



MICHAEL TUSHMAN

Leadership, Culture, and Transition at lululemon (Screen Text Version)¹

Note: This is not a stand-alone document. It must be accompanied by the multimedia case by the same title, which contains 17 videos with a total running time of 56 minutes. Please contact your instructor for more information.

CHAPTER 1. Introduction

It was late in the afternoon in May 2008 on a rare sunny day in Vancouver, British Columbia. Incoming lululemon CEO Christine Day looked out at the Coast Mountain range from her office and, despite the blue skies, sensed a mammoth storm brewing.

Day, who spent 20 years climbing the leadership ranks at Starbucks, joined lululemon as SVP of Retail in January 2008. It was a time of meteoric growth and expansion for lululemon, founded in 1998 as a specialty retailer that designs, manufactures, and sells “yoga-inspired athletic apparel.” In 2005, lululemon was a privately held \$40 million entrepreneurial startup with less than 20 stores in Canada. As Day prepared to step into the CEO role in mid 2008, lululemon was a publicly traded \$350 million company with close to 100 stores, including 56 in the United States, and nearly 3000 employees.

The directive from the board was to continue the company’s growth trajectory, by opening more stores and increasing sales to \$1 billion. The company was also poised to launch an eCommerce operation.

Video: “Build a billion dollar company.”

Among the challenges that Day would inherit were underperforming stores. According to Day, mismanagement of the real estate strategy had resulted in high-cost locations in many of the new U.S. markets with little to no demand. Moreover, poorly supervised construction at many sites caused escalating costs and quality concerns.

Lululemon was struggling to implement new inventory systems to keep pace with the demands of its expanding marketplace. Day also observed that cross-functional barriers had eroded the sense of teamwork within the organization, resulting in an inability to achieve compromise. “The whole organization slowed down,” said Day, “because people weren’t aligned.”

Exhibit 1: Christine Day in BusinessWeek

Exhibit 2: lululemon Organizational Chart

¹ This document is a copy of the screen text of the HBS multimedia case “Leadership, Culture, and Transition at lululemon.” Professor Michael Tushman prepared this case in conjunction with the HBS Educational Technology Group. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

CHAPTER 2. History

Lululemon grew into a leading-edge sports apparel retailer from relatively humble aspirations. Chip Wilson founded the company after running a surf, skate, and snowboard apparel company for 20 years, an endeavor that had him crisscrossing Canada, Japan, and Europe.

When Chip began taking yoga classes in the late 1990's, he observed that the "cotton clothing being used for sweaty, stretchy power yoga seemed completely inappropriate." Chip parlayed his passion for technical athletic fabrics into a small apparel design workshop that transformed into a yoga studio at night to help pay the rent. His goal was to run one store in the Vancouver neighborhood where he lived, with personal lifestyle considerations his primary motivation.

Video: "I was never going to get on a plane as long as I lived."

Exhibit 3: Christine Day Bio

Exhibit 4: Lululemon Financials

CHAPTER 3. Value Proposition and Brand

Lululemon describes its vision as "Elevating the world from mediocrity to greatness." The company has developed a unique approach to selling athletic apparel, downplaying its role as retailer and defining its mission as creating "components for people to live longer, healthier, more fun lives." In fact, company officials say that the job of store employees is actually not to sell clothes.

Video: "The garment will sell itself."

The company designs its technical garments and accessories around the needs of athletes, based on the feedback it gathers from a variety of sources.

Video: "They take pride in their feedback loops."

Lululemon stresses the "F" factor in its sportswear—emphasizing "fit" and "function," but steering clear of the term "fashion." While best known for women's yoga apparel, lululemon creates technical wear for other sports such as running, tennis, golf, and general fitness. The company also offers an ever-expanding line of men's clothes.

Video: "Function is fashion."

Lululemon's value proposition, its view of its customer, and its vertical retail model set it apart in an industry sector largely dominated by wholesalers.

Video: "There are two levels of competition."

CHAPTER 4. Culture

Core Values and Manifesto

While the company's core values stress entrepreneurship and the importance of making a quality product, they also encompass issues like integrity, work/life balance, and even the importance of having fun.

Exhibit 5: Lululemon Core Values

Video: "A daily hit of athletic-induced endorphins."

