Lululemon: Encouraging a Healthier Lifestyle

INTRODUCTION

Lululemon Athletica is an athletic apparel company intended for individuals with active lifestyles. The organization has deep roots in the yoga community and is one of the few businesses to offer apparel for this specific market. Lululemon is based in Vancouver, British Columbia, Canada and operates its clothing stores in numerous countries throughout the world. The apparel store offers product lines that include fitness pants, shorts, tops, and jackets for activities such as yoga, running, and other fitness programs. The organization operates in three segments. These segments consist of corporate-owned and operated retail stores, a direct to consumer e-commerce website, and wholesale avenues. As of 2014, the company operates 254 stores predominantly in the United States, Canada, Australia, and New Zealand. With nearly 8,000 worldwide employees, Lululemon has grown rapidly in the last 20 years and is expected to continue its growth strategy well into the foreseeable future. It has also established a subsidiary geared toward youth called Ivivva Athletica.

Store growth and expansion into other countries has allowed Lululemon to achieve financial success. The organization has seen continuous increases in revenue, with a 2013 annual revenue nearing $1.6 billion. Over the past four years, Lululemon has consistently boasted annual revenue increases of about $300 million. While financially stable, the organizational structure has seen changes in recent months with the hiring of a new CEO. Lululemon hired Laurent Potdevin in January of 2014 hoping to appoint a worthy and experienced industry professional. The company also hopes to distance itself from negative headlines circling former CEO Denis “Chip” Wilson. Potdevin was once the Chief Executive Officer at TOMS Shoes and has worked in the industry for over 20 years.

There is no question that Lululemon has seen great success in recent years. From its conception in 1998, the organization has grown tremendously in markets across the globe. However, Lululemon’s success has also been tainted by controversy, negative publicity, and questionable ethical decisions. This case will detail the issues and controversies circling this organization and identify how Lululemon has managed these issues. In addition, we provide information regarding the positive ethical decisions that have been made throughout Lululemon’s history.

BACKGROUND
Lululemon was founded by Denis “Chip” Wilson in 1998 in British Colombia, Canada. Prior to Lululemon, Wilson had spent two decades in the surf, skate, and snowboard business. He was looking for a change. After attending the first commercial yoga class offered in Vancouver, Wilson fell in love with the activity and felt incredible during and after the exercises. With a passion for technical athletic fabrics, Wilson realized that the current cotton clothing being used for power yoga was inappropriate and unpractical. Movements required breathability, flexibility, and a stretchiness that an individual could pour sweat into during exercise. With this in mind, Wilson created a design studio for his new clothing. Struggling to pay rent, the design studio became a yoga studio during the night hours. Yoga instructors who taught at the studio were asked to wear the new products and provided Wilson with useful insight and feedback on the clothing. In order to name the new company, Wilson surveyed 100 people and offered a list of 20 brand names as well as 20 logos. Lululemon is a created word that has neither roots nor meaning. It is believed that Wilson selected this name because he enjoys the sound of the 3 L’s when the word is spoken. The logo, which is actually a stylized letter A, was a logo intended for the brand name Athletically Hip, which was not selected.

The first store opened in November 2000, in the beach area of Vancouver, British Columbia. The store was intended to be a community-gathering place for individuals to discuss health topics like dieting, exercise, and cycling. However, the store was so popular and busy that satisfying the customer became nearly impossible. The business grew quickly as products were popular among customers and the staff was eager to learn, expand, and challenge themselves.

From the get-go, Lululemon had a strong mission that embraced a healthy and active lifestyle. Inspired by author and philosopher Ayn Rand, Chip Wilson modeled Lululemon with the intent that involves “elevating the world from mediocrity to greatness.” The company adopted the following mission statement: “Creating components for people to live longer, healthier, fun lives.” Lululemon tries to reflect this in its corporate culture. Store managers, for instance, are provided with much control over the operations of their stores, and Lululemon operates with a decentralized corporate culture. Lululemon employees are recruited and hired based on their level of commitment and how well they fit into the corporate culture. To bring its mission statement to fruition, Lululemon refers to its employees as “educators” to acknowledge the crucial role they play in helping customers to obtain a healthy and active lifestyle.

Lululemon stores today are focused heavily on community involvement and interaction with local enthusiasts. Nearly all stores host in-house events on a nightly or weekly basis, with classes ranging from beginner and advanced yoga to goal setting and self-defense workshops. Events and workshops generally occur after store hours and occur on the saleroom floor after racks and products have been moved.

