

Lululemon Remains in High Demand and in Command of Pricing

Companies: BRK.A, ETR:ADS, DKS, GPS, JCP, JWN, LULU, NKE, SHLD, TGT, TJX, UA, VFC, WMT

March 11, 2013

Research Question:

Can Lululemon successfully defend and grow its market share in the activewear market as competition increases?

Summary of Findings

- Thirty-two of 44 sources said [Lululemon Athletica Inc.](#) (LULU) remains the leading high-end activewear brand and will remain in demand despite greater competition.
- Lululemon is expected to be able to maintain its pricing power because it also has become a lifestyle brand. Three retail consultant sources said Lulu could successfully push through a 10% to 15% price increase, and two specialists cautioned that Lulu could damage its brand identity and cache if it were to lower prices. In fact, they said it was more susceptible to threats from higher-priced entrants than from low-end competitors.
- Six of 10 fitness professionals reported a year-to-year increase in the amount of Lululemon being worn in their establishments, and eight of 13 customer sources have been buying more Lulu products. Meanwhile, two Lulu [Ambassadors](#) representing New York City yoga studios said the company already has peaked and that clients now favor wearing a variety of brands, including Lulu.
- More concerning than increased competition were the company's fulfillment problems over the holidays, according to retail consultant and industry specialist sources. This issue threatens to stall [Lulu's expansion plans](#) that include growing its online business, which will be key in fending off new competitors.
- Lulu's [men's line](#) continues to gain steam but still has not attained the success enjoyed by the women's line. The opportunity for growth remains because men appear less apprehensive in wearing the brand and are learning to appreciate the quality and lifestyle.
- Four sources said Lulu's [livva](#) for girls will be limited because kids outgrow their clothes too quickly to justify paying the line's high prices. One store source, however, said the [Chicago livva showroom](#) was successfully proving the concept.
- The Gap Inc.'s (GPS) [Athleta](#) line continues to gain acceptance in the activewear market and is building a reputation for quality products. One Lulu store source said a new, nearby Athleta has taken some customers. Unlike Lululemon, however, Athleta still is not considered a status symbol.

Silo Summaries

1) FASHION MAGAZINE AND WEBSITE EDITORS

Two of three sources said LULU still is in high demand and will not lose out to the growing list of competitors. The third source questioned Lululemon's ability to stave off competitors because of its high prices and the improved quality from lower-priced competitors.

2) RETAIL CONSULTANTS

All three sources said Lululemon is the leading high-end brand and could successfully push through a 10% to 15% price increase. Two sources raised concerns about LULU's back-end operations, which resulted in supply chain mismanagement and inventory shortages during the holidays and could hamper efforts to expand online.

3) INDUSTRY SPECIALISTS

All four sources said LULU has a loyal following and strong brand identity, which supports its high prices, but the company has a considerable challenge in staving off the growing list of competitors. Three sources said LULU has an opportunity to grow its online business; a **recruiter source expects LULU to hire as many as 40 people for its technology and online efforts.**

4) LULULEMON AMBASSADORS

These two LULU Ambassadors also represent yoga studios in New York City, and said **their students are no longer wearing LULU from head to toe. Instead, students are wearing a mix of apparel and brands that includes LULU.**

5) FITNESS PROFESSIONALS

Six of 10 sources are seeing more LULU worn by their students compared with a year ago. Three others said it is as popular as ever and has maintained its appeal. **Sources, including two men, wear LULU.**

6) LULULEMON STORES

All nine sources said business is progressing as planned. Both sources who quantified sales reported a year-to-year increase. Five others said sales still were strong, including during the holidays. None said prices were a deterrent.

7) LULULEMON CUSTOMERS

Eight of 13 sources said they are buying more LULU apparel than a year ago, two are maintaining their purchase patterns, and three others are buying fewer LULU pieces. Four of the eight sources buying more product added that they are shopping less with competitors. Sources added that the high prices are justified by the superior quality.

Lululemon Athletica Inc.