Exhibit 6: Lululemon Manifesto

Training and Goal Setting

In 2008, lululemon invested \$3.76 million in training employees. New hires at lululemon participate in training programs ranging from 40 hours to a full month. While skills-based training is an essential part of the program, the emphasis falls on teaching personal accountability, helping employees set goals, and inculcating them in the company culture.

Video: “Stand in nothing.”

When employees reach one year of service, lululemon sponsors their attendance at a three-day session offered by Landmark Education, a personal training and development company connected to Werner Erhard, who founded the est phenomenon in the 1970's. After three years of service, employees are given the opportunity to attend an advanced Landmark program.

Video: “People bring themselves to work.”

CHAPTER 5. One Store, One Hundred Times

From its early days opening stores in Canada, lululemon created a sequence for seeding new markets. The formula was a way to connect the company's real estate strategy to its brand, building market demand by focusing on that which influences its core customers.

Video: “The cool, hip urban neighborhood.”

The lululemon head office is called the Store Support Center (SSC), reflecting a company wide emphasis on stores as the place where customers touch the brand. Lululemon tolerates and even encourages brand extension at the store level. Individual managers are empowered to customize their stores to reflect their local communities. CEO Christine Days explains, "No matter what strategies are created at the head office, the people who execute the strategic plan are the front lines."

Video: “You hire local people, and you become Soho.”

Exhibit 7: Retail Manager Compensation

By encouraging local decision making and brand extension, lululemon has found it must tolerate a certain amount of risk.

Video: “It gets messy sometimes.”

CHAPTER 6. Growing Pains

As Christine Day and the lululemon leadership team looked to the future, they were mindful of the past and the lessons learned during their first major expansion.

Perhaps the most significant growing pains involved the cultural shift that came with the hiring of Former Reebok Chairman Bob Meers as CEO, who in turn brought in several outsiders to form his upper management team.

Video: “It's not the model lululemon was built on.”

As lululemon scaled up, persistent problems with inventory suggested that the company's growth was outpacing the development of infrastructure and operational systems.

Video: "Merchandise would blow out of a store in three days."

Perhaps the biggest legacy of the rapid expansion into the U.S. was misguided real estate decisions that continued to drain resources more than two years later.

Video: "We really got a bunch of bad locations."

Exhibit 8: Lululemon Retail Store Data

In January 2008, former Starbucks executive Christine Day was hired as SVP of retail and was quietly identified as Bob Meers' heir apparent.

Video: "It's cool for us to have her as a role model."

The lululemon organizational chart was restructured in significant ways during the leadership transition that began with the appointment of Bob Meers in 2005 and continued through Christine Day's promotion in June 2008.

Exhibit 9: Leadership Transition

CHAPTER 7. Final Thoughts

When Christine Day took over as CEO in June 2008, her mandate was to continue lululemon's growth trajectory and ultimately build a billion dollar company. At the same time, however, Day couldn't shake her sense of impending doom. "The swells were building, and I realized we were on pretty shaky ground," she reflected.

In a macro environment characterized by decreasing consumer confidence and growing uncertainties in global markets, Day faced a number of complex challenges. Even as lululemon continued to open stores, sales per square foot dropped from \$1,710 in FY07 to \$1,451 in FY08, while increases in comp store sales dropped from 24% to 3%. Lululemon was plagued by persistent inventory problems and real estate issues in the United States. Moreover, the company's leadership team was demoralized and fragmented.

In determining her initial steps as CEO, Day ultimately had to decide what actions to take (and not take) to better execute lululemon's strategy, as well as how to engage both her senior team and the larger organization.

Video: "I knew I had to react quickly."

Exhibit 1. Christine Day in BusinessWeek

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HOT GROWTH COMPANIES May 29, 2008, 5:00PM EST

Lululemon's Next Workout

Can Christine Day broaden the yoga clothier's appeal?

by [Aili McConnon](#)

Lots of chief executives talk about keeping an ear to the ground. Few do it. Even fewer do it literally. But on a recent Sunday in Vancouver, B.C., Christine Day, the incoming CEO of yoga apparel retailer Lululemon Athletica, was on her hands and knees in a fitting room hemming pants. That's standard operating procedure at Lululemon. Every worker, from the C-suite to the accountants to the design team, must spend at least eight hours a month working in stores—an unusual mandate for a retailer. It's a way to keep close to the company's carefully cultivated and well-heeled clientele: the burgeoning Yoga Class.

