

SNHCS Resources

SNHU Student Consultants
2500 North River Road
Hooksett, NH
April 13, 2014

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Christine Day, President
Lulumon atletica, Inc.
Vancouver, British Columbia

Dear Mrs. Day:

I want to thank you for the opportunity to write this proposal for you. Everyone I talked to about your company was not only helpful, but provided me with a lot of new insight into my health and wellness. I found your employees, or "teachers" as they have told me, to be nothing short of amazing people with a wealth of knowledge on the subject.

After reviewing all of the information it is my recommendation that you continue with a growth strategy by way of product and market expansion. We feel that this is the best approach given the increasing growth in the market for athletic apparel as a whole as well as the significant level of competition in the market. Further, due to the unique nature of your company's marketing strategy and culture, we feel it is best that you focus in markets that you are already involved in, such as the United States, Canada, and Australia, just to name a few. While I go into detail further one, the main reason is the style in which your grassroots marketing works.

To accomplish this task of growth, it is our recommendation that your company focus on three areas. First, develop the markets within countries you are already in by opening branches in affluent neighborhoods of major cities, with the goal of being in every major city at some point. Second, during the process of opening these new stores, focus on expanding the online presence your company has. This is done through increase social media marketing and developing your website to host, share, and prepare information relating to health and wellness. This shows not only the commitment of your culture but the increased availability of your brand. Lastly, find new products, beyond apparel, that your guests will find, not only useful, but synergistic with the products you already offer. More detail can be found the report attached to this memo.

I would like to take this moment to once again thank you for your time and consideration within this analysis. I am confident that our company can add genuine value to your organization and we cannot wait to get started. If you have any questions at all, feel free to call me at my office at 555-432-0987 ext. 6544. I will call you in a week to follow up and see when we can start bringing your company to the next level.

Sincerely,

Marek Rivera

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Marek Rivera

Senior Project Director

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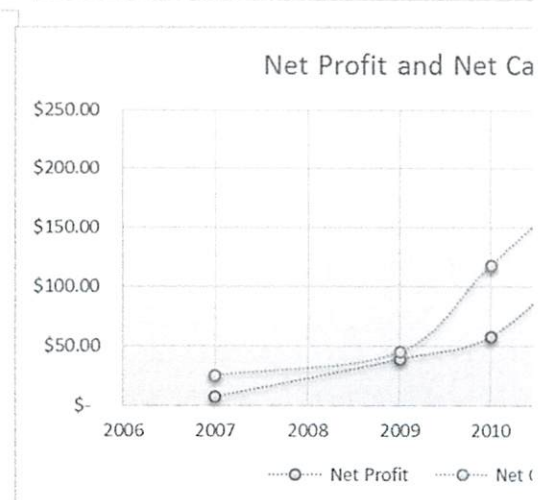
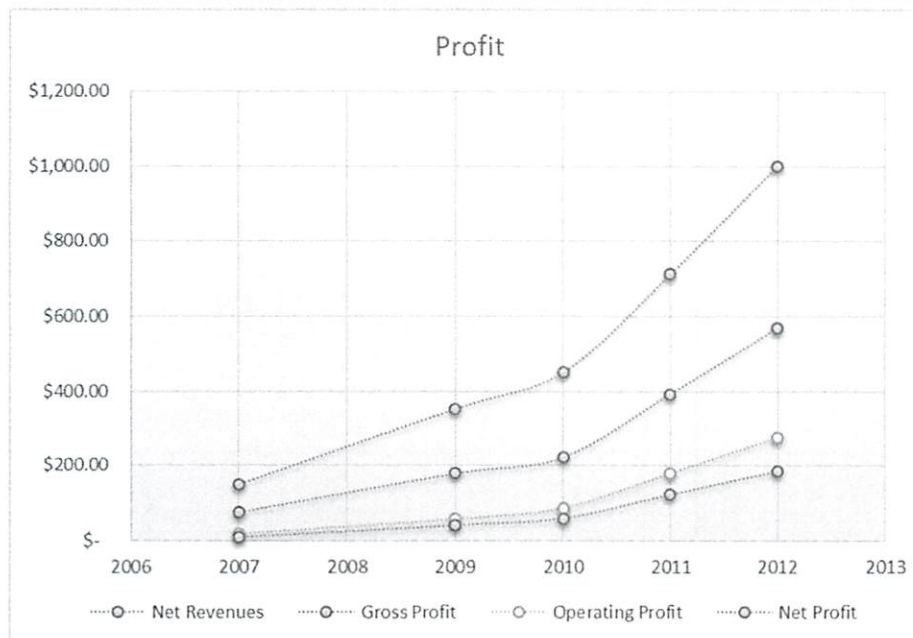
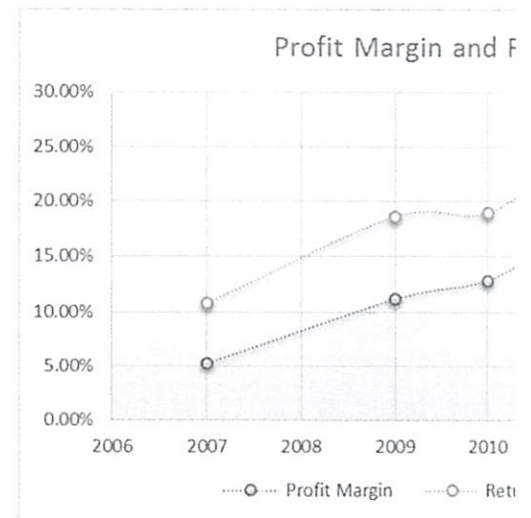
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The Environment of Athletic Apparel

