

Strategic Leadership in the Entrepreneurial Firm - the Challenges of the Lululemon group

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In 2014, Canadian athleisurewear company Lululemon appointed a new CEO, Laurent Potdevin, a 49-year-old Swiss national. Originally an engineer, educated in Switzerland, he took an MBA at the exclusive ESSEC business school in Paris, in a specialist programme working in international management and marketing of luxury fashion brands. After an initial period working directly with the craft operations of LVMH, the firm that sponsored the program he attend, he joined Burton, a snowboarding company, and spent fifteen years in an entrepreneurial environment. During this time, he helped move Burton's image from the counter cultural image of teenage males to an associations with the Olympic sport. In 2011, Potdevin had the opportunity to work with Tom's, a social impact company, where the business model offered a pair of shoes to an impoverished child for every pair of shoes sold to a customer.

The Board hoped that Potdevin possessed the strategic leadership to impart zest to both the management team and to the wider Lululemon organisation. Could Potdevin convince front line 'educators', steeped in the original Lululemon culture, that the transformation proposed by Potdevin was attainable and in the best interests of customers? Could Potdevin create the same employee zest in new, and radically different culturally, locations in Europe and Asia, where fundamentals in the nature of the employer / employee relationship differed dramatically from the U.S. and Canada?

Company background

Lululemon was founded as a single store in Vancouver Canada in 1998 by Chip Wilson, an economics graduate and previously owner of an athleisure business. In 2004, Wilson was named Ernst and Young Entrepreneur of the Year and lauded for his visionary leadership. He shaped an agile, creative and flexible business with a focus on learning. Wilson's leadership during the initial entrepreneurial growth phase of the firm determined the firm's culture, underpinning the competitiveness of the firm. Lululemon designed and retailed technical athleisure apparel with a range of apparel including pants, shorts, tops and jackets suitable for lifestyle sports.

First, the company had to fit the needs of communities where people gathered to discuss healthier ways of living. Focusing on customer lifestyle, Lululemon attracted a cult-like following and grew by aligning itself with yoga instructors. These instructors acted as brand ambassadors and gained high sales per unit of area for an expanding network of stores.¹ The company worked on a customer retention strategy of selling a premium priced product based

¹ Financial Times, Edgecliffe-Jones A. <https://www.ft.com/content/6ddc4558-7011-11e0-8591-00144feabdc0>

on market trends that focused on feel-good intangibles and targeted the primarily female customer base whom he called “guests. Wilson’s entrepreneurial leadership challenged the company, encouraging innovation and risk-taking among employees. His² human resource practices were radically different from those of competing firms, and he paid store clerks up to thirty percent more. In doing so, he was determined to reduce what he saw as unacceptable staff turnover and to make greater use of employee potential.

A partnership with private equity firm Advent funded growth in the U.S, Canada, and internationally. Following an IPO in 2008 the company expanded to one hundred stores and 3,000 employees. Competence in the design and manufacture of odour free and flexible apparel gave Lululemon advantage over competitors³ in sports such as yoga, running, and general fitness.

Industry change within the U.S. athleisure market

The U.S. athleisure market showed a compound annual growth rate of 3.2% between 2011 and 2015⁴. Trends towards 2020 showed a compound annual growth rate of 14.6% to 2020. The market for athleisure was highly competitive⁵. Traditional competition with brands such as The Gap, Lucy Activewear and bebestores focused on brand image, product quality, distribution and price. Growth in size saw Lululemon face competition from larger athleisure focused companies such as Adidas and Nike. Larger companies such as these possessed distribution and supply chain competence and economies of scale. Strong price competition emerged from large retailers such as Walmart and Target. In 2013 Lululemon began to develop e-commerce sales, and by 2016 e-commerce sales accounted for almost 20% of total revenue⁶. In 2017 the future of athleisure was challenged by commentary from Credit Suisse forecasting industry maturity and a return of competition from rebranding of traditional clothing such as denim.⁷ Positively from Lululemon’s perspective, ‘*athleisure*’ market changes indicated a move from traditional branding towards customer identification with lifestyle products⁸. Global sales growth in athleisure apparel was to reach \$231 billion by 2024, with the largest growth rate in Asia-Pacific at 6.9%. Forecast growth specific to China was expected to grow by 2021, the consequence of an emerging middle class and parental spending on older children.⁹

Evolving leadership style at the company

Despite ongoing growth, however, Wilson’s strategic leadership approach seemed blind to major challenges on the horizon, including poor real estate management resulting in underperforming stores in costly locations. Limited organisational capability regarding supply chain management placed Lululemon at the mercy of a small number of suppliers. Five

² New York Times, Wallace, A. <https://www.nytimes.com/2015/02/08/magazine/lululemons-guru-is-moving-on.html>