Serving that niche with a laser-like focus has paid off for the Vancouver retailer. In 2007, sales rose 85%, to \$275 million; profits leapt 300%, to \$31 million; and the company raised \$344 million in an initial public offering. Lululemon fans shell out \$92 for a pair of workout pants, compared with \$60 at Nike ([NKE](#)) or \$70 at Under Armour ([UA](#)), according to research firm ThinkEquity Partners. No wonder, then, that at most of its 86 warehouse-chic stores, Lululemon sells \$1,710 worth of gear per square foot—about triple the rate of red-hot retailers Abercrombie & Fitch ([AWE](#)) and J. Crew ([JCG](#)). "It's the best growth story in retail today," says Paul Lejuez, a senior analyst at Credit Suisse ([CS](#)).

As Day takes over—her official start is June 4—Lululemon is at a precarious point. It plans to increase its U.S. store count from 38 to 69 this year, with a goal of 300 over the next few years. But inventory problems have crimped margins, since the company had to pay extra to ship out-of-stock items to stores by air. Amid worries over cash-strapped U.S. consumers, the stock price, which rocketed to 60 after going public at 18, has fallen back to 31. How Day manages the rapid growth will determine whether Lululemon fades away, like so many once-hip retailers, or becomes a lasting franchise.

Day most recently ran Asia-Pacific operations at Starbucks, which serves as both a growth template and a cautionary tale for Lululemon. "At Starbucks, we moved too quickly away from the authentic Italian espresso," she says. CEO Howard Schultz hired her in 1986 as his assistant. She took care of everything from bookkeeping to human resources and quickly moved up the management ranks. In his memoir, Schultz credits Day for her early insight that the coffee chain's stores should be designed as "sisters—each with an individual appearance, but clearly from the same family." In her most recent post, as head of Asia, Day oversaw a side of Starbucks' business that is still growing furiously even as U.S. stores slump.

Lululemon has been quietly growing since 1998, when it was founded by Dennis "Chip" Wilson, a Canadian entrepreneur who had previously founded a surf, skate, and snowboard company. After attending a yoga class, he found the cotton-polyester blends most people wore to the studio were uncomfortable and ill-fitting, and they collected sweat. He created a black exercise pant for women made of fabric that would wick away perspiration and fit well, too. In 2000, Wilson, still the company's design chief, opened a small design and retail space in Vancouver that doubled as a yoga studio. He created clothing during the day and tweaked it based on feedback from students who took yoga

Exhibit 1. Christine Day in BusinessWeek, continued

classes in the same space at night.

Linking with local gurus has been crucial. Before Lululemon opens a store in a new city, it approaches yogis or other fitness class teachers. In exchange for a year's worth of clothing, they become Lululemon "ambassadors," wearing the duds in front of students and giving the company design feedback. They also host students at private sales and free classes sponsored by Lululemon in unmarked lofts or condo spaces.

Now the pressure's on Day to expand Lululemon beyond yoga into sports such as running, swimming, and biking. Outgoing CEO Robert Meers, who previously led Reebok International, put together a management team of retail vets from the likes of Nike, The Limited ([LTD](#)), and Abercrombie ([RL](#)). Day, though, has been visiting stores and picking up tips from workers on the line. At regular breakfast meetings, she's fond of asking employees: "What's the most idiotic thing we did in the last 60 days?"

SIDESWIPE BY SEAWEEED

Early on, Lululemon dodged a bullet. In November, *The New York Times* reported the company made false claims about a line of clothing infused with seaweed that purported to moisturize skin during exercise. Lululemon says third-party tests confirmed its garments contained a seaweed derivative, but it removed the claims from labels.