It should be of no surprise that the athletic apparel industry is a competitive industry. Not only are their giants with large market share, such as Nike and Adidas, but there are many smaller organizations each vying for small portions of market share. Many companies are long established, each spending millions on advertising and brand development through the use of commercials, sponsorships, and highly visible athletes. The reason for this competitive nature comes from a few significant areas. First, the industry as a whole has experience growth as a trend of health and wellness has become big among mainstream audiences. No longer is the life of health and fitness part of a niche, but now part of a larger, and more commonplace, market base. Second, the development of new technologies has made apparel not only comfortable and functional in this new lifestyle, as well as being relatively cheap and easy to produce. High quality fabrics are able to handle the rigorous needs of an athletic lifestyle while allowing for large scale production.

Competitive Forces

Consumer tastes and preferences are focused on quality, features, innovation, fit and style, brand recognition and price. This leads to increased needs of an athletic company to focus on their product development and brand recognition. Consumers, while embracing the health and wellness lifestyle, are focused upon the looks and feeling of the clothing as well as how the clothing makes them look and feel. Many companies find that sourcing their goods through general apparel stores function as an intermediary to expand markets. As many of these stores are based around the globe, such product disbursement can reach a large audience for increased brand recognition and market development. As both of these groups, both consumers and distributors, are large and have many options it may not always be easy for a company to sell its product.

A more recent development has been the push to online and other electronic retail of products. This new marketplace has allowed for the ability for smaller companies to provide in a global marketplace without the upkeep of physical locations. This new avenue gives greater flexibility with developing markets while keeping costs low. The downside of such product offerings is the lack of a store experience, perceived customer service, and reinforcement of a brand's culture. Using an online marketplace is a boon for up-and-coming apparel stores as it allows them easy access to a market with little upfront investment.

As there are a significant number of apparel stores, there are a large number of suppliers. With locations ranging over most of the developing and developed nations, it is not hard to find a supplier. However, finding a supplier who will adhere to specific labor and quality specifications can be difficult. Maintaining a reliable and long-term relationship is a delicate balancing act of negotiation and timing.

Overall, the industry is very weak against the outside forces that surround it. Competition within the industry is high, customers and suppliers have a fair amount of power, and technology makes new entrants very likely. For a more direct look at the competitive forces in the industry, look at appendix A for a Porter's five forces model.

lulumon athletica's Current Position

lulumon is not one of the top producers of high quality apparel. Nike, followed by Adidas group, then Under Armour, hold the top three spots. While its recent growth has been welcome, its overall place in the market is not in the top percentage. However, that is not to say lulumon is not successful. Thanks to its culture and service, lulumon has developed a strong brand and customer following that is hard to ignore. The continued

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focus on quality and local development has done a lot to develop how customers feel about the store as well as see the product as something that professionals in the health and wellness field vouch for. lulumon's movement away from franchisees to only company owned store allows them the freedom to hold that level of quality and customer involvement. Current focus is the expansion of stores with the United States, Canada, Australia and New Zealand.

The process of product development, design, and implementation into the stores is commendable. With 95% of products sold, being sold for full price is an astounding metric. The level of commitment to inventory levels, distribution, and product turnaround is a praiseworthy development. Combined with the embracing of grassroots movements create a lifestyle of fashion trends and chic awareness of the products. Customers, or "guests" as they are called, are treated with a soft selling approach that develops a bond and encourages long-term purchasing. As the product development cycle generates small amounts of limited product, there is a hidden pressure for customers to come back regularly to find the new deal.