Unlike many stores, Lululemon does not offer discounts, but sells approximately 95 percent of its products at full price. It also sells its products at higher prices than its competitors, reflecting the value of Lululemon’s products. Lululemon operates on the concept of scarcity
to encourage customers to buy immediately. Its store shelves often have fewer products than the shelves can hold, and many products have quick life cycle times such as six-week life cycles. Customers are therefore encouraged to purchase the product before it is gone, which is thought to be a major influence in Lululemon’s continued popularity and success with customers.

In order to anchor its mission statement, Lululemon has adopted seven core values: quality, product, integrity, balance, entrepreneurship, fun, and greatness. These values serve to motivate employees and guide their decisions.

**ETHICAL RISKS & CHALLENGES**

Despite Lululemon’s strong mission statement and core values, Lululemon has faced much controversy over its history. Founder and former CEO Chip Wilson has also been criticized for controversial statements he has made, which eventually helped lead to his ouster as CEO. There have also been questions regarding whether Lululemon’s corporate culture—with its strong emphasis on greatness and competitiveness—is necessarily healthy for employees.

**FOUNDER’S CONTROVERSIAL STATEMENTS**

Lululemon founder Chip Wilson is thought of by many as a man with unorthodox opinions. Over the years, he has developed a reputation for being controversial. For instance, in a 2009 interview with Canada’s *National Post Business Magazine*, he admitted to having chosen the company name because “it’s funny to watch [Japanese] say it.” Wilson also stated on a blog his opinion that the rise in divorce rates and breast cancer among “Power Women” was due to a combination of smoking, taking birth control pills, and the additional stress which came from taking on the career responsibilities once held mostly by men. He attributed Lululemon’s growth as stemming from the coming together of “female education levels, breast cancer, yoga/athletics and the desire to dress feminine.”

Another highly controversial statement of Chip Wilson’s involves his opinions regarding child labor laws. Wilson argues that “third-world children should be allowed to work in factories because it provides them with much-needed wages.” He claims this can help lead citizens of these countries out of poverty. The practice of child labor is a hot-button issue in the Western world because of the poor working conditions and rampant abuse worldwide. This support of child labor has angered critics, who believe Lululemon might be exploiting children in developing countries. They argue that providing children with more education is much more likely to lift them out of poverty than having them earn low wages at a dangerous job. Lululemon founder Chip Wilson would continue to make controversial statements, eventually leading to his resignation as Chairman of the Board.

**MISLEADING ADVERTISING**
In 2007 the *New York Times* cast doubt on the authenticity of Lululemon’s VitaSea line of products. Lululemon claimed that its VitaSea products were infused with seaweed, which had medicinal properties including stress relief. In November 2007, the *New York Times* released an article claiming that it had tested VitaSea products and could not find seaweed fiber in the product. This claim unleashed a storm of criticism.

Lululemon responded by refuting the claims of the *New York Times*. They cited independent tests performed the previous year. They also responded to the accusations by stating that a lab in Hong Kong had performed different tests on the product throughout the year, all of which confirmed that the products contained everything that they advertised.

However, Canada’s Competition Bureau challenged Lululemon, not due to the content of the VitaSea product but rather their claims about the product's health benefits. The bureau claimed that these claims of health benefits from seaweed were unsubstantiated and ordered Lululemon to remove all such labeling.

**CORPORATE CULTURE**

As mentioned earlier, Wilson founded his company on the values of Ayn Rand. The notion of striving for greatness resonated with Wilson after having read Rand’s book *Atlas Shrugged* at the age of 18. Since then, he has utilized the concept as a way to market his brand. This idea of “greatness” contributes to a competitive organizational culture. Wilson admits that the firm tries to hire employees with Type A personalities, or those with more competitive personalities who are concerned with achievement and personal improvement. New hires read books selected by Chip Wilson that he feels is critical to personal development. Employees are also required to write out their goals for the next ten years, which are then posted in Lululemon stores. Employees are encouraged to exercise regularly and remain close-knit.

