COMPANY BACKGROUND

A year after selling his eight-store surf-, skate-, and snowboard-apparel chain called Westbeach Sports, Chip Wilson took the first commercial yoga class offered in Vancouver, British Columbia, and found the result exhilarating. But he found the cotton clothing used for sweaty, stretchy power yoga completely inappropriate. Wilson's passion was form-fitting performance fabrics and in 1998 he opened a design studio for yoga clothing that also served as a yoga studio at night to help pay the rent. He designed a number of yoga apparel items made of moisture-wicking fabrics that were light, form-fitting, and comfortable and asked local yoga instructors to wear the products and give him feedback. Gratified by the positive response, Wilson opened lululemon's first real store in the beach area of Vancouver in November of 2000.

While the store featured yoga clothing designed by Chip Wilson and his wife Shannon, Chip Wilson's vision was for the store to be a community hub where people could learn and discuss the physical aspects of healthy living–from yoga and diet to running and cycling, plus the yoga-related mental aspects of living a powerful life of possibilities. But the store's clothing proved so popular that dealing with customers crowded out the community-based discussions and training about the merits of living healthy lifestyles. Nonetheless, Chip Wilson and store personnel were firmly committed to healthy, active lifestyles, and Wilson soon came to the conclusion that for the store to provide staff members with the salaries and opportunities to experience fulfilling lives, the one-store company needed to expand into a multi-store enterprise. Wilson believed that the increasing number of women participating in sports, and specifically yoga, provided ample room for expansion, and he saw lululemon athletica's yoga-inspired performance apparel as a way to address a void in the women's athletic apparel market. Wilson also saw the company's mission as one of providing people with the components to live a longer, healthier, and more fun life.

Several new stores were opened in the Vancouver area, with operations conducted through a Canadian operating company, initially named Lululemon Athletica, Inc. and later renamed lululemon Canada, Inc. In 2002, the company expanded into the United States and formed a sibling operating company, Lululemon Athletica USA Inc. (later renamed as lululemon USA, inc), to conduct its operations in the United States. Both operating companies were wholly-owned by affiliates of Chip Wilson. In 2004, the company contracted with a franchisee to open a store in Australia as a means of more quickly disseminating the lululemon athletica brand name, conserving on capital expenditures for store expansion (since the franchisee was responsible for the costs of operating and operating the store), and boosting revenues and profits. The company wound up its fiscal year ending January 31, 2005, with 14 company-owned stores, 1 franchised store, and net revenues of $40.7 million. A second franchised store was opened in Japan later in 2005. Franchisees paid lululemon a one-time franchise fee and an ongoing royalty based on a specified percentage of net revenues; lululemon supplied franchised store), and boosting revenues and profits. The company wound up its fiscal year ending January 31, 2005, with 14 company-owned stores, 1 franchised store, and net revenues of $40.7 million. A second franchised store was opened in Japan later in 2005. Franchisees paid lululemon a one-time franchise fee and an ongoing royalty based on a specified percentage of net revenues; lululemon supplied franchised stores with garments at a discount to the suggested retail price.

Five years after opening the first retail store, it was apparent that lululemon apparel was fast becoming something of a cult phenomenon and a status symbol among yoga fans in areas where lululemon stores had opened. Avid yoga exercisers were not hesitating to purchase $120 color-coordinated lululemon yoga outfits that felt comfortable and made them look good. Mall developers and mall operators quickly learned about lululemon's success and began actively recruiting lululemon to lease space for stores in their malls.

In December 2005, with 27 company-owned stores, 2 franchised stores, and record sales approaching $85 million annually, Chip Wilson sold 48 percent of his interest in the company's capital stock to two private equity investors: Advent International Corporation, which purchased 38.1 percent of the stock, and Highland Capital Partners, which purchased a 9.6 percent ownership interest. In connection with the transaction, the owners formed lululemon athletica inc. to serve as a holding company for all of the company's related entities, including the two operating subsidiaries, lululemon Canada Inc. and lululemon USA Inc. Robert Meers, who had 15 years' experience at Reebok and was Reebok's CEO from 1996–1999, joined lululemon as CEO in December 2005. Chip Wilson headed the company's design team and played a central role in developing the company's strategy and nurturing the company's distinctive corporate culture; he was also Chairman of the company's Board of Directors, a position he had held since founding the company in 1998. Wilson and Meers assembled a management team with a mix of retail, design, operations, product sourcing, and marketing experience from such leading apparel and retail companies as Abercrombie & Fitch, Limited Brands, Nike, and Reebok.

Brisk expansion ensued. The company ended fiscal 2006 with 41 company-owned stores, 10 franchised stores, net revenues of $149 million, and net income of $7.7 million. In 2007, the company's owners elected to take the company public. The initial public offering took place on August 2, 2007, with the company selling 2,290,909 shares to the public and various stockholders selling 15,909,091 shares of their personal holdings. Shares began trading on the NASDAQ under the symbol LULU and on the Toronto Exchange under the symbol LLL.

In 2007, the company's announced growth strategy had five key elements:

1. ***Grow the company's store base in North America.*** The strategic objective was to add new stores to strengthen the company's presence in locations where it had existing stores and then selectively enter new geographic markets in the United States and Canada. Management believed that the company's strong sales in U.S. stores demonstrated the portability of the lululemon brand and retail concept.

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2. ***Increase brand awareness.*** This initiative entailed leveraging the publicity surrounding the opening of new stores with grassroots marketing programs that included organizing events and partnering with local fitness practitioners.
3. ***Introduce new product technologies.*** Management intended to continue to focus on developing and offering products that incorporated technology-enhanced fabrics and performance features that differentiated lululemon apparel and helped broaden the company's customer base.
4. ***Broaden the appeal of lululemon products.*** This initiative entailed (1) adding a number of apparel items for men, (2) expanding product offerings for women and young females in such categories as athletic bags, undergarments, outerwear, and sandals, and (3) adding products suitable for additional sports and athletic activities.
5. ***Expand beyond North America.*** In the near term, the company planned to expand its presence in Australia and Japan and then, over time, pursue opportunities in other Asian and European markets that offered similar, attractive demogr1aphics.

The company grew rapidly. Fitness-conscious women began flocking to the company's stores not only because of the fashionable products but also because of the store ambience and attentive, knowledgeable store personnel. Dozens of new lululemon athletic retail stores were opened annually, and the company pursued a strategy of embellishing its product offerings to create a comprehensive line of apparel and accessories designed for athletic pursuits such as yoga; running and general fitness; technical clothing for active female youths; and a selection of fitness and recreational items for men. Revenues topped $1 billion in fiscal 2011, $2 billion fiscal 2016, and $3 billion in fiscal 2018.

For fiscal year 2019, lululemon revenues grew by 21 percent over fiscal 2018 to just under $4 billion. lululemon products could be bought at its 368 retail stores in the United States and Canada, 38 stores in the People's Republic of China, 38 stores in Australia and New Zealand, and 47 stores in the rest of the world. The company's e-commerce web site, www.lululemon.com, was available to customers worldwide. In the company's most recent fiscal year ending February 2, 2020, retail store sales accounted for 62.8 percent of company revenues, web site sales accounted for 28.6 percent, and sales in all other channels (sales at outlet centers, showroom sales, sales from temporary locations, licensing revenues, and wholesale sales to premium yoga studios, health clubs, fitness centers, and a few other temporary locations, licensing revenues, and wholesale sales to premium yoga studios, health clubs, fitness centers, and a few other retailers) accounted for 8.6 percent.

Exhibit 1 presents highlights of the company's performance for fiscal years 2015–2019. Exhibit 2 shows lululemon's revenues by business segment and geographic region for the same period.