Chip Wilson's commitment to culture has shaped the company as a whole from the very start. The daily approach that lulumon has to every facet of its business is easy to see and beneficial to the brand image. Guests see the experience of shopping every time they enter a store and find the place not just a shop, but also an area to pursue knowledge on the subject of health and wellness. That is something that the large competitors do not have. In particular, the focus on the women market segment has allowed lulumon to develop a significant niche area that has allowed them to expand into the store they are today.

Strengths

Touched on earlier, the biggest strength this company has to offer is the culture it holds dear to its values. Look no further than the manifesto, a list of 31 activities, phrases, or sayings, which impresses the value of healthy living, commitment to wellness, and ways to improve one's life. This value core is entrenched in how customers are treated as guests, employees as teachers, stores provide free classes, and suppliers are held to a high standard.

Another significant strength is the product. The wide selection of high quality goods provides customers with an ample selection. Yet, many products are one time deals with limited runs providing ample reasons for customers to return regularly. Further, 95% of products are sold at full price, something many other apparel companies cannot claim. In this market of high prices, selling a product for full price represents a significant gain. The precise control on inventory and product development allows this to be possible consistently. A great representation of this is the high average sales per foot of over two thousand dollars in 2012 compared to several hundred dollars by their competitors.

Weaknesses

The majority of lulumon's sourcing of materials and products comes from five manufacturers. These five manufacturers are not bound by long-term contracts. lulumon relies on an order-by-order basis and close working relationships to maintain its supply. Further, the requirements for a manufacturer to be a supplier, specifically the code of conduct, can be quite restrictive and demanding. Reliance on the North American manufacturers to keep up with market trends, particularly when they represent less than 7% of manufacturing, is also concerning.

Part of the strategy for maintaining stores is through the use of leasing properties. Few, if any, stores are owned, meaning that stores are individualistic in nature. Each store has its own layout and fixtures. While lulumon is trying to create an image of a homespun local boutique, it is a little concerning that the company is

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reliant on leases customized layouts. The main reason is the lack of control should something go wrong, forcing management to deal with local owners.

Along the same line of individualism, lulumon does not use traditional forms of marketing, i.e. print and television. While in many ways these styles of marketing are expensive and not always effective, such traditional methods are a great way to advertise to large audiences. The grassroots plan currently being implemented works towards the feeling of a local niche boutique. While that works well in smaller amounts, there are limitations to the audience that is exposed as well as a time lag as word gets around.

Opportunities

The recent expansion to include products beyond women's athletic apparel opens up new possibilities for growth. Men's apparel offerings, while a highly competitive area, allow for cross promotion and a new market segment to work with. Further, the development of ivivva atletica stores provides another avenue and market segment to explore. Both areas can increase the ability for lulumon to branch out from the niche market area it currently resides in. These markets are available and are growing as much as, if not more than, the women's athletic apparel market.

Tying into the first opportunity Athletic and wellness living are still very trendy and does not look to be fading soon. Given the areas that lulumon has been setting up shop, it is likely that the retailer can expect to further its growth opportunities in more areas as the trend continues and the economy improves. It is particularly important that the economy continue to improve as it allows new market areas to open up, as price is still a limiting factor, and more people to have disposable cash.

Threats

Competition is very high. It cannot be understated how much competition is in the athletic apparel market, particularly in the high quality area. The big three competitors, Nike, Adidas, and Under Armour, spend enormous quantities of money on advertisement, branding and expansion. Their ownership over the market is not likely to fade and it will only get harder to compete with them as time goes on. This also spills over to new competitors as entry into the industry is only getting easier. Technology allows for the replication and development of products much like those currently produced by major competitors and the internet allows for easy market penetration. It is likely that competition will only get fiercer as times go by.

Financial Position

Overall lulumon's financial position is strong. Inventory turnover was steadily increasing and only recently has taken a slight downturn. This level is still higher than it was and still represents a large amount of turnover given the large amount of inventory. Profit has been rising steadily both in amount and in margin percentage. Return on assets also has been increasing, currently finishing as just over twenty-five percent. It is not surprising that the financial are as strong as they are. Given the sales per square foot and the volume of sales discussed, it would be very surprising if the company was doing poorly. The continued investment into growth and opening new stores also allows for a continuation of this growth over the next few years, assuming a current trends. Further information is located in appendix 2.

Strategic Recommendation

It is my recommendation that lulumon continue with their growth strategy. Specifically, I believe a concentration growth strategy with a focus on market and product development. This remains in line with the current expectations of the company and remains the right move. The high competition, continued growth,

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and current consumer trend supports the need for continued growth through development and expansion. A focus on new market areas within affluent populations, continued product development, and marketing of the branding will bring a significant benefit to this company.

Implementation

To bring about this strategy I propose a three part implementation plan. First, within the current areas of existence, the US, Australia, etc., expand the locations into new areas. The intent is to have at least one location in every major city within each country. By expanding the locations and pursuing a grassroots campaign as normal, the lulumon brand will become widely known and allow for all customers to experience the store culture. The grassroots campaign will need to be a focus as the value of what lulumon offers, not just in product, but in the service and knowledge base will be a key factor in expanding the brand. While it may be more interesting to pursue a more global expansion, the industry as a whole has larger players in many more markets. Most of lulumon is supported by its grassroots raised, niche market area, loyal customers. It would be better to support that brand loyalty locally rather than try to spread too thin.

Second, an increase in the online marketing and awareness. It will take time to develop and staff the quality stores that we are looking to generate. During that time we should be investing into the online marketing and brand awareness through social media and other avenues. The purpose is to start driving excitement for the opening of the stores in local areas. Make it a big happening that a lulumon will be opening in a new area. Further, start providing a library of information about health and wellness on the website. Provide daily (or periodic) videos on healthy eating, general exercise, yoga tips, and etcetera. By showing that lulumon is a wealth of knowledge, focused on bringing such information to our guests, we can generate greater loyalty and presence in the industry.

Third, expand the product offerings beyond apparel. This will be tricky as it may require partnering with other companies depending on the product in question. Specifically, I look at devices, such as the Fitbit or pedometers in general, which track health and progress of their users. Finding ways to incorporate such devices, so long as they are actually beneficial in order to keep with the very important culture, as well as other products will increase the ability for the company to provide for its guests. It will be important to look at what your guests view as important in this world of devices and apps and find ways to get behind, or even in front of, such innovations.

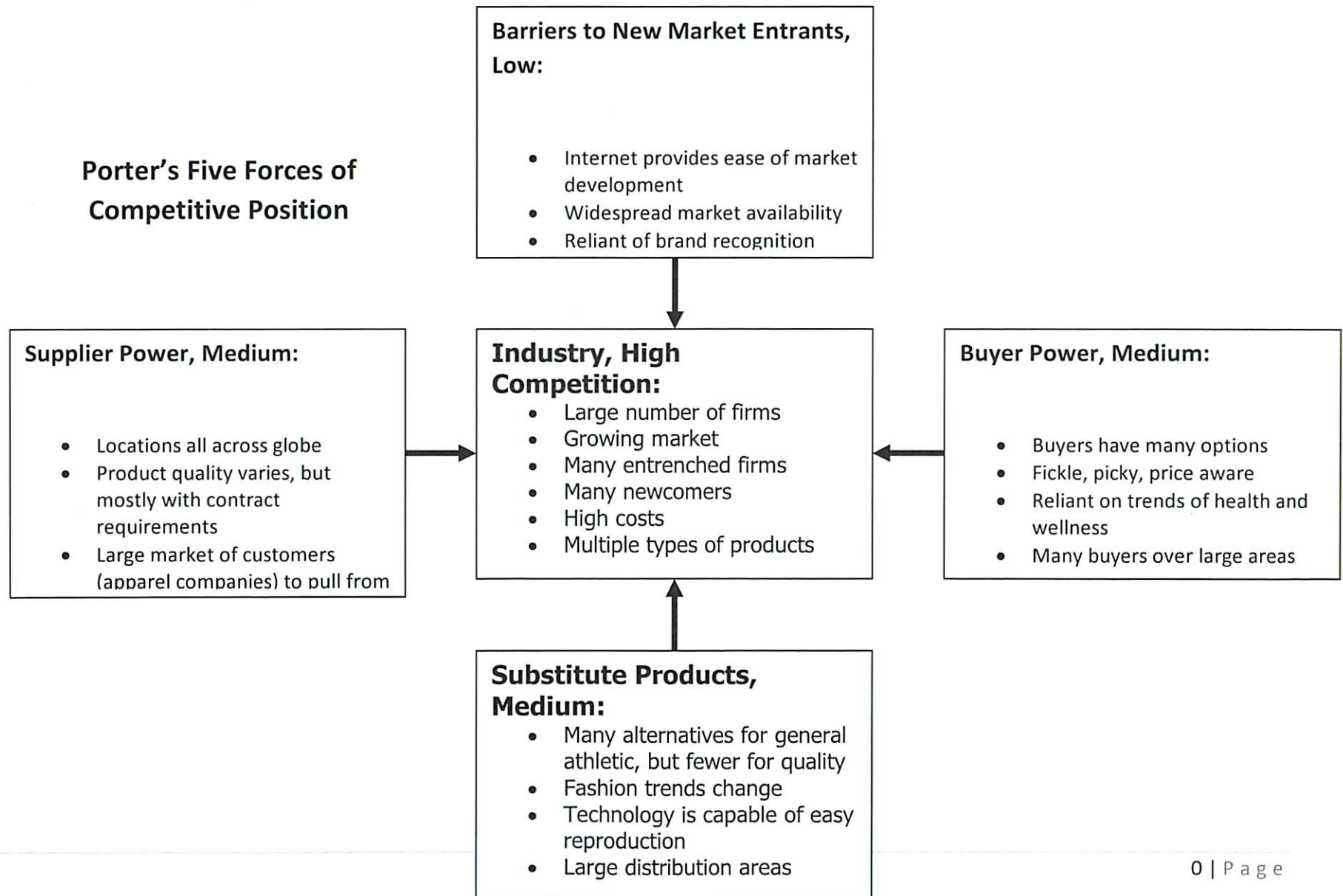
Next Step

The next step in this process will be to see how we at SNHCS Resources can work with you to develop this future. lulumon, and all of its employees, are a bright star in an industry that in crowded, full, and in desperate need of a genuine face for health and wellness, not just looks and adrenaline. The culture that your company represents is something that must be nurtured to the best that can be offered. We look forward to working for you and helping your company achieve its potential.

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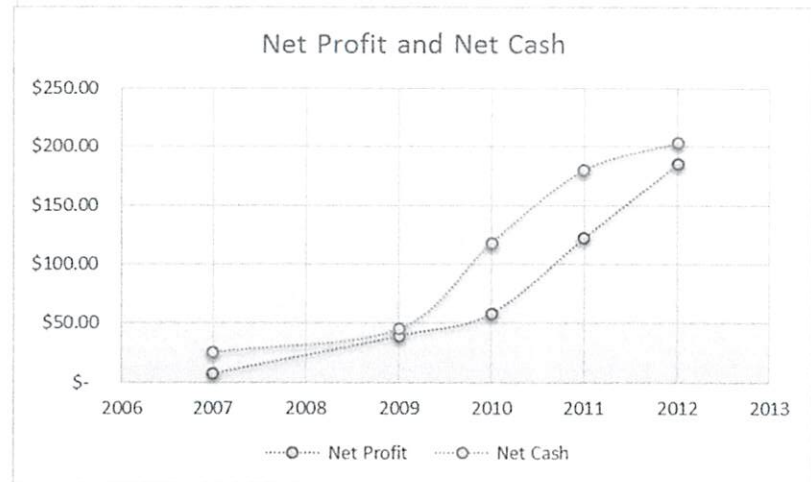
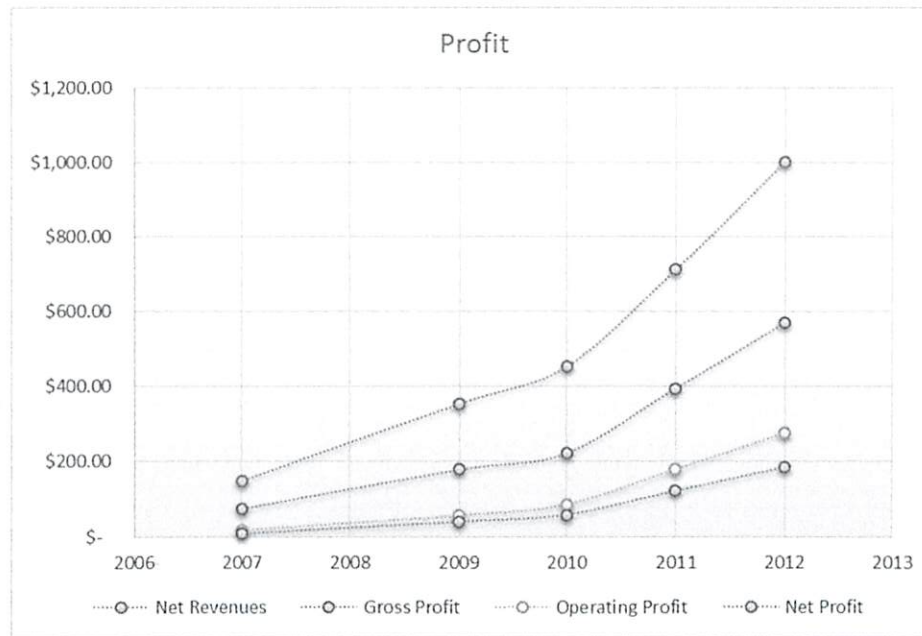
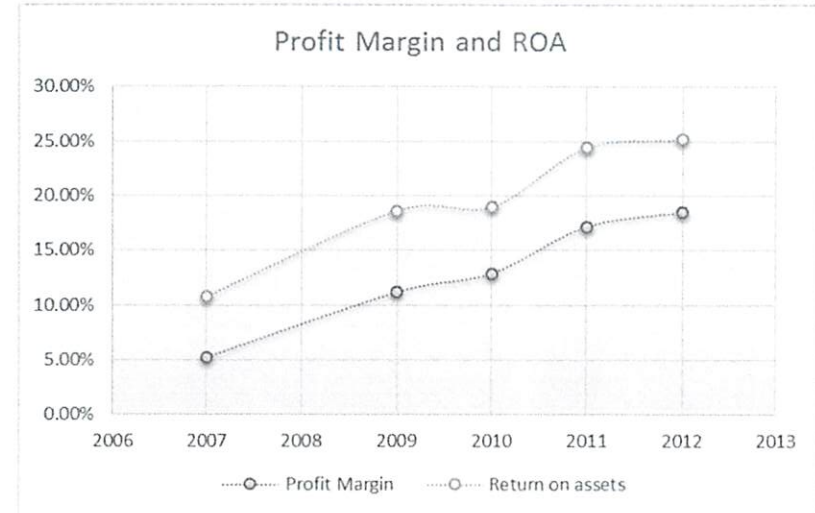
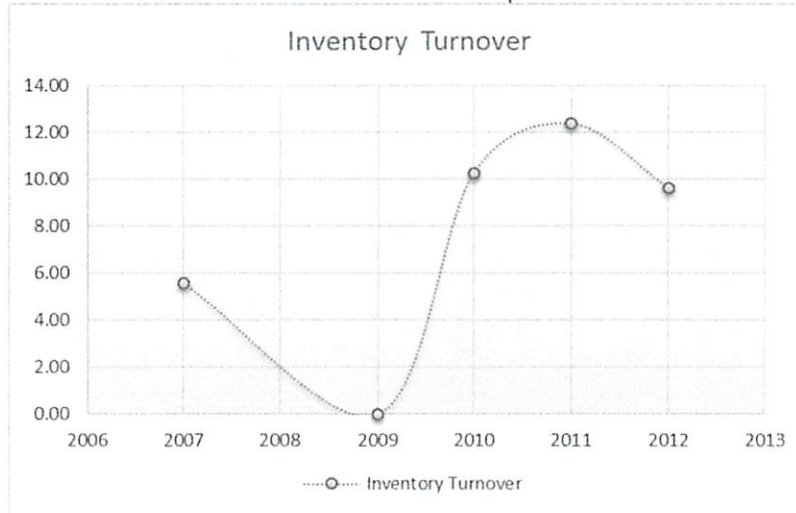
Appendix A: Porter Model for Athletic Apparel

Porter's Five Forces of Competitive Position



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Appendix 2: Financial Data and Graphs



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Ratio	2012	2011	2010	2009	2007
Inventory Turnover	9.61	12.38	10.27	missing	5.56
Profit Margin	18.49%	17.11%	12.87%	11.15%	5.20%
Return on assets	25.18%	24.39%	18.97%	18.62%	10.80%
	2012	2011	2010	2009	2007
Net Revenues	\$ 1,000.80	\$ 711.70	\$ 452.90	\$ 353.50	\$ 148.00
Gross Profit	\$ 569.30	\$ 394.90	\$ 223.10	\$ 179.10	\$ 75.70
Operating Profit	\$ 278.00	\$ 180.40	\$ 86.50	\$ 56.60	\$ 16.60
Net Profit	\$ 185.00	\$ 121.80	\$ 58.30	\$ 39.40	\$ 7.70
Net Cash	\$ 203.60	\$ 180.00	\$ 118.00	\$ 45.40	\$ 25.40