³ Forbes, Hochman, D. <https://www.forbes.com/sites/davidhochman/2017/05/30/>

⁴ Marketline Lululemon-Company Profile

⁵ Marketline Lululemon-Company Profile

⁶ Lindner, M. <https://www.digitalcommerce360.com/2016/04/01/online-accounts-nearly-20-lululemons-sales-2015/>

⁷ Green, D. <https://www.businessinsider.com.au/athleisure-is-dying-2017-8>

⁸ Forbes, Cheng, A. <https://www.forbes.com/sites/andriacheng/2018/02/09/here-are-some-more-signs-athleisure-trend-still-has-legs/#2fe5579c33cb>

⁹ Euromonitor <http://www.euromonitor.com/apparel-and-footwear>

suppliers dominated the supply chain and Lululemon sourced almost forty percent of raw materials from one supplier¹⁰. Structural challenges were evident in the form of the emergence of a 'silo mentality' as powerful departmental-focused functions grew and created barriers to teamwork. Specialised functions included finance, marketing and product development with barriers emerging both between the functions and between the specialist functions and store level. The barriers damaged the original values-led organisation where company culture had been central to resolving differences and achieving strategic focus¹¹. Following the 2008 IPO, the corporate goal was to reach sales of one billion US dollars. Christine Day, previously an executive at Starbucks, took over as CEO. Day grappled successfully with the internationalisation of the firm. She improved supply chain and marketing capabilities. Profitability of stores improved. Yet though Day grappled with the problem of silo mentality, the roots went deep. A schism appeared between Day and the entrepreneurial and lifestyle-driven founder. The traditional customer base of the company found the major expansion difficult. From their perspective the company moved from one of close relationships towards one dominated by the needs of financial investors.¹²

Future growth problems emerge

Major problems beset Lululemon in 2013, when product recalls of poorly-designed and manufactured pants led to product recall of seventeen percent of the stock, a major financial loss and severe damage to the firm's brand image. The recall challenged the firm's supply chain management, notably the reverse logistics capabilities.¹³ Chairman Chip Wilson exacerbated the problems when he claimed to the media that Lululemon products were unsuitable for obese people, stating: "Quite frankly, some women's bodies just don't work for it... Even our small sizes would fit an extra-large. It's really about the rubbing through the thighs, how much pressure is there."¹⁴ Christine Day resigned as CEO.

Lululemon faced challenges rooted in the very strategic foundations of the company.¹⁵ For Lululemon, marketing strategy rejected the conventional approaches of competitors such as those practiced by Nike and Adidas where objective product level features attracted and justified premium pricing. Instead, Lululemon focused on spiritual roots in yoga with emphasis on self-worth and well being promoted as an integrated service rooted in ideals. Emerging from the spiritual roots of customers, much of Lululemon's business comprised embracing social and environmental activists.

Reinvigorating a faltering Lululemon

In an interview with Fortune¹⁶ in June 2017 Potdevin acknowledged the wider challenges faced by U.S. athleisure retailers in the face of disruptive technological change. However, he

¹⁰ Marketline Lululemon-Company Profile

¹¹ Tushman, M., Page, R. and Ryder, T. (2010) Leadership, culture and transition at Lululemon Harvard Business Review

¹² Business Insider, Lutz, A. <http://www.businessinsider.com/lululemon-fanatics-want-to-fire-the-ceo-2013-3?IR=T>

¹³ CNN, Chris Isidore <http://money.cnn.com/2013/09/12/investing/lululemon-shares/index.html>

¹⁴ Sherman, L. <https://www.businessoffashion.com/articles/intelligence/the-rise-stumble-and-future-of-lululemon>

¹⁵ GlobeandMail, Taylor, T. <https://www.theglobeandmail.com/report-on-business/rob-magazine/ceo-of-the-year-christine-day-of-lululemon/article4252293/>

¹⁶ Fortune, Kell, J. <http://fortune.com/2017/06/02/lululemons-ceo-retail-bull/>

denied the challenges were as profound as fellow retail executives Kevin Plank of Under Armour and Mark Parker of Nike expressed. “Athleisure might come and go, but the lifestyle of being athletic and mindful isn’t going anywhere”, he reflected.¹⁷ Potdevin outlined the future retail basis of his strategy. Stores being closed did not reflect underlying pessimism about the wider retail environment. Strategically Potdevin was optimistic and aimed at growing annual sales to \$4 billion over four years. Key components of the strategy included: focusing on new markets in Europe and Asia; selling to men; developing a multi-channel e-commerce platform tailored to the Lululemon business and leveraging existing creative potential to enhance the product line from new technologies and fabrics. A 2017 strategic partnership with 7mesh exemplified innovative new product development¹⁸.