	LULU Sales	LULU Fighting Off Competition	LULU Men's Line
Fashion Magazine and Website Editors	↑	→	↑
Retail Consultants	↑	↑	↑
Industry Specialists	→	↓	↓
LULU Ambassadors	↓	↓	↓
Fitness Professionals	↑	↑	↑
LULU Stores	↑	↑	→
LULU Customers	↑	↑	→

Background

Blueshift's past work on Lululemon, including an August 2012 [report](#), revealed that superior product quality and trend-setting styles were helping the company to fend off competitors, while pushing the brand beyond the yoga community and into sports and everyday wear. Lululemon is optimistic it will continue its impressive same-store sales growth in 2013. However, [Nike Inc.](#) (NKE) and [Under Armour Inc.](#) (UA) now are effectively utilizing their large distribution networks to increase the growth of their women's activewear segments. Both companies reported roughly 25% growth in this area and are undercutting Lululemon's prices by 20% to 30%. Additionally, Gap's Athleta brand plans to have 50 or more U.S. brick-and-mortar locations by the end of 2013. Small and startup companies also are challenging Lululemon through similar high-fashion products or substantially lower pricing. [Prana](#) and [Lole](#) are rapidly expanding and operating under a similar business model to Lulu, while new entrant [Ellie](#) is [pledging](#) that it can offer the same quality at half the price.

CURRENT RESEARCH

In this next study, Blueshift assessed whether increasing threats from competitors will slow Lululemon's sales and market share growth. We employed our pattern mining approach to establish and interview sources in eight independent silos:

- 1) Fashion magazine and website editors (3)
- 2) Retail consultants (3)
- 3) Industry specialists (4)
- 4) Lululemon [Ambassadors](#) (2)
- 5) Fitness professionals (10)
- 6) Lululemon stores (9)
- 7) Lululemon customers (13)
- 8) Secondary sources (13)

We interviewed 44 primary sources, including one repeat source, and identified 13 of the most relevant secondary sources focused on Lululemon's store expansion, community events, and efforts to grow internationally. We also selected secondary sources discussing Ivivva and the rise in competition from large retailers and startup companies alike.

Next Steps

Blueshift's next report will look to uncover whether the supply chain and fulfillment problems from the holidays have been resolved. We will focus more on the growth of Lulu's online business, including the company's efforts to make this a larger part of its business. We will assess the potential for a higher-priced exclusive competitor to enter the market and take share from Lulu, including some of the smaller names mentioned in this report. We will follow up on the suggestion made by two sources that Lulu may be considering franchise opportunities. Finally, we will continue our pursuit of growth signs in the men's section and with the Ivivva line in the United States.

Silos

1) FASHION MAGAZINE AND WEBSITE EDITORS

Two of three sources said Lululemon still is in high demand and will not lose out to the growing list of competitors. The activewear market continues to grow, and Lululemon is expected to stay at the forefront thanks to its loyal customers and its products that are both fashionable and functional. Customers remain willing to pay Lululemon's higher prices. The men's line is growing, and opportunity exists for further expansion as the way men evolve in their perceptions about health, fitness and fashion. The third source questioned Lululemon's ability to stave off competitors because of its high prices and the improved quality from such lower-priced competitors as [The Gap Inc.](#) (GPS) with its GapFit and Athleta lines. None of the three sources believes Lululemon's [Ivivva](#) concept for girls will be a major success because customers react differently to high prices when shopping for children. One source said Lululemon has an opportunity in the plus-size market because of a lack of quality products for this demographic.

► Editor for an online fashion magazine

Lululemon's popularity still is growing as the activewear market expands. It produces a quality product that customers have come to rely on. Men are increasingly attracted to the market of stylish fitness clothing as they discover new forms of exercise. Price is not an issue for the Lululemon customer, but may be a roadblock to mass success with the girls' Ivivva line, especially outside of higher-income communities.

- "I don't think Lululemon is going to decrease or dwindle at all. I don't believe Lululemon's popularity is based on yoga, per se. It's really their approach to marketing and making it a lifestyle brand. The company itself has become a reliable source. And as a customer, you come to know what they are doing inside the industry. This 'in the know' vibe has been essential for their customer base. ... Yoga athletic wear will continue to increase in popularity. There will be newcomers to the field, but they don't necessarily understand a woman's body and the way a body moves."
- "Men's stylish exercise clothing can be a potentially huge category in the next three to five years. Men are working out very differently than they used to. So many men are doing yoga and Pilates now. If products are marketed correctly, they could become very big."
- "There are two sides in activewear: the practical side and the style side. From the practical standpoint, they want their shape wear to hold them in make them look better, prevent them from sweating. They want it to do more, be more sturdy and work harder. They want their dollar to go further. From a style standpoint, we are going to see more seams, darts, colors in activewear, and there is going to be demand for it. If a customer has discretionary money, the idea is that they want to look as stylish at the gym as they do on the street."
- "The activewear users are two different groups of people from two very different markets. One makes an average of \$30,000 a year or less. They are looking for clothes to be active, comfortable and inexpensive. They

I don't think Lululemon is going to decrease or dwindle at all. I don't believe Lululemon's popularity is based on yoga, per se. It's really their approach to marketing and making it a lifestyle brand. ... Men's stylish exercise clothing can be a potentially huge category in the next three to five years. Men are working out very differently than they used to.

Editor, Online Fashion Magazine

Lululemon Athletica Inc.

► Editor-at-large for a fashion website

Lululemon is at risk of losing share to lower-priced competitors like Gap, which is improving the quality and functionality of its products. Its men's line is not taking off because of competition from Nike that emphasizes sports rather than lifestyle. Lowering prices would open Lululemon up to a new customer base but could alienate its core customer. Ivivva is priced too high to have a major effect in the kids' market.

- "A lot of companies—Old Navy and [Loblaw Cos. Ltd.'s/TSE:L] [Joe Fresh](#) come to mind—have copied Lululemon's look and made it much more affordable. A lot of people still have a hard time spending that much money on a pair of leggings. There is not a big enough difference between Lululemon and Old Navy to justify buying Lululemon again."
- "Gap's Athleta is a direct competitor. Price points are lower, and the product is pretty much the same. With the same basic quality and every retailer getting on the 'wellness' bandwagon, Gap activewear is really going to take over some of Lululemon's market share."
- "I can't imagine that guys want to wear specific 'yoga' clothes even if they're really into yoga, mostly because guys don't shop like that. They want function. If Nike running pants do the job, that's what they'll buy and it's less expensive. Men aren't going to want to spend \$80 on a pair of activewear yoga pants."
- "Stuff that's kind of hip-hop inspired is really taking off—crazy-colored sneakers, lots of fluorescent and black. People want to look cool and tough when they're working out."
- "Lululemon is more yuppie than luxury. ... It definitely makes the brand aspirational, but I worry that won't be able to sustain a business model. At some point, they are going to have to branch out with more product that isn't priced at \$80 or have it more focused on lifestyle."
- "The bifurcation of the activewear market is already happening. Lululemon could have an opportunity to fulfill that middle ground if they dropped their prices a bit, but if they did that, the company would be in jeopardy of losing the core customer."
- "The price points are so high for the Ivivva line, I doubt parents are going to spend \$60 to get their 8- to 16-year-old girls in shape when Gap exists. Where this line will falter will be at pricing, because the collection looks great."

Lululemon is more yuppie than luxury. ... It definitely makes the brand aspirational, but I worry that won't be able to sustain a business model. At some point, they are going to have to branch out with more product that isn't priced at \$80 or have it more focused on lifestyle.

Editor-at-large, Fashion Website

2) RETAIL CONSULTANTS

All three sources said Lululemon is the leading high-end brand and could successfully push through a 10% to 15% price increase. Two sources raised concerns about Lululemon's back-end operations, which resulted in supply chain mismanagement and inventory shortages during the holidays and could hamper its efforts to expand online. Two sources said Lululemon would be more susceptible to a higher-end, higher-priced competitor than a lower-price company. One source said Lululemon is expanding the square footage dedicated to its men's line. She also said Ivivva is growing but will be stifled by its high prices because kids outgrow clothes so quickly. She suggests Lululemon's next product segment should be sleepwear.

► Retail marketing consultant

Demand for Lululemon continues to surge, so much so that the company mismanaged supply chain issues during the holidays. The source expects this to be addressed but with little lasting effect beyond the upcoming quarter. Prices will increase 10% to 15% because of production costs, but the brand will pass them through successfully. Lululemon also is going to test giving more square footage to its men's section. Ivivva is a growing part of Lululemon's business, but price could be an issue given how fast kids outgrow their clothes. Lululemon should consider offering sleepwear.

- "Lululemon is doing so well that it's having problems keeping up with demand. If this were a smaller company, I would say this was a good problem to have, but it's not. The problem has to do with two things: back-end infrastructure and pricing."
- "For 2013 the company plans on spending more on getting the back end to make sure it doesn't have the type of inventory problems it was experiencing over the holiday season. This is going to have an impact on the bottom line for the next quarter, but will not have as much of an impact moving forward into the third and fourth quarters."

Lululemon Athletica Inc.