EXHIBIT 1 Financial and Operating Highlights, lululemon athletica, Fiscal Years 2015–2019 (in millions of $, except per share data)

Selected Income Statement Data	Fiscal Year 2019 (Ending Feb. 2, 2020)	Fiscal Year 2018(Ending Feb. 3, 2019)	Fiscal Year 2017(Ending Jan.28,2018)	Fiscal Year 2016 (Ending Jan 29, 2017)	Fiscal Year 2015(Ending Jan. 31, 2016)
Net revenues	$3,979.3	$3,288.3	$2,649.2	$2,344.4	$2,060.5
Cost of goods sold	1,755.9	1,472.0	1,250.4	1,144.7	1,063.4
Gross profit	2,223.4	1,816.3	1,398.8	1,199.6	997.2
Selling, general, and administrative expenses	1,334.3	1,110.5	904.3	778.5	628.1
Operating profit	889.1	705.8	456.0	421.2	369.1
Net profit (loss)	$ 645.6	$ 483.8	$ 258.7	$ 303.4	$ 266.0
Foreign currency translation adjustment	(7.8)	(73.9)	58.6	36.7	(64.8)
Comprehensive income	$ 637.8	$ 409.9	$ 317.2	$ 340.1	$ 201.3
Earnings per share–basic	$ 4.95	$ 3.63	$ 1.90	$ 2.21	$ 1.90
–diluted	$ 4.93	$ 3.61	$ 1.90	$ 2.21	$ 1.89
Balance Sheet Data					
Cash and cash equivalents	$1,093.5	$ 881.3	$ 990.5	$ 734.8	$ 501.5
Inventories	518.5	404.8	329.6	298.4	284.0
Total assets	3,281.4	2,084.7	1,998.5	1,657.5	1,314.1
Stockholders' equity	1,952.2	1,446.0	1, 597.0	1,360.0	1,027.5
Cash Flow and Other Data					
Net cash provided by operating activities	$ 669.3	$ 742.8	$ 489.3	$ 385.1	$ 298.7
Capital expenditures	283.1	225.8	157.9	149.5	143.5
Store Data					
Number of corporate-owned stores open at end of period	491	440	404	406	363
Sales per gross square foot at corporate-owned stores open at least one full year	$ 1,657	$ 1,579	$ 1,554	$ 1,521	$ 1,541
Average sales at corporate-owned stores open at least one year	$5.18 million	$4.78 million	$4.68 million	$4.47 million	$4.57 million

Source: Company 10-K reports for fiscal years 2015, 2016, 2017, 2018, and 2019.

EXHIBIT 2 lululemon athletica's Revenues and Income from Operations, by Business Segment, Geographic Region, and Product Category. Fiscal Years 2015–2019 (dollars in millions)

Revenues by Business Segment	Fiscal Year 2019 (Ending Feb. 2, 2020)	Fiscal Year 2018 (Ending Feb. 3, 2019)	Fiscal Year 2017 (Ending Jan.28, 2018)	Fiscal Year 2016 (Ending Jan 29, 2017	Fiscal Year 2015 (Ending Jan. 31 2016)
Corporate-owned stores	$2,501.1	$2,126.4	$1,837.1	$1,704.4	$1,516.3
Direct-to-consumer (e-commerce sales)	1,137.8	858.9	577.6	453.3	401.5
All other channels*	340.4	303.1	234.5	186.7	142.7
Total	$3,979.3	$3,288.3	$2,649.2	$2,344.4	$2,060.5
Percentage Distribution of Revenues by Business Segment					
Corporate owned stores	62.9%	64.7%	69.3%	72.7%	73.6%
Direct-to-consumer (e-commerce sales)	28.6%	26.1%	21.8%	19.3%	19.5%
All other channels*	8.5%	9.2%	8.9%	8.0%	6.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Income from Operations (before general corporate expenses), by Business Segment					
Corporate owned stores	$ 689.3	$ 575.5	$ 464.3	$ 415.6	$ 346.8
Direct-to-consumer (e-commerce sales)	482.4	354.1	224.1	186.2	166.4
All other channels*	72.6	62.6	35.6	22.3	5.8
Total Income from Operations (before general corporate expenses)	$1,244.3	$992.2	$724.0	$624.1	$519.0
Revenues by Geographic Region					
United States	$2,854.4	$2,363.4	$1,911.8	$1,726.1	$1,508.8
Canada	649.1	565.1	491.8	447.2	416.5
Outside of North America	475.8	359.8	245.6	171.1	135.2
Total	$3,979.3	$3,288.3	$2,649.2	$2,344.4	$2,060.5
Percentage Distribution of Revenues by Geographic Region					
United States	71.7%	71.9%	72.2%	73.6%	73.2%
Canada	16.3%	17.2%	18.6%	19.1%	20.2%
Outside of North America	12.0%	10.9%	9.2%	7.3%	6.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Revenues by Product Category					
Women's products	$2,791.0	$2,352.8	$1,892.6	Not reported	Not reported
Men's products	933.8	694.9	526.5	Not reported	Not reported
Other categories	254.5	240.6	230.0	Not reported	Not reported

Aa
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Source: Company 10-K Reports, Fiscal Years, 2017 and 2019.

lululemon's Evolving Senior Leadership Team

In January 2008, Christine M. Day joined the company as Executive Vice President, Retail Operations. Previously, she had worked at Starbucks, functioning in a variety of capacities and positions, including President, Asia Pacific Group (July 2004- February 2007); Co-President for Starbucks Coffee International (July 2003 to October 2003); Senior Vice President, North American Finance & Administration; and Vice President of Sales and Operations for Business Alliances. In April 2008, Day was appointed as lululemon's President and Chief Operating Officer and was named Chief Executive Officer and member of the Board of Directors in July 2008. During her tenure as CEO, Day expanded and strengthened the company's management team to support its expanding operating activities and geographic scope, favoring the addition of people with relevant backgrounds and experiences at such companies as Nike, Abercrombie & Fitch, The Gap, and Speedo International. She also spent a number of hours each week in the company's stores observing how customers shopped, listening to their comments and complaints, and using the information to tweak product offerings, merchandising, and store operations.

Company founder Chip Wilson stepped down from his executive role as lululemon's Chief Innovation and Branding Officer effective January 29, 2012, and moved his family to Australia; however, he continued on in his role of Chairman of the company's Board of Directors and focused on becoming a better Board Chairman, even going so far as to take a four-day course on board-governance at Northwestern University.[1] Christine Day promoted Sheree Waterson, who had joined the company in 2008 and had over 25 years of consumer and retail industry experience, as Chief Product Officer to assume responsibility for product design, product development, and other executive tasks that Wilson had been performing. Shortly after the quality problems with the black Luon bottoms occurred, Sheree Waterson resigned her position and left the company. In October 2013, lululemon announced that Tara Poseley had been appointed to its Senior Leadership Team as Chief Product Officer and would have responsibility for overseeing lululemon's design team, product design activities, merchandising, inventory activities, and strategic planning. Previously, Poseley held the position of Interim President at Bebe Stores, Inc, President of Disney Stores North America (The Children's Place), CEO of Design Within Reach (DWR), and a range of senior merchandising and design management positions during her 15-year tenure at Gap Inc.

In the aftermath of the pants recall in March 2013, the working relationship between Christine Day and Chip Wilson deteriorated. Wilson made it clear that he would have handled the product recall incident differently and that he did not think there were problems with the design of the product or the quality of the fabric. But the differences between Day and Wilson went beyond the events of March 2013, especially when some consumers began to complain about the quality of the replacement pants. Wilson returned from Australia in May 2013, and weeks later Christine Day announced she would step down as CEO when her successor was named. A lengthy search for Day's replacement ensued.

In the meantime, Chip Wilson triggered a firestorm when, in an interview with Bloomberg TV in November 2013, he defended the company's design of the black Luon bottoms, saying "Quite frankly, some women's bodies just actually don't work" with the pants.

search for Day's replacement ensued.