A seminal feature of Potdevin’s strategy emerged from the growing online sales in U.S. Sales from e-commerce grew in the U.S. from \$169 to \$297 million by 2015¹⁹. However, focus on direct store customer experience slowed Lululemon’s development of digital technologies and the company lacked strategic experience in online selling and marketing. The appointment of Miguel Almeida as digital vice president in June 2015 made some progress. Almeida previously managed at Apple and Dell and had transformed digital strategy in his last position at Walgreen. However, the progress was incremental and inadequate for a company requiring transformation. Sam Poser, a stock analyst at SIG Susquehanna, though impressed by the fundamentals of customer relationships at Lululemon, worried about the firm’s e-commerce platform. He highlighted problems with branding and presentation, manifest in dull colours and staid images. Amid slumping sales, Almeida resigned in April 2017.

Questioned about leadership style, Potdevin cited Jim Collins²⁰ and pointed out how a CEO working alone only did one thing- that one thing was to bring the company down. In contrast, when working as part of a collaborative team, the leader unleashed imagination and opened the company to an outside world of great ideas, striving to anticipate new strategic possibilities. With the continuing growth of internet connectedness and the potential of crowdsourcing, Potdevin saw a business unlimited by standard corporate constraints. He saw an organisation limited only by lack of imagination of both the management team and employees. Imagination could be captured best by transforming employees into “educators” (as they were called at Lululemon from the beginning) in a unique store culture that nurtured ideas and talent. Potdevin spoke of “really giving permission to employees to be powerful and confident again..letting people get back to what they are good at”²¹.

A key strategic leadership capability emerged in Potdevin's alignment of internal and external strategic objectives. One challenge to sustaining the corporate culture was the rising cost of labour, manifest by increases in the minimum wage hourly rate in both U.S. and Canada.²² Even this challenge provided Potdevin with an opportunity to shape the firm’s strategic marketing towards filling the emerging market segment of athleisure. He argued that Lululemon paid more than the competition, but its employees acted to differentiate the firm

¹⁷ Sherman, L. <https://www.businessoffashion.com/articles/intelligence/the-rise-stumble-and-future-of-lululemon>

¹⁸ Lululemon Press Release <http://investor.lululemon.com/releasedetail.cfm?releaseid=1030665>

¹⁹ Marketline Lululemon-Company Profile

²⁰ McCullough, M. <http://www.canadianbusiness.com/leadership/laurent-potdevin-lululemon-interview/>

²¹ Sherman, L. <https://www.businessoffashion.com/articles/intelligence/the-rise-stumble-and-future-of-lululemon>

²² Marketline Lululemon-Company Profile

in the segment that comprised athleisure worn not simply for athletic use, rather as a unique source of personal and social identity.²³ Potdevin argued that success depended on “having the right people that are incredibly knowledgeable about the market and are aligned with the culture”.²⁴

Store managers had responsibility for the layout and colour of the store and for community involvement. The company vision statement appealed to ‘Live a life we love’. Strategic leadership sought to rebuild the damaged and neglected relationships once seen as cornerstones of Lululemon’s success. Potdevin²⁵ spoke of building vibrancy into community relationships. Relationship-building was premised on the selection and cultivation of association with the right studios, the right ambassadors and ultimately in what he called the “authentic” nature of connections. Lululemon built stores where community relationships brought in business. CNBC argued in 2017 that the company benefitted from the deep relationships that helped differentiate the brand from competitors in what had become a crowded U.S. market place.²⁶

‘Our best life’ spoke of never ceasing to empower people and encouraged employees to reach their full potential. Potdevin actively encouraged the company to be one where learning was encouraged and risk was rewarded. Empowerment operated through a culture of leadership, goal setting, and personal responsibility. Potdevin's leadership challenged himself as well as employees and industry partners.

Externally, change in the athleisure industry challenged Potdevin’s strategic leadership. Internally, strategic leadership challenges emerged in cultivating an organisation capable of initiating change rather than reacting to it. It remains to be seen whether the company can continue to grow and prosper given the consolidation underway in the athleisure market with weaker companies exiting the market and stronger players emerging. And there remains the million-dollar question, *“with everyone wondering what impact Amazon might have on the future of fashion and more specifically the future of athleisure. Apparel could be the internet giant's next target, following grocery, many analysts have predicted”*²⁷

These are the questions that will now concern the senior team at Lululemon as they continue to plot out the future direction for the organisation. Only time will tell whether the current strategic positioning is sufficient to meet the new market demands of the company.

²³ BusinessInsider Green, D. <http://uk.businessinsider.com/athleisure-is-more-than-a-trend-2017-2?r=US&IR=T>

²⁴ Sherman, L. <https://www.businessoffashion.com/articles/intelligence/the-rise-stumble-and-future-of-lululemon>

²⁵ BCBusiness <https://www.bcbusiness.ca/laurent-potdevin-sets-lululemon-in-a-new-direction>

²⁶ CNBC, Thomas, L. <https://www.cnbc.com/2017/07/21/athleisure-is-hot-but-retailers-need-to-be-wary-of-overcrowding.html>

²⁷ CNBC, Thomas, L. <https://www.cnbc.com/2017/07/21/athleisure-is-hot-but-retailers-need-to-be-wary-of-overcrowding.html>