- “Pricing is going to go up 10% to 15% because of production costs. It’s a brand that continues to resonate with athletes and athletic people. It’s more of a state of mind. Lululemon is adorable with quirky salespeople, so customers stay involved. It’s a very good concept, and a bump-up in pricing isn’t going to deter the customer.”
- “With men, this is a huge market. Again, an increase in price points will not have an impact on demand. What will be the way Lululemon markets the men’s collection. It needs a separate retail space or possibly a different name. Men want something that is customized and completely different; they don’t want to feel like they are wearing their wife’s, girlfriend’s, daughter’s or sister’s clothing. But at the same time, men’s yoga wear is getting tighter and sexier. They are showing off more muscles and looking more provocative.”
- “Rearranging square footage to accommodate growth of its men’s line is going to happen toward the end of 2013 as a trial in its larger locations. They are trying to create a separate section within the stores for the men. ... And the new stores are dedicating more space to the men’s section. The square-foot expansion for men’s may be more money initially to the bottom line, but it will garner them more revenue in the long run.”
- “It seems that Lululemon speaks to women who need a silent affirmation that they are doing the best in life and that they ... can look the part of the Park Avenue mom that can balance everything. Lululemon is telling a distinct story.”
- “In terms of the executives and the message they are trying to push, it seems as though they are going out into a more democratic message. As much as their customer base has pushed sales, I think with [founder] Chip [Wilson]’s departure, it’s going to be a completely different story being told. They are going to try and gain market share from the aspirational customer, and I wouldn’t be surprised if they start doing partnerships with larger department stores in the process.”
- “The new trend in activewear/whole-body wellness is sleep. Sleep is the new health and the new medicine. And how Lululemon plays into the new sleep trend could be really interesting. Also, I would be on the lookout for how Lululemon branches out into fragrance and aromatherapy.”
- “Parents are making sure kids are growing up healthy, so I see Ivvva as a growing business for Lululemon. For the type of customer they are going after, the increase in price point of about 10% to 15% isn’t going to have much of an impact on demand. What’s going to potentially hurt the business is critical mass. They don’t have a corner on the market for children’s activewear yet. Because kids grow so quickly, they could get priced out by teen brands like [American Eagle Outfitters \[Inc./AEO\]](#) and Gap.”

Lululemon is doing so well that it’s having problems keeping up with demand. If this were a smaller company, I would say this was a good problem to have, but it’s not. ... Pricing is going to go up 10% to 15% because of production costs. It’s a brand that continues to resonate. ... A bump-up in pricing isn’t going to deter the customer.

Retail Marketing Consultant

➤ Founder and CEO of a retail brand consultancy

Lululemon’s aspirational nature affords it the opportunity to increase prices without losing any steam. It may even increase customers’ urgency in obtaining the merchandise. As the economy improves, demand for high-end products will grow, giving rise to new entrants with the same or higher price points.

- “Eighty percent of maintaining pricing power is creating an aspirational lifestyle people want to be a part of. A brand like Lululemon established a following and created a sense of lifestyle/urgency for the customer.”
- “You want your customer to be in a demand frenzy. If they don’t have that pair of Lululemon yoga pants, bra or jacket, they feel inadequate. That’s why Lululemon can continue to increase the price on their merchandise without having their core customers flinch. It’s the psychology behind it.”
- “I don’t think Lululemon has a monopoly on the high-end yoga/activewear clothing industry yet. ... There is a specific person who purchases Lululemon athletic wear compared to everything else. This person may on occasion trade up and get something nicer to wear, not just to yoga class but also to run errands.”
- “There is definitely room in the market for product that’s priced higher than Lululemon. With the economy getting better and demand for higher-end products getting stronger, you are going to see more companies trying to emulate the Lululemon model and companies using better material that is more expensive for activewear.”

➤ Retail industry executive and consultant

Lululemon leads the high-end activewear category and will not lose customers even if it puts through a 15% price increase. What is concerning for Lululemon is the supply chain, which will hold it back from expanding its business online and reaching customers not near a store. Lululemon might be threatened more by an exclusive competitor than one touting lower prices.

- “Lululemon has had a corner on the high-end yoga/athletic wear market for a while. If that price increases because of cost of materials and/or production costs even by 15%, the customer will not flinch.”
- “The real problem is back end with Lululemon. They can’t figure out how to move their business online to capitalize on the high-end customer who lives in a different country or in the middle of America and wants a pair of those yoga pants. And if they don’t solve this problem fast, one of the big guys, the Nikes or the Under Armours of the world, is going to figure it out and price them out.”
- “The supply chain part of their infrastructure is broken. It’s crazy that 10 to 12 years into the game they would have problems like this. But after the stumble that happened during the holidays, I would think that [CEO] [Christine Day](#) would be focusing on that nonstop to make sure that never happens again. It’s definitely a balancing act, but it requires hiring the right analysts, the right tracking software and making sure they are tracking sales even more so than they have been doing.”
- “Right now Lululemon is a status symbol. ... Sure, they had that big [warehouse sale](#), but every high-end apparel designer does that. It makes sense they do not discount their items. It maintains exclusivity. Now that the economy is turning around, we are going to see a whole new crop of aspirational shoppers being interested in this brand.”
- “It’s priced so high because it *can* be priced that high. Many other companies are trying to emulate what Lululemon is doing. ... Customers are not paying for the clothes, they are paying for the lifestyle.”
- “There are a couple companies like [Beyond Yoga](#) that don’t have the same cache as Lululemon. Now, if Gwyneth Paltrow and her company [GOOP](#) rolled something out that was more expensive than Lululemon, that would be a different story. Customers want to think that ... they are getting a piece of that person’s lifestyle.”