In the meantime, Chip Wilson triggered a firestorm when, in an interview with Bloomberg TV in November 2013, he defended the company's design of the black Luon bottoms, saying "Quite frankly, some women's bodies just actually don't work" with the pants. Although a few days later he publicly apologized for his remarks suggesting that the company's product quality issues back in March 2013 were actually the fault of overweight women, his apology was not well received. In December 2013, Wilson resigned his position as Chairman of lululemon's board of directors and took on the lesser role of non-executive Chairman. A few months later, Wilson announced that he intended to give up his position as non-executive Chairman prior to the company's annual stockholders meeting in June 2014 but continue on as a member of the company's Board of Directors (in 2013–2014, Wilson was the company's largest stockholder and controlled 29.2 percent of the company's common stock).

In early December 2013, lululemon announced that its Board of Directors had appointed Laurent Potdevin as the company's Chief Executive Officer and a member of its Board of Directors; Potdevin stepped into his role in January 2014, and, to help ensure a smooth transition, Christine Day remained with lululemon through the end of the company's fiscal year (February 2, 2014). Potdevin came to lululemon having most recently served as President of TOMS Shoes, a company founded on the mission that it would match every pair of shoes purchased with a pair of new shoes given to a child in need. Prior to TOMS, Potdevin held numerous positions at Burton Snowboards for more than 15 years, including President and CEO from 2005–2010; Burton Snowboards, headquartered in Burlington, Vermont, was considered to be the world's premier snowboard company, with a product line that included snowboards and accessories (bindings, boots, socks, gloves, mitts, and beanies); men's, women's, and youth snowboarding apparel; and bags and luggage. Burton's grew significantly under Potdevin's leadership, expanding across product categories and opening additional retail stores.

Tension between Chip Wilson and lululemon's board of directors erupted at the company's annual shareholders' meeting in June 2014 when he voted his entire shares against re-election of the company's chairman and another director. In February 2015, after continuing to disagree with lululemon executives and board members over the company's strategic direction and ongoing dissatisfaction with how certain lululemon activities were being managed, Wilson resigned his position on lululemon's board of directors. In August 2014, he sold half of his ownership stake to a private equity firm. In June 2015, lululemon filed documents with the Securities and Exchange Commission enabling Wilson to sell his remaining 20.1 million shares (equal to a 14.6 percent ownership stake worth about $1.3 billion) in the event he wished to do so. As of April 2020, Chip Wilson owned 10.7 million shares of lululemon's common stock, equal to an ownership stake of about 8.1 percent. Wilson, together with his wife and son, in 2014 formed a new company, Kit and Ace, that specialized in high-end clothing for men and women made from a machine-washable, high performance, cashmere fabric; the innovative clothing line was designed for all-day wear and included a range of items suitable for running errands or attending an evening event. In 2016, there were some 60 Kit and Ace stores in the United States, Canada, Australia, Britain, and Japan; however, in 2020, the company only had 8 locations, all in Canada.

In 2018, lululemon CEO Laurent Potdevin resigned as CEO following allegations of misconduct. Potdevin was replaced by Calvin McDonald as Chief Executive Officer in August 2018. McDonald had previously served for five years as the President and CEO of

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Sephora America, a division of the LVMH Group. Mr. McDonald had been very successful in his previous position, a period during which Sephora America grew annually by double digits. McDonald was also an endurance athlete who had competed in both triathlons and marathons.[2] In April 2020, the Chief Financial Officer (CFO) for lululemon, Patrick Guido, resigned as CFO. Guido had not been replaced as of June 17, 2020.

THE YOGA MARKETPLACE

According to the most recent study on the practice of yoga in the United States, a "Yoga in America" study funded by the *Yoga Journal,* in 2015 there were 36.7 million people in the United States who had practiced yoga in the last six months in a group or private class setting, up from 20.4 million in 2012 and 15.8 million in 2008.[3] Worldwide, it was estimated that were about 300 million yoga practitioners.[4] About 72 percent of the people who engaged in group or class yoga exercises were women, and close to 62 percent of all yoga practitioners were in the age range of 18–49.[5] The level of yoga expertise varied considerably: 56 percent of yoga practitioners considered themselves as beginners, 42 percent considered themselves as "intermediate," and two percent considered themselves to be in the expert/advanced category. Spending on yoga classes, yoga apparel, equipment, and accessories was an estimated $16.8 billion, up from $10.3 billion in 2012, and $5.7 billion in 2008.[6]

The market for sports and fitness apparel was considerably larger, of course, than just the market for yoga apparel. The global market for all types of sportswear, activewear, and athletic apparel was estimated to be about $250 billion in 2020 and was forecast to grow at roughly five percent annually through 2026.[7] Sales of various types of sports apparel was among the fastest-growing segments in the $3 trillion global apparel market. In the United States, sales of activewear and all types of gym and fitness apparel, which included both items made with high-tech performance fabrics that wicked away moisture and items made mostly of cotton, polyester, stretch fabrics, and selected other manmade fibers that lacked moisture-wicking and other high performance features, were the fastest growing segment of the apparel industry.[8]

LULULEMON'S STRATEGY AND BUSINESS IN 2020

Lululemon athletica viewed its core mission as "creating components for people to live longer, healthier, fun lives."[9] The company's primary target customer was

> "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. We believe she pursues exercise to achieve physical fitness and inner peace."[10]

In the company's early years, lululemon's strategy was predicated on management's belief that other athletic apparel companies were not effectively addressing the unique style, fit and performance needs of women who were embracing yoga and a variety of other fitness and athletic activities. Lululemon sought to address this void in the marketplace by incorporating style, feel-good comfort, and functionality into its yoga-inspired apparel products and by building a network of lululemon retail stores, along with an online store at the company's website, to market its apparel directly to these women. However, while the company was founded to address the unique needs and preferences of women, it did not take long for management to recognize the merits of broadening the company's market target to include fitness apparel for activities other than yoga and apparel for population segments other than adult women.

In 2009, lululemon opened its first ivviva-branded store in Vancouver, British Columbia, to sell high quality, premium-priced dance-inspired apparel to female youth (ivviva was a word that lululemon made up). The Vancouver store was soon profitable, and 11 additional company-owned ivviva stores were opened in Canada and the United States during 2010–13. In 2014–15, the opening of new ivviva stores accelerated. However, in June 2019, lululemon announced the closure of all but seven of the company's ivviva stores. Sales of many ivviva branded products were moved online to the lululemon website, and sales of some ivviva products continued through other retailers, including Target and Amazon.com. In September 2019, lululemon announced it would close the seven remaining ivviva stores by mid-2020.

In 2013–14, the company began designing and marketing products for men who appreciated the technical rigor and premium quality of athletic and fitness apparel. Management also believed that participation in athletic and fitness activities was destined to climb as people over 60 years of age became increasingly focused on living longer, healthier, active lives in their retirement years and engaged in regular exercise and recreational activities. Another demand-enhancing factor was that consumer decisions to purchase athletic, fitness, and recreational apparel were being driven not only by an actual need for functional products but also by a desire to create a particular lifestyle perception through the apparel they wore. Consequently, senior executives had transitioned lululemon's strategy from one of focusing exclusively on yoga apparel for women to one aimed at designing and marketing a wider range of healthy lifestyle-inspired apparel and accessories for women and men and dance-inspired apparel for girls. In 2019, men's product lines became a major focus of growth for the company.

In early 2019, lululemon announced a new five-year "Power of Three" strategic plan featuring three growth initiatives:

accessories for women and men and dance-inspired apparel for girls. In 2019, men's product lines became a major focus of growth for the company.