Some have questioned how this competitive culture obsessed with greatness fits in with the yoga tradition based on Buddhist and Hindu philosophies. Both ideologies promote the notion of ridding one’s self of the Ego. The Ego is seen as a source of suffering, and Buddhism is based on the absolution of suffering. Enlightenment is achieved when the Ego has been successfully removed. There are specific postures used to accomplish this, and it can take years of practice. On the other hand, one of the criticisms of Lululemon goes back to Ayn Rand’s teachings and their promotion of “rugged individualism,” the elevation of mediocrity to greatness, and the relentless pursuit of happiness. Despite it being a business, some believe that these “individual” teachings do not belong in the yoga clothing industry, because they directly contradict the Vedic philosophy. Others have claimed that Lululemon’s corporate culture is almost “cultish” in its style.

In March 2011, an employee of Lululemon located in Bethesda, Maryland was brutally murdered by her co-worker after hours. It is believed the employee had observed the co-worker trying to steal clothing from Lululemon. After the store closed, the co-worker lured the employee back into the store and brutally murdered her. She then attempted to make
the scene look as if two masked men had broken in and harmed them. After the truth was revealed, the co-worker was sentenced to life in prison without parole.

Lululemon and many others attribute this brutal act as a random act of violence. However, those who describe the corporate culture as “cultish” and “competitive” argue that the culture creates an environment where employees are pressured to live up to company standards. Although this in itself is certainly not the reason for the murder, critics have sometimes charged Lululemon with having an unethical corporate culture promoting competition over collaboration.

**TOO-SHEER YOGA PANTS**

A more recent ethical problem for Lululemon occurred in March 2013, when they released black Luon yoga pants that become sheer when the wearer bends over. They instituted a massive recall which comprised 17 percent of all the women’s pants sold in their stores. The recall resulted in large shortages, which impacted financial results and drove the stock price down. The company lost $2 billion in market value. Afterward, investors attempted to sue Lululemon, claiming that they purposefully hid defects in the pants. However, the lawsuit was dismissed the next year.

The scandal resulted in the resignation of CEO Christine Day. A few months later, in November 2013, Chip Wilson defended his product by suggesting that women’s bodies are to blame for the fabric’s sheerness and their tendency for pilling. He also claims that many women buy pants that are too small for them, which wears them out. When questioned about whether Lululemon is truly a clothing retailer for everybody, Wilson stated that the product was appropriate for all sizes but that some people simply misuse the product. Critics viewed this as a sexist comment, exacerbating the issue at hand. In the midst of consumer outrage, Wilson stepped down as Chairman of the Board.

**CUSTOMER PRIVACY**

Lululemon is known for wanting to avoid collecting large amounts of customer information through big data techniques. Instead, they desire to have a close and open relationship with customers. One of the ways they do this is by listening to customers as they shop in the store. Lululemon takes customer complaints or concerns seriously and will attempt to make decisions based on this information.

Although this emphasis on listening to the customer is an important part of Lululemon’s customer relations, some people believe Lululemon takes it too far. A less well-known ethical risk that the company practices is the training of retail employees to eavesdrop on their customers. Lululemon prefers this to spending money on marketing software that tracks purchases, or sending out survey requests. Christine Day, the former CEO, used to spend much of her time in retail stores, pretending to be a customer, in order to listen to complaints and observe shopping habits. When she was with the company, she had stores set up their clothes-folding tables next to the fitting rooms so employees could better
overhear any complaints. Whether these practices are smart marketing techniques or infringements on employee privacy is ambiguous.

**POSITIVE ETHICAL PRACTICES**

Despite the criticisms launched against Lululemon, the mission to help customers live a better life continues. Lululemon defines having a better life as living healthier, leading to a longer and more adequate life. Its mission to elevate humanity from mediocrity to greatness demonstrates that it wants consumers and employees to achieve their maximum potential. This is not too different from Abraham Maslow's concept of self-actualization. Lululemon has developed a manifesto to describe their way of business: “We are passionate about sweating every day and we want the world to know it. Breathing deeply, drinking water and getting outside also tops the list of things we can’t live without. Get to know our manifesto and learn a little more about what lights our fire.”

This manifesto clearly shows the backbone of Lululemon and the way they do business. The manifesto strives toward providing greatness to the people that use Lululemon products. The higher prices Lululemon charges are a sign of excellence and the belief that they are selling more than just clothing to the customers. It is a belief that the customer is buying a lifestyle that comes with the Lululemon brand and the set of values that Lululemon is conveying in the manifesto. As a result, Lululemon has gained a large following and clientele that believe in their products.

**CONTRIBUTIONS TO COMMUNITIES**

Lululemon takes its responsibilities to communities seriously. It recognizes that community involvement will not only help gain new customers, but will also promote their mission of creating a healthier lifestyle. For these reasons, Lululemon holds free weekly yoga classes taught by fitness professionals. Lululemon shoppers who have attended the free yoga classes can get a 15 percent discount on their purchases.