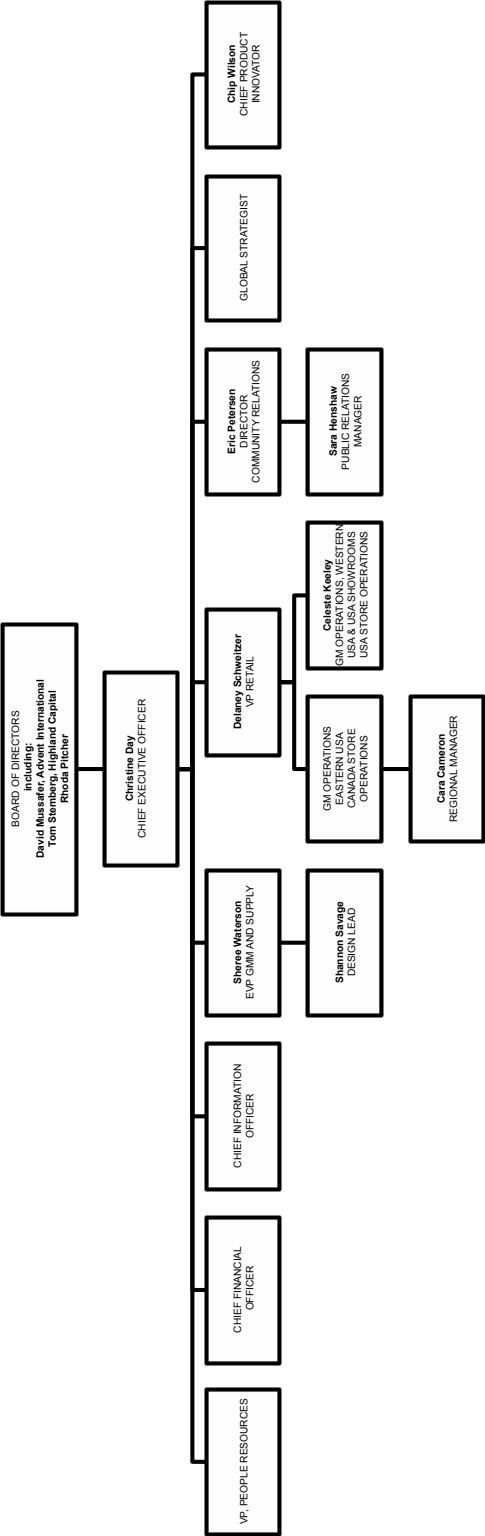
A more pressing challenge is inventory. Analysts say stores in coastal areas often run short of small sizes and those in the Midwest sell out of larger sizes. Day says the company has rolled out a new inventory-management system and will spend up to \$1 million on a direct-sales Web site. Day is quite aware that, in a recession that's punishing other retailers, she'll have a brief window in which to fix the glitches. "You can't be complacent about blaming the economy," she says, "when it's probably some operating...issue you're trying to get right."

[McConnon](#) is a staff editor for *BusinessWeek* in New York.

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Exhibit 2. lululemon Organizational Chart

Exhibit 2. lululemon Organizational Chart
September 10, 2009



Source: lululemon
Note: Names in bold denote individuals who appear in the case.

Exhibit 3. Christine Day Biography

Christine Day

Chief Executive Officer

Christine Day joined lululemon as SVP of Retail in January 2008. Prior to lululemon, Day had a 20-year career at Starbucks. Joining Il Giornale, Starbucks' predecessor, in 1986 as an administrative manager, Day was key part of the team in Starbucks' rapid growth. Early in her tenure she led store planning. She then moved into retail operations services where she was instrumental in implementing an Automated Labour Scheduling program and Starbucks' New Core Training Modules. Day then went on to run the Pacific Northwest operations region (US & Canada) and then led the North American financial and strategic planning function before becoming President, Asia Pacific Group (Starbucks' international division). Day has a BA from Central Washington University and is a graduate of the Harvard Business School Advanced Management Program. She currently is a board member of Nu Skin and Select Comfort.

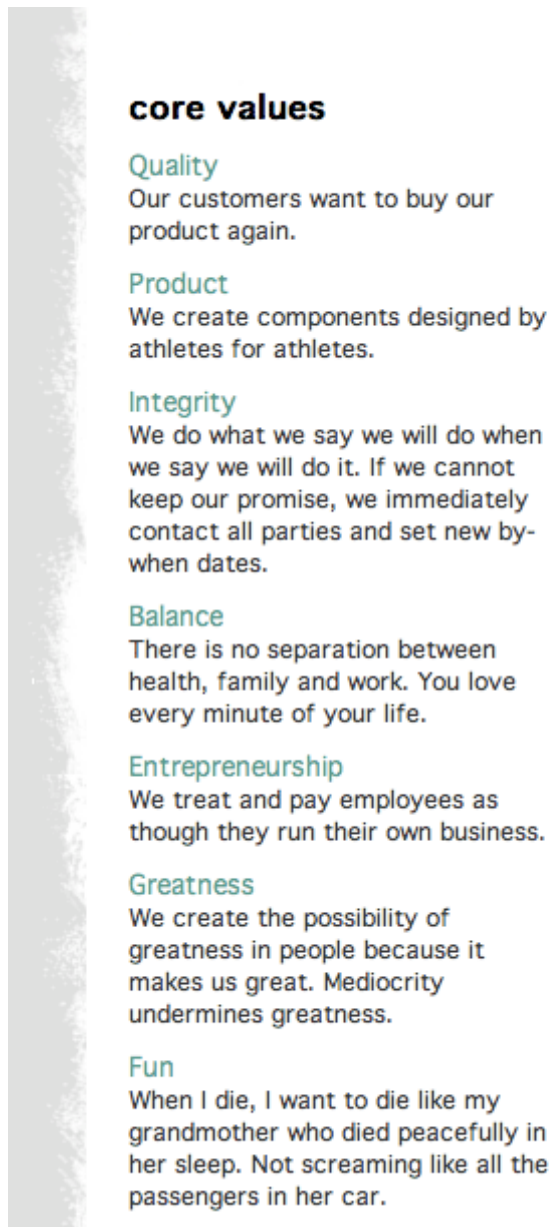
Source: lululemon

Exhibit 4. lululemon Financials

Lululemon Financial Highlights (\$000)														
Fiscal Year Ended	1/31/2003		1/31/2004		1/31/2005		1/31/2006		1/31/2007		2/3/2008		2/1/2009	
	Unaudited		Unaudited											
Net sales	\$	5,903	\$	18,188	\$	40,748	\$	84,129	\$	147,964	\$	269,942	\$	353,488
Cost of sales		3,079		8,748		19,448		41,177		72,249		125,015		174,421
Gross profit		2,823		9,439		21,300		42,952		75,715		144,927		179,087
Operating expenses:														
SG&A		1,173		4,896		10,840		26,416		51,863		93,376		118,098
Other		1,314		3,782		12,134		12,809		7,228		-		4,405
Operating income (loss)		336		761		(1,674)		3,727		16,624		51,551		56,564
Other expenses (income)		-		4		35		(4)		104		1,029		821
Income tax		41		437		(1,709)		3,730		8,752		20,464		16,884
Net income (loss)		295		319		(1,411)		1,394		7,666		30,843		39,363
Balance sheet data:														
Cash and equivalents		433		7		2,652		3,877		15,494		52,545		56,797
Total assets		2,323		11,448		21,148		41,914		71,325		155,092		211,636
Long-term debt		-		594		272		-		-		-		-
Stockholders' equity		419		810		(604)		28,052		37,379		112,034		154,843
Number of corporate owned stores open at end of period		2		7		14		27		41		71		103
Corporate-owned stores sales per square foot		N/A		N/A		1,328		1,279		1,411		1,700		1,450

Source: lululemon

Exhibit 5. lululemon Core Values



Source: lululemon

Exhibit 6. lululemon Manifesto

DRINK FRESH WATER AND AS MUCH WATER AS YOU CAN. WATER FLUSHES UNWANTED TOXINS FROM YOUR BODY AND KEEPS YOUR BRAIN SHARP.

A daily hit of athletic-induced endorphins gives you the power to make better decisions, helps you be at peace with yourself, and offset stress.

The pursuit of happiness is the source of all unhappiness.

Do one thing a day that scares you.

Write down your short and long-term GOALS four times a year. Two personal, two business and two health goals for the next 1, 5 and 10 years. Goal setting triggers your subconscious computer.