In early 2019, lululemon announced a new five-year "Power of Three" strategic plan featuring three growth initiatives:

- **Product Innovation.** The company sought to pursue a disruptive innovation strategy in its core apparel markets, using what management called a Science of Feel™ approach to product development that emphasized using fabrics and technologies that provided both excellent technical performance and feel-good comfort, to introduce new products with innovative features and maintain a fresh and growing lineup of yoga, running, and training products for both women and men. The plan also called for the company to continue its product collaborations, expand its popular Office/Travel/Commute line, and pursue new opportunities such as selfcare.
- **Omni Guest Experiences.** The company sought to become "an experiential brand" and use all of the company's marketing channels to grow and deepen its relationship with the guests who patronized its stores and the consumers who shopped its website, and, further, to create a series of ongoing experiential moments and opportunities where local community members striving to live the "sweatlife" and lead a healthy, mindful lifestyle could connect and come together. The company's concept of integrated "omni guest experiences" thus went beyond just the experiences customers had in shopping, purchasing, and using the company products to include creating and hosting a variety of local community events, an innovative membership program, partnerships with local yoga studios and running clubs, and unique store formats (like a 25,000 square-foot store in Chicago which had a yoga studio, meditation space, a healthy food and juice bar, and areas for community gatherings). In addition, management intended for the company's digital ecosystem to become a greater source of information and communication and a means of inspiring and igniting community building.
- **Continuing to Add lululemon Retail Stores in Both Its Core North American Market and Internationally.** Outside North America, China was the company's primary focus for new store openings, with 16 new stores added in the 2019 fiscal year and more planned for 2020. One to two new company-operated stores were being opened in several countries across Europe (notably in the United Kingdom, France, Germany, the Netherlands, and the Scandinavian countries), and in selected countries in the Asia-Pacific (Australia, Japan, Malaysia, Singapore, and South Korea).

lululemon reported significant progress on its strategic goals in early 2020, stating that the company's performance was on track to achieve its five-year strategic plan goals to double online sales, double sales of men's products, and quadruple international revenues by year-end 2023 and was well-ahead of its previously set target to reach $4 billion in annual revenue in fiscal 2020.

Product Line Strategy

In 2020, lululemon offered a diverse and growing selection of premium-priced performance apparel and accessories for women, female youths and men that were designed for healthy lifestyle activities such as yoga, swimming, running, cycling, and general fitness. Currently, the company's range of offerings included:

EXHIBIT 3 **lululemon athletica's Product Offerings for Women and Men, Representative Sample, 2020**

the company's range of offerings included:

EXHIBIT 3 lululemon athletica's Product Offerings for Women and Men, Representative Sample, 2020

Women		Men
• Sports bras	• Swimwear	• Tops
• Tanks	• Socks and underwear	• Jackets and hoodies
• Sweaters and wraps	• Scarves	• Pants and shorts
• Jackets and hoodies	• Gear bags	• Gear bags and backpacks
• Long-sleeve and short-sleeve tops and tees	• Caps and headbands	• Caps and gloves
• Pants and crops	• Sweat cuffs and gloves	• Swimwear
• Shorts	• Water bottles	• Socks and underwear
• Skirts and dresses	• Yoga mats and props	• Run accessories
• Outerwear	• Instructional yoga DVDs	• Yoga mats, props, and instructional DVDs

If you are not familiar with lululemon products, it would be useful to spend a few minutes browsing the company's e-store at www.lululemon.com.

lululemon's Strategy of Offering Only a Limited Range of Apparel Sizes.

In the months following the product recall of the too-sheer bottom pants in March 2013, lululemon officially revealed in a posting on its Facebook page that it did not offer clothing in plus-sizes because focusing on sizes 12 and below was an integral part of its business strategy; according to the company's posting and to the postings of lululemon personnel who responded to comments made by Facebook members who read the lululemon posting:[11]

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> 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.
>
> We agree that a beautiful healthy life is not measured by the size you wear. We want to be excellent at what we do, so this means that we can't be everything to everybody and need to focus on specific areas. Our current focuses are in innovating our women's design, men's brand, and building our international market.
>
> At this time, we don't have plans to change our current sizing structure which is 2–12 for women.

In 2016, the largest size appearing in the size guide for women on lululemon's website was 12, which was said to be suitable for a 40" bust,

In 2016, the largest size appearing in the size guide for women on lululemon's website was 12, which was said to be suitable for a 40" bust, 32.5" waist, and 43" hips. In 2020, the largest women's size appearing on the company's website was 14 (but size 12 was the largest offered for most products). Some women's products were offered in sizes ranging from XXXS (for a 21" waist, 29" bust, and 32" hips) to XXL (for a 35" waist, 42" bust, and 45" hips), but most such products were sized XS to XL.

Retail Distribution and Store Expansion Strategy

After several years of experience in establishing and working with franchised stores in the United States, Australia, Japan, and Canada, top management in 2010 determined that having franchised stores was not in lululemon's best long-term strategic interests. A strategic initiative was begun to either acquire the current stores of franchisees and operate them as company stores or convert the franchised stores to a joint venture arrangement where lululemon owned the controlling interest in the store and the former franchisee owned a minority interest. By year-end 2011, all lululemon stores were company-operated.

As of February 2020, lululemon had 491 company-operated stores in 17 countries:

- 305 stores in the United States (including 19 factory outlet stores in discount malls).
- 63 stores in Canada, including seven ivviva stores slated for closure later on in 2020.
- 38 stores in the People's Republic of China, inclusive of six stores in Hong Kong, two stores in Macau, and one store in Taiwan.
- 31 stores in Australia.
- 14 stores in the United Kingdom.
- Seven stores in Japan, seven stores in New Zealand, six stores in Germany, five stores in South Korea, four stores in Singapore, three stores in France, two stores in Malaysia, two stores in Sweden, and one store in each of the Netherlands, Ireland, Norway, and Switzerland.

In fiscal year 2020, management had announced that in new store openings would come primarily from company-operated store openings in Asia and the United States. Management reported that the company's real estate strategy going forward would be to focus on (1) the opening of new company-operated stores, and (2) expansion of the company's overall retail square footage through store expansions and store relocations.[12] With sales per square foot of $1,657 in lululemon retail stores in fiscal 2019, management believed its sales revenues per square foot of retail space were close to the best in the retail apparel sector. By way of comparison, the stores of specialty fashion retailers like Old Navy, Banana Republic, The Gap, and Abercrombie & Fitch typically had 2015 annual sales averaging less than $500 per square foot of store space.

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lululemon's Retail Stores: Locations, Layout, and Merchandising. The company's retail stores were located primarily on street locations, in upscale strip shopping centers, in lifestyle centers, and in malls. Typically, stores were leased and ranged from 2,500 to 3,500 square feet in size. Most stores included space for product display and merchandising, checkout, fitting rooms, a restroom, and an

lululemon's Retail Stores: Locations, Layout, and Merchandising. The company's retail stores were located primarily on street locations, in upscale strip shopping centers, in lifestyle centers, and in malls. Typically, stores were leased and ranged from 2,500 to 3,500 square feet in size. Most stores included space for product display and merchandising, checkout, fitting rooms, a restroom, and an office/storage area. While the leased nature of the store spaces meant that each store had its own customized layout and arrangement of fixtures and displays, each store was carefully decorated and laid out in a manner that projected the ambience and feel of a homespun local apparel boutique rather than the more impersonal, cookie-cutter atmosphere of many apparel chain stores.