Additionally, while the practice of secretly observing customers might be controversial in some ways, it also demonstrates Lululemon’s commitment toward meeting customer needs. Lululemon believes that customer relationships are not based on technology, but rather on more basic marketing techniques like simply talking with the customer. The Lululemon culture encourages employees to establish strong connections with their customers, which is why the company emphasizes that its employees are “educators.” By listening carefully to customer concerns as they shop, Lululemon gets an immediate picture of problems that the company can address. For instance, one time when the CEO was in a Lululemon store she overheard many complaints that a certain type of knit sweater had sleeves that were too tight. Based on this information, she canceled future orders. It is clear that Lululemon is willing to make quick product changes in response to customer feedback.

Lululemon also contributes to local charities throughout their communities. In many communities, Lululemon empowers customers by offering the clientele the ability to
suggest organizations and charities to receive donations. Lululemon’s program allows for up to eight local charities to receive donations. This shows their commitment to their local communities and their willingness to give back as much as possible, while still maintaining a healthy bottom line. Lululemon’s efforts display a stakeholder mindset as they make decisions that benefit their shareholders, clients, local neighborhoods, and nearby businesses.

RELATIONSHIPS WITH EMPLOYEES

Lululemon recognizes that customer satisfaction is only as good as the employees that provide it. Lululemon therefore strives to make its employees into ambassadors for the brand. This can only happen if employees are passionate and committed to company products and values. The hiring process at Lululemon is extensive as the firm only wants to hire those who it believes will be the right fit with its company culture. It is also costly. Applicants may go through more than one interview, and those that get farther in the process are often asked to attend yoga classes where the recruiters can see how they interact with others. When an applicant is chosen as an employee, he or she will undergo 30 hours of training. They also spend three weeks working on the floor.

As mentioned before, Lululemon strives to get its employees inspired. Employees must develop their personal goals, which are then hung in the stores. To encourage healthy living and incentivize employees, the company offers staff free fitness classes. It also tries to help their employees find the right balance between family and work. Lululemon frequently sends merchandising tips to their sales employees and encourages them to take responsibility and ownership of the store.

Lululemon believes in hiring managers internally, which motivates lower-level employees because they know they have a good chance of becoming a leader. Approximately 70 percent of Lululemon managers are internal hires. Employee satisfaction at Lululemon appears to be high; in exit interviews, 90 percent of employees claim they would recommend for their friends to work at Lululemon.

Lululemon also offers its employees unique perks. It frequently sanctions events such as group hikes or exercise sessions to help its employees bond with one another. After a year of employment, Lululemon sends employees to the Landmark Forum, a three-day self-improvement program at a cost of approximately $500 per employee. (Some have criticized the Landmark Forum and Chip Wilson’s endorsement of it, while others claim the experience transformed their lives). Lululemon has also created the “Fund a Goal” program for high-performing employees. This incentive pays for these employees to achieve one of the goals on their list.

CONCLUSION

Lululemon focuses much of their efforts on the legacy that they will leave behind (the legacy they are creating now for future generations). Throughout the years, Lululemon has
.created a culture of promoting a healthy lifestyle, which can be achieved through healthy eating, yogi tradition, and in-store fitness classes. The company stresses a culture in which employees, customers, and other stakeholders can achieve greatness. As a result, the organization has seen rapid success and growth during the last decade. However, the company has been hit by a number of scandals, requiring them to rebuild their reputation and adopt new leadership.

The changes that Lululemon has implemented demonstrate that the organization is willing to make difficult decisions to do the right thing. If Lululemon continues to put stakeholders first and refuse to deviate from its values, it is likely to avoid similar ethical issues in the future. A strong values-based corporate culture will help Lululemon remain a successful company with a reputation for both ethical behavior and quality products. In addition, most companies the size of Lululemon have an effective ethics and compliance program to help build an ethical culture. Based on past issues that the company has faced, it appears that it is time to embrace a more proactive approach to managing ethics and social responsibility.

QUESTIONS

1. How has Lululemon handled various ethical issues that it has faced over the last few years?
2. How has the ethical culture of Lululemon impacted its relationship with customers and employees?
3. To avoid negative publicity and ethical challenges, what steps should Lululemon take to improve its stakeholder relationships?

Sources:


