself at the centre of a viral firestorm after a series of negative events seriously ruptured the company's reputation. As the founder, former chief executive officer (CEO) and chairman of the board of directors of Lululemon, Dennis "Chip" Wilson, had led the company to become an international leading brand in innovative and technical athletic wear. However, in 2013, Lululemon was facing its worst quality control problem to date, with a recall of 17 per cent of its Luon pants as a result of issues with sheerness (see <http://nydjlive.com/33800/lululemon-yoga-pants-return-test-bend-over-ladies/>).

On June 10, 2013, Christine Day, the president and CEO of Lululemon since April 2008, announced her resignation after some major criticism over the company's quality problems. Before joining Lululemon, Day had been president of Asia Pacific operations and senior vice-president of Starbucks Corp.

That same day, the company announced plans to quit the Toronto Stock Exchange (TSX) due to a lack of trading on the Canadian exchange, stating that the expenses associated with having a dual listing were not justifiable.² This move made sense to analysts, especially since only one of Lululemon's largest 40 institutional investors — Scotiabank, at No. 34 — was Canadian. Of the others, one was Norwegian and the rest were American. In addition, the annual listing on the TSX cost the company \$95,000 per year. An average of 123,020 Lululemon shares were traded daily on the TSX, while more than 3.5 million were traded daily on NASDAQ.³ Lululemon's publicly traded stocks plunged 17.5 per cent to USD\$67.85 per share on the NASDAQ on June 11, 2013.⁴

On November 5, 2013, during an interview with Bloomberg TV, Chip Wilson made a statement that sparked controversy among consumers around the world. In response to the public criticism of the sheer yoga pants, Wilson explained, "Quite frankly, some women's bodies just actually don't work for it. Even

¹ 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 Athletica Inc. or any of its employees.

² www.theglobeandmail.com/report-on-business/top-business-stories/privacy-cop-to-dig-deeper-on-canada-us-surveillance/article12456101/, accessed March 17, 2014.

³ www.biv.com/article/20130618/BIV0119/306189934/-1/BIV/plans-to-delist-from-toronto-stock-exchange-and-departure-of-ceo-fuel, accessed March 17, 2014.

⁴ www.theglobeandmail.com/report-on-business/lululemon-faces-third-us-class-action-suit-over-pants-recall/article13034889/, accessed March 17, 2014.

our small sizes would fit an extra-large. It's really about the rubbing through the thighs, how much pressure is there.”⁵ This statement triggered massive social outrage that was felt throughout many media platforms.

THE COMPANY

Founded by Dennis “Chip” Wilson in 1998, Lululemon started off as a design and yoga studio. Wilson graduated with a BA in economics from the University of Calgary in 1980, and in 1979, he founded his first retail apparel company, Westbeach Snowboard Ltd., which sold apparel targeted at the surf, skate and snowboard markets. He went on to sell Westbeach in 1997. Running this company gave Wilson the experience and platform to facilitate the launch of Lululemon.

Wilson’s vision for Lululemon came to life after he attended his first yoga class in Vancouver, stating that the post-yoga euphoria was comparable to the feeling he had when surfing and snowboarding. Driven by his passion for technical athletic wear, Wilson opened Lululemon’s first store in Kitsilano, Vancouver, Canada, in November 2000. Lululemon’s vision focused on community interactions, where people could learn and discuss the physical aspects of healthy living as well as the mental aspects of living an empowered life filled with possibilities. However, the success of the store became overwhelming for Wilson, and therefore, training was shifted to a Lululemon educator — in other words, to the retail staff members.⁶

The original vision of Lululemon was “to elevate the world from mediocrity to greatness” through promoting healthy, active lifestyles, as well as by creating components for people to live longer, healthier, fun lives.⁷ To that end, Lululemon addressed a void in the women’s athletic market when it was first established, and the company soon grew to encompass over 200 stores and showrooms in 14 countries.

Day had served as Lululemon’s CEO, president and director since January 2008. During her time with Lululemon, Day became the first woman to be named “CEO of the year” by Toronto’s *Globe and Mail*,⁸ and the company’s stock rose by over 400 per cent during her tenure. But after five years with the company, Day resigned, which some speculate was a result of the quality issues with the Luon pants prior to Wilson’s comments.

THE LUON PANTS

Lululemon created technical athletic apparel for yoga, running, dancing, and most other athletics pursued primarily by active women. In March 2013, the company pulled thousands of pairs of its popular black Luon pants from its store shelves over complaints about sheerness. Lululemon’s stock prices fell 8 per cent after the announcement.⁹

⁵ www.bloomberg.com/video/lululemon-pants-don-t-work-for-some-women-founder-ATKjgs7jQdulr_ou1z8XYg.html, accessed March 17, 2014.

⁶ www.lululemon.com/about/history, accessed March 17, 2014.

⁷ *Ibid.*

⁸ www.theglobeandmail.com/report-on-business/rob-magazine/ceo-of-the-year-christine-day-of-lululemon/article4252293/, accessed March 24, 2014.

⁹ www.huffingtonpost.com/2013/03/19/lululemon-yoga-pants-yanked-from-shelves-because-fabric-too-sheer_n_2904350.html, accessed March 26, 2014.

After the recall announcement, complaints from customers surfaced, claiming that when they had attempted to return their Luon pants, they had been asked by Lululemon staff to bend over to demonstrate the see-through problem. Many were outraged and upset at how the recall was being handled. One woman expressed her anger on the Lululemon Facebook page: “Please explain as to how this is gratifying customer service? If I think my black Luon pants are sheer and there is a mass recall happening, am I not entitled to go in without having to BEND OVER and obtain a refund?” In response to this rant, Day commented that the bending over was the only way to tell whether the pants were defective.¹⁰

In May 2013, a lawsuit was filed against Lululemon in Delaware Chancery Court, accusing the company directors of boosting executive bonuses just before the recall. In addition, shortly after Day’s resignation in June, Lululemon was hit with two class-action lawsuits, claiming that the company had hid the product defects, which artificially inflated the stock price and eventually led to the costly recall. Investors stated that Lululemon had knowingly concealed its discussions to replace Day.¹¹

In the midst of the controversy surrounding the statement made by Wilson on November 5, 2013, furious consumers inundated Lululemon’s Twitter, Facebook and Instagram accounts to express their discontent. Many customers stated that they would boycott the company, and others explained how disappointed they were with the actions of the management team.

CRITICISM IN THE MEDIA

In July 2013, a former employee of Lululemon revealed that the exiling of larger-sized clothing was a central piece of the company’s strategy to market its brand.¹² A representative of the digital engagement team replied to that comment in a Facebook post, which did not deny these claims but did offer a response to a customer named Kristen who had expressed her discontent with the sizing issue:

Hi Kristen, Thanks for checking in with us. Our product and design strategy is built around creating products for our target guest in our size range of 2-12. While we know that doesn’t work for everyone and recognize fitness and health come in all shapes and sizes, we’ve built our business, brand, and relationship with our guests on this formula. So it’s important for us to maintain our focus as we innovate our products and expand our business internationally in the years ahead.

This response caused even more ill will with some consumers, who insinuated that the situation was being improperly addressed by the company.

Yet another event added fuel to the fire in October 2013, when a Lululemon window display in a Dallas, Texas, store gained attention with a sign that read, “We do partners yoga, not partners card” (see Lululemon Mocks Domestic Abuse Charity, www.huffingtonpost.com/2013/10/31/lululemon-mocks-domestic-abuse-charity_n_4184281.html). The “card” referred to a local discount card that offered purchasers a variety of bargains at local businesses and supported a local anti-domestic violence charity called The Family Place. After being criticized by Facebook fans, Lululemon reached out to The Family Place by offering “the gift of yoga.” The Family Place’s executive director, Paige Flink, responded, “Yoga is so much of a part of their lives that they think everyone would love yoga, but yoga for a woman

¹⁰ www.businessinsider.com/customer-complains-about-lululemon-sheer-pants-2013-3#!JBjEl, accessed April 3, 2014.

¹¹ www.huffingtonpost.com/2013/07/02/lululemon-sued-sheer-yoga-pants_n_3536835.html, accessed April 3, 2013.

¹² www.huffingtonpost.com/2013/07/31/lululemon-plus-size_n_3675605.html, accessed April 3, 2014.

who was beaten is not the first thing on anybody's mind at The Family Place.”¹³ Lululemon apologized on Facebook shortly afterwards.

Following the statement from Wilson in November, several articles were published to further criticize the company's corporate culture, values and beliefs. Then, in December 2013, another display on the window of a Maryland store stated, “Cups of Chai/Apple Pies Rubbing Thighs?” (see www.huffingtonpost.ca/2013/12/03/lululemon-rubbing-thighs-window_n_4379280.html).¹⁴ Shoppers used Twitter to voice their opinions regarding the window display, as it had been only one month since Wilson's controversial interview.

LULULEMON'S NEXT STEPS

With the year coming to a close, the company seemed to be hit from all sides in a public-relations firestorm that had a negative impact on sales. Lululemon would need to come up with a strategy for moving forward and repairing the company's self-inflicted credibility damage.

¹³ www.huffingtonpost.com/2013/10/31/lululemon-mocks-domestic-abuse-charity_n_4184281.html, accessed April 3, 2014.

¹⁴ www.huffingtonpost.ca/2013/12/03/lululemon-rubbing-thighs-window_n_4379280.html, accessed April 3, 2014.