LISTEN, LISTEN, LISTEN, AND THEN ASK STRATEGIC QUESTIONS.

Write down your short and long-term GOALS four times a year. Two personal, two business and two health goals for the next 1, 5 and 10 years. Goal setting triggers your subconscious computer.

Life is full of setbacks.

Success is determined by how you handle setbacks.

YOUR OUTLOOK ON LIFE IS A DIRECT REFLECTION OF HOW MUCH YOU LIKE YOURSELF.

WHAT WE DO TO THE EARTH WE DO TO OURSELVES.

The world is changing at such a rapid rate that waiting to implement changes will leave you 2 steps behind.

DO IT NOW, DO IT NOW, DO IT NOW!

Friends are more important than money.



BREATHE DEEPLY

and appreciate the moment. Living in the moment could be the meaning of life.

Stress is related to 99% of all illness.

Take various vitamins. You never know what small mineral can eliminate the bottleneck to everlasting health.

JEALOUSY WORKS THE OPPOSITE WAY YOU WANT IT TO.

Observe a plant before and after watering and relate these benefits to your body and brain. Practice yoga so you can remain active in physical sports as you age.

Successful people

replace the words 'wish' 'should' and 'try' with 'I WILL'.

SWEAT ONCE A DAY TO REGENERATE YOUR SKIN.

Do not use cleaning chemicals on your kitchen counters or floors. Someone will inevitably make a sandwich on your counter.

Children are the orgasm of life.

Just like you did not know what an orgasm was before you had one, nature does not let you know how great children are until you actually have them.

lululemon athletica creates components for people to live longer, healthier and more fun lives. If we can produce products to keep people active and stress-free, we believe the world will become a much better place.

DANCE, SING, FLOSS AND TRAVEL.

The conscious brain can only hold one thought at a time. Choose a positive thought.

Live near the ocean and inhale the pure salt air that flows over the water. Vancouver will do nicely.

COMMUNICATION IS COMPLICATED. WE ARE ALL RAISED IN A DIFFERENT FAMILY WITH SLIGHTLY DIFFERENT DEFINITIONS OF EVERY WORD. AN AGREEMENT IS AN AGREEMENT ONLY IF EACH PARTY KNOWS THE CONDITIONS FOR SATISFACTION AND A TIME IS SET FOR SATISFACTION TO OCCUR.

Source: lululemon

Exhibit 7. Store Manager Compensation

Lululemon Compensation Structure for Store Managers

We are a pay-for-performance organization. We pay our Store Managers like entrepreneurs and at least 20% of their pay is at risk if they don't manage their sales, expenses & labour. The objective of this program is to honor the entrepreneurial spirit that has made lululemon what it is today by providing Store Managers and Assistant Managers with unlimited opportunity to make as much money as they want by maximizing store sales and managing day-to-day expenses. We pay our manager's 80% of their total target cash in base pay. The other 20% is earned through achieving sales & labour targets. In addition, if these metrics are met, and controllable expenses have been managed, there is an opportunity to earn an exceptional bonus based on sales achieved above target. There is no cap on this bonus. This keeps our managers focused on day-to-day operations while still keeping an eye on the bigger picture and strategizing on how to grow their business through people development, extraordinary in-store experience, and community relationships.