The company's merchandising strategy was to sell all of the items in its retail stores at full price.[13] Special colors and seasonal items were in stores for only a limited time–such products were on 3, 6, or 12-week life cycles so that frequent shoppers could always find something new. Store inventories of short-cycle products were deliberately limited to help foster a sense of scarcity, condition customers to buy when they saw an item rather than wait, and avoid any need to discount unsold items. In one instance, a hot-pink color that launched in December was supposed to have a two-month shelf life, but supplies sold out in the first week. However, supplies of core products that did not change much from season to season were more ample to minimize the risk of lost sales due to items being out-of-stock. Approximately 95 percent of the merchandise in lululemon stores was sold at full price.[14] When certain styles, colors, and sizes of apparel items at lululemon retail stores were selling too slowly to clear out the inventories of items ordered from contract manufacturers, lululemon typically shipped the excess inventories to one or more of the 19 lululemon Factory Outlet stores in North America to be sold at discounted prices.

One unique feature of lululemon's retail stores was that the floor space allocated to merchandising displays and customer shopping could be sufficiently cleared to enable the store to hold an in-store yoga class before or after regular shopping hours. Every store hosted a complimentary yoga class each week that was conducted by a professional yoga instructor from the local community who had been recruited to be a "store ambassador;" when the class concluded, the attendees were given a 15 percent-off coupon to use in shopping for products in the store. From time to time, each store's yoga ambassadors demonstrated their moves in the store windows and on the sales floor. **Exhibit 4** shows the exteriors and interiors of representative lululemon athletica stores.

lululemon's Showroom Strategy. Over the years, lululemon had opened "showrooms" in numerous locations both inside and outside North America as a means of introducing the lululemon brand and culture to a community, developing relationships with local fitness instructors and fitness enthusiasts, and hosting community-related fitness events, all in preparation for the grand opening of a new lululemon athletica retail store in weeks ahead. Showroom personnel:

- Hosted get-acquainted parties for fitness instructors and fitness enthusiasts.
- Recruited a few well-regarded fitness instructors in the local area to be "store ambassadors" for lululemon products and periodically conduct in-store yoga classes when the local lululemon retail store opened.
- Advised people visiting the showroom on where to find great yoga or Pilates classes, fitness centers, and health and wellness information and events.

- Advised people visiting the showroom on where to find great yoga or Pilates classes, fitness centers, and health and wellness information and events.
- Solicited a select number of local yoga studios, health clubs, and fitness centers to stock and retail a small assortment of lululemon's products.

Showrooms were only open part of the week so that showroom personnel could be out in the community meeting people, building relationships with yoga and fitness instructors, participating in local yoga and fitness classes and talking with attendees before and after class, promoting attendance at local fitness and wellness events, and stimulating interest in the soon-to-open retail store. lululemon used showrooms as a means of "pre-seeding" the opening of a lululemon retail store primarily in those locations where no other lululemon retail stores were nearby.

Wholesale Sales Strategy

lululemon also marketed its products to select premium yoga studios, health clubs, and fitness centers as a way to gain the implicit endorsement of local fitness personnel for lululemon branded apparel, familiarize their customers with the lululemon brand, and give them an opportunity to conveniently purchase lululemon apparel.

lululemon management did not want to grow wholesale sales to these types of establishments into a significant revenue contributor. Rather, the strategic objective of selling lululemon apparel to yoga studios, health clubs, and fitness centers was to build brand awareness, especially in new geographic markets both in North America and other international locations where the company intended to open new stores. Wholesale sales to outlet stores were made only to dispose of excess inventories and thereby avoid in-store markdowns on slow-selling items.

lululemon had entered into license and supply arrangements with partners in the Middle East and Mexico to operate lululemon athletica branded retail locations in the United Arab Emirates, Kuwait, Qatar, Oman, Bahrain and Mexico. lululemon retained the rights to sell lululemon products through their e-commerce websites in these countries. Under the arrangement, lululemon supplied their partners with lululemon products, training, and other support. As of February 2020, there were four licensed retail locations in Mexico, three in the United Arab Emirates, and one in Qatar, none of which were included in the company-operated store numbers in **Exhibit 1**.

The company's wholesale sales to all these channels accounted for $340 million in sales, or 8.6 percent of total net revenues in fiscal 2019, versus 9.2 percent of total net revenues for the company in fiscal 2018.

Direct-to-Consumer Sales Strategy

In 2009, lululemon launched its e-commerce website, www.lululemon.com, to enable customers to make online purchases, supplement its already-functioning phone sales activities, and greatly extend the company's geographic market reach. Management saw online sales as

Direct-to-Consumer Sales Strategy

In 2009, lululemon launched its e-commerce website, www.lululemon.com, to enable customers to make online purchases, supplement its already-functioning phone sales activities, and greatly extend the company's geographic market reach. Management saw online sales as having three strategic benefits: (1) providing added convenience for core customers, (2) securing sales in geographic markets where there were no lululemon stores, and (3) helping build brand awareness, especially in new markets, including those outside of North America. As of May 2020, the company website reached 6 continents and 84 separate countries in North America, South America, Africa, Asia, Europe, and the Middle East. lululemon provided free standard shipping (2–6 business day delivery) on all lululemon to customers in North America; a flat $30 shipping fee (5–10 business day delivery) was charged to buyers located in international destinations.

The merchandise selection that lululemon offered to online buyers differed somewhat from what was available in the company's retail stores. A number of the items available in stores were not sold online; a few online selections were not available in the stores. Styles and colors available for sale online were updated weekly. On occasion, the company marked down the prices of some styles and colors sold online to help clear out the inventories of items soon to be out-of-season and make way for newly-arriving merchandise–online customers could view the discounted merchandise by clicking on a "we made too much" link.

In addition to making purchases, website visitors could browse information about what yoga was, what the various types of yoga were, and their benefits; learn about fabrics and technologies used in lululemon's products; read recent posts on lululemon's yoga blog; and stay abreast of lululemon activities in their communities. The company planned to continue to develop and enhance its e-commerce websites in ways that would provide a distinctive online shopping experience and strengthen its brand reputation.

Direct-to-consumer sales at the company's websites had become an increasingly important part of the company's business, with e-commerce sales climbing from $106.3 million in fiscal 2011 (10.6 percent of total net revenues) to $1.14 billion in fiscal 2019 (28.6 percent of total revenues)–equal to a compound annual growth rate of 34.5 percent. In April 2020, when the majority of lululemon's retail stores in North America and elsewhere were closed due to COVID-19, e-commerce became a vital link between the company and the consumer. **Exhibit 4** shows the growth in quarterly e-commerce sales for fiscal years 2018 and 2019 and the first quarter of 2020.

EXHIBIT 4 lululemon's Quarterly E-commerce Sales, Q1 2018 through Q1 2020

Online Sales	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2018	$157.8 million	$167.4 million	$189.4 million	$344.2 million
2019	209.8 million	217.6 million	246.7 million	463.7 million
2020	352.0 million			

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2020	352.0 million			

Source: Quarterly Financial Results, posted in the Investor Relations section at www.lululemon.com.

Product Design and Development Strategy

lululemon's product design efforts were led by a team of designers based in Vancouver, British Columbia partnering with various international designers. The design team included athletes and users of the company's products who embraced lululemon's design philosophy and dedication to premium quality. Design team members regularly visited retail stores in a proactive effort to solicit feedback on existing products from store customers and fitness ambassadors and to gather their ideas for product improvements and new products. In addition, the design team used various market intelligence sources to identify and track market trends. On occasion, the team hosted meetings in several geographic markets to discuss the company's products with local athletes, trainers, yogis, and members of the fitness industry. The design team incorporated all of this input to make fabric selections, develop new products, and make adjustments in the fit, style, and function of existing products.

The design team worked closely with its apparel manufacturers to incorporate innovative fabrics that gave lululemon garments such characteristics as stretch ability, moisture-wicking capability, color fastness, feel-good comfort, and durability. Fabric quality was evaluated via actual wear tests and by a leading testing facility. Before bringing out new products with new fabrics, lululemon used the services of leading independent inspection, verification, testing, and certification companies to conduct a battery of tests on fabrics for such performance characteristics as pilling, shrinkage, abrasion resistance, and colorfastness. Lastly, lululemon design personnel worked with leading fabric suppliers to identify opportunities to develop fabrics that lululemon could trademark and thereby gain added brand recognition and brand differentiation.

Where appropriate, product designs incorporated convenience features, such as pockets to hold credit cards, keys, digital audio players, and clips for heart rate monitors and long sleeves that covered the hands for cold-weather exercising. Product specifications called for the use of advanced sewing techniques, such as flat seaming, that increased comfort and functionality, reduced chafing and skin irritation, and strengthened important seams. All of these design elements and fabric technologies were factors that management believed enabled lululemon to price its high-quality technical athletic apparel at prices above those of traditional athletic apparel.

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Typically, it took 8 to 10 months for lululemon products to move from the design stage to availability in its retail stores; however, the company had the capability to bring select new products to market in as little as two months. Management believed its lead times were shorter than those of most apparel brands due to the company's streamlined design and development process, the real-time input received from customers and ambassadors at its store locations, and the short times it took to receive and approve samples from manufacturing suppliers. Short lead times facilitated quick responses to emerging trends or shifting market conditions.

lululemon management believed that its design process enhanced the company's capabilities to develop top quality products and was a competitive strength.

Sourcing and Manufacturing

Production was the only value chain activity that lululemon did not perform internally. Lululemon did not own or operate any manufacturing facilities to produce fabrics or make garments. In 2019, fabrics were sourced from a group of approximately 76 fabric manufacturers, with five fabric manufacturers supplying 59 percent of the total and the largest single fabric manufacturer supplying 32 percent of the fabric used. During fiscal year 2019, approximately 46 percent of the required fabrics were sourced from suppliers in Taiwan, 14 percent from suppliers in mainland China, 19 percent from manufacturers in Sri Lanka, and the remainder from other regions. Other raw materials used in lululemon products, such as content labels, elastics, buttons, clasps, and drawcords, were obtained from suppliers located predominantly in the Asia Pacific region.

Garments were sourced from approximately 39 contract manufacturers, five of which produced approximately 56 percent of the company's products in fiscal 2019, with the largest of these producing about 17 percent of the total. During fiscal 2019, approximately 33 percent of the company's products were produced in Vietnam, 16 percent in Cambodia, 15 percent in Sri Lanka, 11 percent in China (including two percent in Taiwan), and the remainder in other countries. The company deliberately refrained from entering into long-term contracts with any of its fabric suppliers or manufacturing sources, preferring instead to transact business on an order-by-order basis and rely on the close working relationships it had developed with its various suppliers over the years. lululemon maintained production relationships with several manufacturers in North America that provided the company with the capability to speed select products to market and respond quickly to changing trends and unexpectedly high buyer demand for certain products.

lululemon took great care to ensure that its manufacturing suppliers shared lululemon's commitment to quality and ethical business conduct. All manufacturers were required to adhere to a vendor code of ethics regarding quality of manufacturing, working conditions, environmental responsibility, fair wage practices, and compliance with child labor laws, among others. lululemon utilized the services of a leading inspection and verification firm to closely monitor each supplier's compliance with applicable law, lululemon's vendor code of ethics, and other business practices that could reflect badly on lululemon's choice of suppliers.

Distribution Facilities

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Distribution Facilities

lululemon shipped products to its stores from owned or leased distribution facilities in the United States, Canada, and Australia. The company owned a 310,000 square-foot distribution center in Columbus, Ohio and operated a leased 156,000 square-foot distribution center in Vancouver, British Columbia, a leased 250,000 square-foot distribution facility in Toronto, Ontario, and a leased 150,000 square-foot facility in Sumner, Washington. All four were modern and cost-efficient. In 2011, the company began operations at a leased 54,000 square-foot distribution center in Melbourne, Australia, to supply its stores in Australia and New Zealand. Third-party logistics providers in China and the Netherlands were used to warehouse and distribute finished products from their warehouse locations to supply the company's retail stores in China and Europe. Merchandise was typically shipped to retail stores through third-party delivery services multiple times per week, thus providing stores with a steady flow of new inventory.

lululemon's Community-Based Marketing Approach and Brand-Building Strategy

One of lululemon's differentiating characteristics was its community-based approach to building brand awareness and customer loyalty. Local fitness practitioners chosen to be ambassadors introduced their fitness class attendees to the lululemon brand, thereby leading to interest in the brand, store visits, and word-of-mouth marketing. Each yoga-instructor ambassador was also called upon to conduct a complimentary yoga class every four to six weeks at the local lululemon store they were affiliated with. In return for helping drive business to lululemon stores and conducting classes, ambassadors were periodically given bags of free products, and large portraits of each ambassador wearing lululemon products and engaging in physical activity at a local landmark were prominently displayed on the walls their local lululemon store as a means of helping ambassadors expand their clientele.

Every lululemon store had a dedicated community coordinator who developed a customized plan for organizing, sponsoring, and participating in local athletic, fitness, and philanthropic events. In addition, each store had a community events bulletin board for posting announcements of upcoming activities, providing fitness education information and brochures, and promoting the local yoga studios and fitness centers of ambassadors. There was also a chalkboard in each store's fitting room area where customers could scribble comments about lululemon products or their yoga class experiences or their appreciation of the assistance/service provided by certain store personnel; these comments were relayed to lululemon headquarters every two weeks. Customers could use a lululemon micro website to track their progress regarding fitness or progress toward life goals.

lululemon made little use of traditional advertising print or television advertisements, preferring instead to rely on its various grassroots, community-based marketing efforts and the use of social media (like Facebook and Twitter) to increase brand awareness, reinforce its premium brand image, and broaden the appeal of its products.

Store Personnel

Store Personnel

As part of the company's commitment to providing customers with an inviting and educational store environment, lululemon's store sales associates, who the company referred to as "educators," were coached to personally engage and connect with each guest who entered the store. Educators, many of whom had prior experience as a fitness practitioner or were avid runners or yoga enthusiasts, received approximately 30 hours of in-house training within the first three months of their employment. Training was focused on (1) teaching educators about leading a healthy and balanced life, exercising self-responsibility, and setting lifestyle goals, (2) preparing them to explain the technical and innovative design aspects of all lululemon products, and (3) providing the information needed for educators to serve as knowledgeable references for customers seeking information on fitness classes, instructors, and events in the community. New hires that lacked knowledge about the intricacies of yoga were given subsidies to attend yoga classes so they could understand the activity and better explain the benefits of lululemon's yoga apparel.

People who shopped at lululemon stores were called "guests," and store personnel were expected to "educate" guests about lululemon apparel, not sell to them. To provide a personalized, welcoming, and relaxed experience, store educators referred to their guests on a first name basis in the fitting and changing area, allowed them to use store restrooms, and offered them complimentary fresh-filtered water. Management believed that such a soft-sell, customer-centric environment encouraged product trial, purchases, and repeat visits.

Core Values and Culture

Consistent with the company's mission of "providing people with the components to live a longer, healthier and more fun life," lululemon executives sought to promote and ingrain a set of core values centered on developing the highest-quality products, operating with integrity, leading a healthy balanced life, and instilling in its employees a sense of self responsibility and the value of goal setting. The company sought to provide employees with a supportive and goal-oriented work environment; all employees were encouraged to set goals aimed at reaching their full professional, health, and personal potential. The company offered personal development workshops and goal-coaching to assist employees in achieving their goals. Many lululemon employees had a written set of professional, health, and personal goals. All employees had access to a "learning library" of personal development books that included Steven Covey's *The Seven Habits of Highly Effective People,* Rhonda Byrne's *The Secret,* and Brian Tracy's *The Psychology of Achievement.*

Chip Wilson had been the principal architect of the company's culture and core values, and the company's work climate through 2013 reflected his business and lifestyle philosophy. Wilson had digested much of his philosophy about life in general and personal development into a set of statements and prescriptions that he called "the lululemon manifesto." The manifesto was considered to be a core element of lululemon's culture. Senior executives believed the company's work climate and core values helped it attract passionate and motivated employees who were driven to succeed and who would support the company's vision of "elevating the world from mediocrity to greatness"–a phrase coined by Chip Wilson in the company's early years. For a number of years, the company's shopping bags were employees who were driven to succeed and who would support the company's vision of "elevating the world from mediocrity to greatness"—a phrase coined by Chip Wilson in the company's early years. For a number of years, the company's shopping bags were emblazoned with a full print of the manifesto, as a means of sharing its culture and beliefs about life in general with customers, the local community, and the public at large.

In 2018, to celebrate the company's 20th year in business, lululemon's Brand Creative Director Rémi Paringaux headed an effort to create a freshly designed manifesto showcasing lululemon's long-standing brand values across nine themes: Integrity, Personal Responsibility, Social Impact, Honesty/Authenticity, Overcoming Fear, Greatness, Purpose, Elevating the World (even on hard days), and Fun + Laughter, Sweat + The Practice of Yoga. Each phrase included in the Manifesto, both the original devised by Chip Wilson and the revised version, was intentionally designed to inspire, provoke thought, and spark conversation. Excerpts from the Manifesto are shown in **Exhibit 5**.

EXHIBIT 5 **Excepts from The lululemon Manifesto, as Revised in 2018**

- Breathe deeply
- Hope is not a strategy
- Put away your phone. The real world is not on hold.
- Creativity is maximized when you are living in the moment
- Your biggest opportunity for growth is when it all hits the fan
- Gratitude is contagious
- That which matters most should never give way to that which matters least
- Reconnect with nature. The better you know it the less you take it for granted
- The most important answers will never be found in a search bar
- Open your ears, eyes and heart &Open your mind
- Jealousy works the opposite way you want it to
- Replace the word Try with Will and watch the magic happen
- The pursuit of happiness is the source of unhappiness
- Before speaking, ask yourself: Is it kind? Is it necessary? Is it true?
- You attract love when you love yourself
- Treat goals like coconuts. Hit them hard, crack them open, celebrate
- Do one thing a day that scares you
- Life is full of setbacks; success is determined by how you handle setbacks
- This is not your practice life. This is all there is
- Stress is related to 99% of all illness
- Friends are more important than money

COMPETITION IN ATHLETIC APPAREL

Competition in the market for athletic and fitness apparel was fierce. Companies competed principally on product quality, performance features, innovation, fit and style, distribution capabilities, brand image and recognition, and price. Rivalry among competing brands was global, vigorous, and involved both established companies who were expanding their production and marketing of performance products and recent entrants attracted by the growth opportunities.

lululemon competed with wholesalers and direct sellers of premium performance athletic apparel made of high-tech fabrics, most especially Nike, The adidas Group AG (which marketed athletic and sports apparel under its adidas and Reebok brands), and Under Armour. Nike had a powerful and well-known global brand name, an extensive and diverse line of athletic and sports apparel, and 2019 global sales of $39.1 billion ($15.9 billion in North America). Nike's sales outside of North America accounted for just over 57 percent of its worldwide revenues in fiscal 2019. Not only was Nike the world's largest seller of athletic footwear (its footwear sales exceeded $26 billion in fiscal 2019), but it was also the world's largest sports apparel brand, with 2019 sales of $11.6 billion. Sales of Nike products to women totaled $7.4 billion in 2019. The company had selling arrangements with independent distributors and licensees in over 190 countries; its retail account base for sports apparel in the United States included a mix of sporting goods stores, athletic specialty stores, department stores, and tennis and golf shops, plus it had a network of factory outlet stores (217 in the United States and 648 across the rest of the world) and Nike and NIKETOWN retail stores (29 in the United States and 57 in the rest of the world). Nike also had a strong online sales presence with websites in 46 countries; in fiscal year 2019, its Nike Direct revenues were $5.0 billion in North America and $7.1 billion worldwide.

The adidas Group, with its adidas and Reebok brands, was a global company headquartered in Germany that had worldwide sales of €23.6 billion ($26.0 billion) in 2019. Worldwide sports apparel revenues for the company were €9.0 billion ($9.9 billion) in 2019; its product lines consisted of high-tech performance garments for a wide variety of sports and fitness activities, as well as recreational sportswear. The adidas Group sold products in virtually every country of the world. In 2019, its extensive product offerings were marketed through third-party retailers (sporting goods chains, department stores, independent sporting goods retailer buying groups, lifestyle retailing chains, and Internet retailers), 2,500 company-owned adidas and Reebok retail stores, 15,000 franchised stores, and through the company's e-commerce websites at www.adidas.com and www.reebok.com.

Under Armour, an up-and-coming designer and marketer of performance sports apparel, had total sales of $5.3 billion in 2019, of which $3.58 billion was in apparel. Like lululemon, Under Armour's apparel products were made entirely of technically-advanced, high performance fabrics and were designed to be aesthetically appealing, as well as highly functional and comfortable. Under Armour regularly upgraded its products as next-generation fabrics with better performance characteristics became available. Under Armour's product line included apparel for men, women, and children. Under Armour's sales in North America unexpectedly plateaued at $4.0 in 2016, then dropped to $3.8 billion in 2017, $3.74 billion in 2018, and $3.66 billion in 2019. The company reported net losses $48.3 million in 2017 and $46.3 million in 2018. While roughly 70 percent of Under Armour's sales revenues in 2019 were in North America, the company's revenues were growing in the other regions of the world where its products were sold, particularly in the EMEA (Europe-Middle East-Africa) region and the Asia-Pacific region. The majority of Under Armour's sales were made through wholesale channels, Middle East-Africa) region and the Asia-Pacific region. The majority of Under Armour's sales were made through wholesale channels, including sporting goods stores, independent and specialty retailers, department stores, institutional athletic departments, and sports leagues and teams. However, the company also operated 169 factory outlet stores and 19 Brand House stores in North America and 104 factory outlet stores and 96 Brand House stores in international locations as of January 2020. Under Armour had direct-to-consumer sales of about $1.8 billion annually at its e-commerce website, www.underarmour.com.

Nike, The adidas Group, and Under Armour all aggressively marketed and promoted their high-performance apparel products to women and men and spent heavily to grow consumer awareness of their brands and build brand loyalty. All three sponsored numerous athletic events, provided uniforms and equipment with their logos to collegiate and professional sports teams, and paid millions of dollars annually to numerous high-profile male and female athletes to endorse their products. Like lululemon, they designed their own products but outsourced the production of their garments to contract manufacturers.

New Entrants into the Sports and Fitness Apparel Market for Women. Retailers responded to the growing market for women's sports and fitness apparel by introducing brands and product lines to compete in this segment. Entrants into this segment of the apparel market included The Gap, Nordstrom, and Victoria's Secret.

The Gap had total sales of $16.4 billion in 2019 and was the owner/operator of three well-known retail chains: The Gap, Banana Republic, and Old Navy. Product offerings at the 1,033 worldwide Gap-branded stores included a GapFit collection of fitness and lifestyle products for women. In 2008, The Gap spent $150 million to acquire Athleta, whose product line consisted of yoga, running, skiing, snowboarding, and surfing apparel that was sold online and through catalogs, and proceeded to turn it into a retail chain to compete head-on against lululemon in the market for comfortable, fashionable, high-performance women's apparel for workouts, sports, physically-active recreational activities, and leisure wear. Going into 2020, Athleta had grown to 190 retail stores in North America Athleta stores open at least 12 months had sales growth of 16 percent, 9 percent, and 5 percent in 2017, 2018, and 2019, respectively. The Gap planned to continue opening Athleta stores in 2020 and beyond. In addition to its retail stores, Athleta collected substantial revenues from sales at its e-commerce website www.athleta.gap.com. Athleta also had a social media website, www.athleta.net/chi, that connected women with interests in sports and fitness, nutrition and health, tutorials and training plans, and travel and adventure.

Athleta's expanding product line included swimwear, tops, bras, jackets, sweaters, pants, tights, shorts, tee shirt dresses, performance footwear, sneakers, sandals, bags, headwear, and gear. Items were colorful, stylish, and functional. As of May 2020, Athleta offered 391 different items under "activity" line of products at its e-commerce website. Athleta apparel items were typically available in sizes XXS, XS, S, M, L, XL, and plus sizes 1X and 2X. Athleta utilized well-known women athletes and local fitness instructors to serve as brand ambassadors by posting blogs on Athleta's website, teaching classes at local stores, and testing Athleta garments. In 2016, Athleta introduced Athleta Girl, which introduced fashion and accessories for younger women. In 2019, Athleta announced a partnership with decorated track and field athlete Allyson Felix.

A number of other national and regional retailers of women's apparel, seeking to capitalize on growing sales of activewear made of high-tech fabrics, were marketing one or more brands of fitness apparel suitable for yoga, running, gym exercise, and leisure activities. A few were selling these items under their own labels. For example, Nordstrom, a nationally-respected department store retailer, was merchandising its own Zella line of attire for yoga, cross-training, workouts, swimming, and "beyond the workout;" many of the initial

A number of other national and regional retailers of women's apparel, seeking to capitalize on growing sales of activewear made of high-tech fabrics, were marketing one or more brands of fitness apparel suitable for yoga, running, gym exercise, and leisure activities. A few were selling these items under their own labels. For example, Nordstrom, a nationally-respected department store retailer, was merchandising its own Zella line of attire for yoga, cross-training, workouts, swimming, and "beyond the workout;" many of the initial products in the Zella collection were designed by a former member of lululemon's design team. Zella-branded products were offered in regular sizes (XXS, XS, S, M, L, XL, and XXL) and plus sizes (1X, 2X, and 3X). Nordstrom was also marketing several other brands of activewear for women, men, and juniors, including Nike, Under Armour, Patagonia, Reebok, and Adidas. In 2019, Nordstrom's activewear offerings could be purchased at 136 Nordstrom full-line department stores (typically 140,000 to 250,000 square-feet in size) and 242 Nordstrom Rack stores (typically 30,000 to 50,000 square-feet in size) in 36 states, at Nordstrom's website (www.nordstrom.com), and at the Nordstrom Rack website, www.nordstromrack.com.

Victoria's Secret also marketed its own line of women's fitness apparel under the Sport label. As of May 2020, Victoria's Secret offered 118 separate Sport brand items on the company's e-commerce website, www.victoriassecret.com. Offerings included sports bras, bottoms, yoga pants, sweatshirts, and hoodies.

Typically, the items in the Athleta, GapFit, Zella, and Sport collections were priced 10 percent to 25 percent below similar kinds of lululemon products. Likewise, Nike, Under Armour, adidas, and Reebok apparel items were usually less expensive than comparable lululemon-branded items.

GLOBAL PANDEMIC FORCES TEMPORARY CLOSURE OF MANY RETAIL STORES ACROSS THE WORLD

An outbreak of the COVID-19 disease, also known as the coronavirus, began in China in December 2019, spread to other countries in the first several months of 2020, and was declared a global pandemic by the World Health Organization in March 2020. Mounting concerns about the potential for the coronavirus to infect a large percentage of the population and overwhelm local hospitals and health professionals, prompted government officials in many countries during February-April 2020 to issue "stay-at-home" orders to the general public, urge companies to allow employees to work from home where feasible, and mandate the closure of retail stores and all "non-essential" local businesses until the daily/weekly number of people in their locales being newly diagnosed with COVID-19 began to flatten out or subside. People were urged to practice "social distancing" and wear face masks when grocery-shopping, picking up to "to-go orders" from local food establishments, or otherwise venturing out beyond the confines of their homes to run errands. However, by the end of May 2020, widespread concerns about the long-term economic damage the business shutdowns were causing and signs that the spread of the virus was being contained in a growing number of locations prompted government officials to begin reopening their local economies. A growing percentage of retail stores had re-opened or partially re-opened in much of Asia, and limited re-openings were occurring in Europe and North America.

The global pandemic had a devastating impact on most apparel retailers. In North America, luxury retailer Neiman Marcus, apparel retailer J Crew, and department store retailer J.C. Penney filed for bankruptcy in May 2020. Nordstrom announced on May 5, 2020, that it would soon permanently close 16 department store locations. The Gap, Inc. was also struggling in the new environment; the price of the company's stock had plummeted since January 2020, and most of its stores in the United States remained closed as of late May 2020. Back in February 2019, The Gap announced it would close some 230 of its stores over the next two years. L Brands announced it would not be making rent payments while its Victoria's Secret and Bath and Body Works stores were closed. Many other retail and restaurant chains, also running short on cash, told landlords that they would be unable to make their rent payments until their stores and their cash flows improved. Headed into June 2020, most all chain retailers and millions of local businesses in North America, Europe, and elsewhere were wrestling with the uncertainty created by the global pandemic, store closures, how long it would take for customer traffic to return to former levels, and the extent to which consumer buying and shopping patterns would be affected both in the short term and the long term.

Retailers with robust e-commerce sales were better able to weather the global pandemic crisis. Nike, the global sports apparel leader, had a strong digital presence and was expected to experience only a modest and fairly short-lived downturn in apparel revenues. forecast to weather the storm. Further, with the re-opening of the company's Nike stores in China in May 2020, the company saw signs of sales improvement in Asia, pointing the way to a possible strong recovery in Europe and North America.[15] The adidas Group, number two globally and financially strong, was also expected to come through the pandemic in a competitively strong position. Under Armour's situation, already weakened by sales troubles in North America, was made worse by the pandemic. Many investors and industry analysts believed the near-term hit to the company's sales could be as much as 30 percent in 2020. As of May 2020, the company had announced layoffs, pay cuts for remaining employees, and the postponement of plans for an Under Armour flagship store in New York City.[16]

LOOKING AHEAD AT LULULEMON

In a March 26, 2020, conference call to discuss the company's Q4 and full-year 2019 performance with Wall Street analysts, lululemon CEO Craig McDonald commented on the impacts of the coronavirus pandemic:[17]

> … .we are seeing virus-related impact on performance across our markets. In North America and Europe, our stores have been closed since March 16. Stores in New Zealand are closed at this time, while Australia is operating on reduced hours. In China, all of our stores except our location in Wuhan are open with most operating on regular schedules. Our stores also remained open in other Asian markets, except for Malaysia, where our two locations are currently closed. In addition, we are closely monitoring our supply chain and staying in constant contact with our vendors as they too navigate this situation.
>
> … .the underlying health of our business is strong… . we are confident in our abilities to navigate the near-term while working to realize the opportunities over the longer term… we have early learnings from China which show us that our business will bounce back. We are not yet back to pre-closing volumes, but the business is getting stronger week by week.
>
> Although we do not know exactly when the current situation will pass, what we do know is that our stores will reopen. We know that initially the business will be lower than it was pre-COVID-19, but we believe that each day and each week, it will keep building. We are planning for multiple scenarios, but in any one of these we know that our brand is strong and has unique pillars of strength that will keep driving our momentum forward.

As of May 21, 2020, lululemon had reopened more than 150 stores across five continents. Plans called for reopening another 200 stores over the following two weeks. Modified store hours, store employee face coverings, physical distancing, enhanced store cleaning and sanitization, and a more relaxed return policy were being instituted at all reopened stores.

ENDNOTES

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