source: lululemon

Exhibit 8. lululemon Retail Store Data

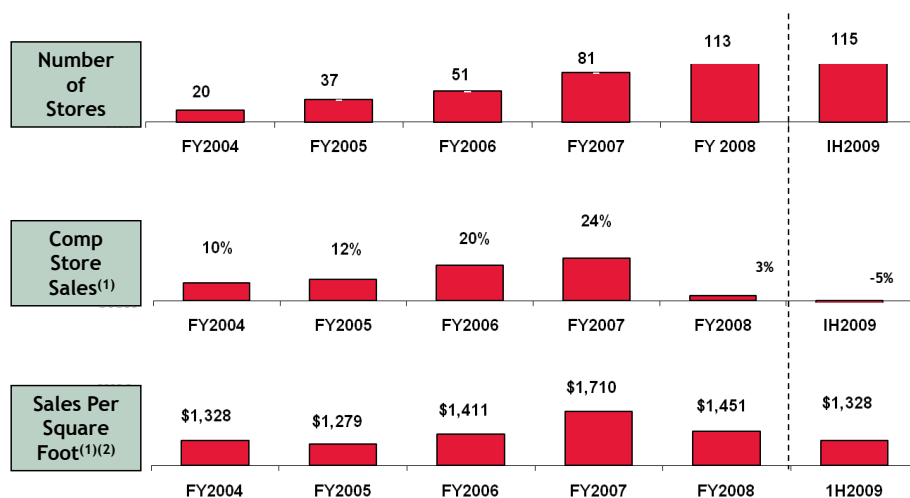
Store Openings by Type

	FY 2007	FY 2008*	1H 2009
Openings			
Mall	16	9	2
Street	9	21	1
Lifestyle	6	7	-
Total	31	37	3
Closures			
Mall	-	1	-
Street	1	3	-
Lifestyle	-	1	1
Total	1	5	1
Net	30	32	2

* Real Estate: \$4.4M provision for asset impairment and lease exit costs

Source: lululemon

Revenue Drivers

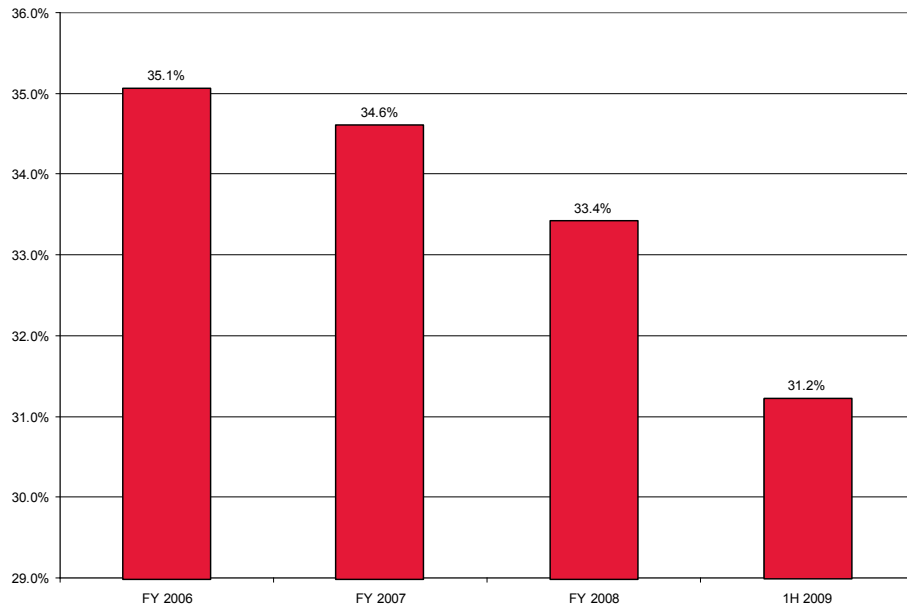


- (1) Corporate-owned stores only; red box represents constant dollar comps;
(2) Sales Per Square Foot represents LTM performance.
(3) 1H 2009 represents YTD results through Q2

Source: lululemon

Exhibit 8. lululemon Retail Store Data, continued

SG&A as a % of Revenue



1H 2009 represents YTD results through Q2

Source: lululemon

Exhibit 9. Leadership Transition, page 1 of 3

Exhibit 9 – Page 1 of 3
Executive Leadership Team and Direct Reports
December 19, 2007

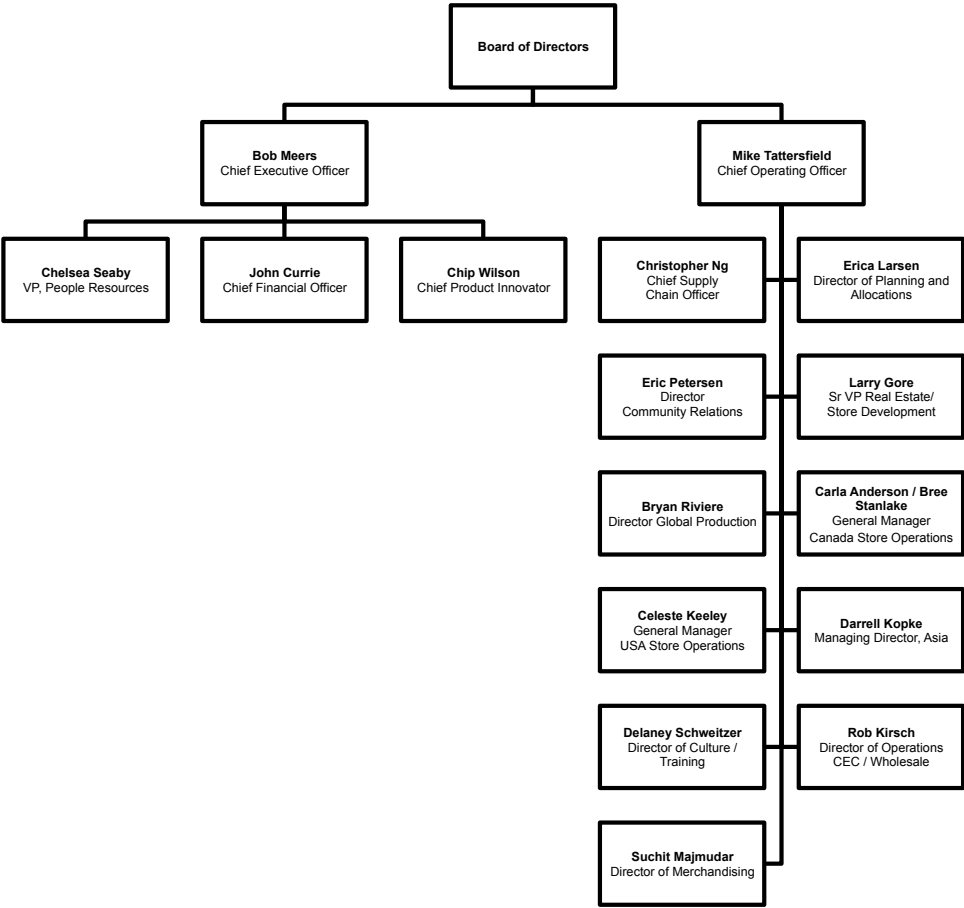


Exhibit 9. Leadership Transition, page 2 of 3

Exhibit 9 – Page 2 of 3

Executive Leadership & Sr. Management Team

March 18, 2008

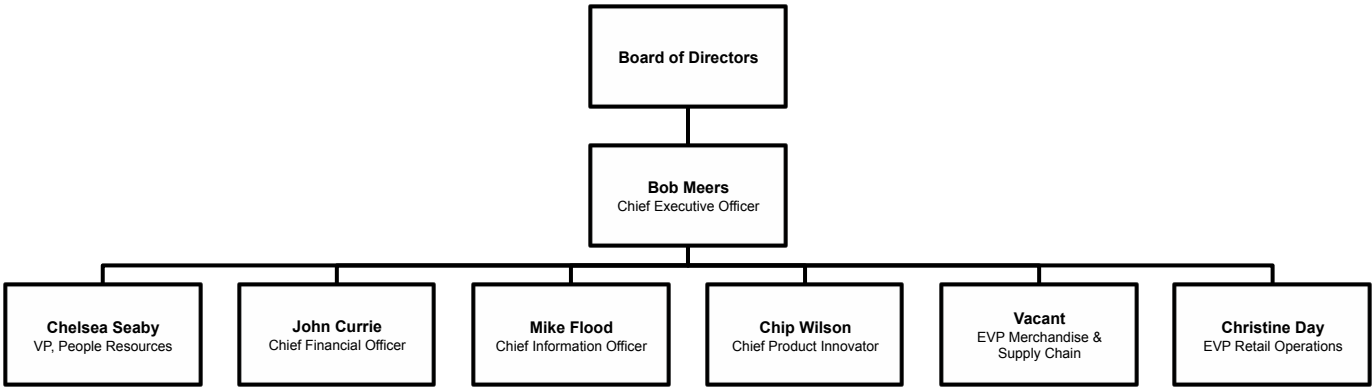


Exhibit 9. Leadership Transition, page 3 of 3

Exhibit 9 – Page 3 of 3

Executive Leadership & Sr Management Team

September 10, 2009