If that price increases because of cost of materials and/or production costs even by 15%, the customer will not flinch. ... The real problem is back end with Lululemon. They can’t figure out how to move their business online. ... If they don’t solve this problem fast, one of the big guys, the Nikes or the Under Armours of the world, is going to figure it out and price them out.

Retail Industry Executive & Consultant

3) INDUSTRY SPECIALISTS

All four sources said Lululemon has a loyal following and strong brand identity, which supports its high prices, but the company has a considerable challenge in staving off the growing list of competitors. One source was concerned about Lululemon’s fulfillment problems from the holidays, another said the company faces low-end competition from sporting goods stores as well as from deep-pocketed Nike and Under Armour, and another questioned Lulu’s brick-and-mortar expansion plans that include larger store formats and dedicated workout spaces. Three sources said Lululemon has an opportunity to grow its online business and is best suited to put its effort into this initiative; a recruiter source expects Lululemon to hire as many as 40 people for its technology and online efforts.

➤ Chair of fashion merchandising for a business and fashion college

Lululemon took a step backwards with supply chain and fulfillment issues during the holidays, and needs to promptly fix this issue. The company may be in the market for franchising stores, but such efforts will not succeed if supply troubles cannot be resolved.

- “Lululemon has a great product, but they are having issues trying to make sure it’s flowing properly. They didn’t have an intimate knowledge of what their customer was demanding minute by minute and that ended up hurting the business for the past quarter and over the holiday. In some sense it’s good because it kept the Lululemon consumer wanting the product, but it did have a negative impact in some ways because it ended up turning its consumer off.”

Lululemon Athletica Inc.

- “It’s all about supply chain management. In order to have a solid plan in place, they rely on the planning analysts to figure out the flow of the product. It’s computer-based, very important to the retail trade. If they aren’t using planning analysts, it’s tied into the system and people.”
- “The fulfillment mishap during the holiday season demonstrates that the company’s supply chain doesn’t have the capacity at this moment for rapid expansion and growth. They don’t have something called ‘planned growth.’”
- “Of course, they have something in place now, but it seems to me they don’t have something solid in place for the growth they are anticipating going forward. Lululemon is at a crossroads. The true believers of the lifestyle it’s trying to promote are still buying product. The issue is making sure supply matches up with demand.”
- “Inventory and stock are dictated by demand. If Lululemon starts franchising in the next year or two, it is going to have serious problems. The key concern is if owners are going to be able to adhere to the rules and regulations that maintain brand identity and control mandated by corporate.”
- “In the U.S. we don’t have factories that can take on the kind of production Lululemon demands, so they have to stay in China, Vietnam or Bangladesh to ensure prices stay at their given points.”
- “As a socially conscious company they should have CSR [[corporate social responsibility](#)] in place to ensure they are adhering to child labor practices and making sure workers aren’t exposed to terrible conditions.”
- “Challenges with manufacturing in China include long lead times, making sure they are consistent in fabrications, color choices, issues with dye stuffs, and changes in the product due to the type of chemists they are using to produce their product.”

The fulfillment mishap during the holiday season demonstrates that the company’s supply chain doesn’t have the capacity at this moment for rapid expansion and growth.

*Chair of Fashion Merchandising
Business & Fashion College*

► Director of fashion marketing for a design institute

Lululemon has a strong customer base who has remained loyal to the brand because of its consistent and quality product. It will have to hold off competition from other high-end brands and designers as well as from Nike and Under Armour, which have the means to push the envelope with innovation and to appeal to men.

- “Lululemon’s customer base seems quite loyal. The customers are aware that Lululemon produces high quality and caters to the active/yoga customer. They offer a wide range of great styles for women that provide performance, comfort and function in vibrant colors.”
- “One of Lululemon’s major challenges in 2013 is how are they going to maintain their market share with the core customer when brands like Stella McCartney, Prana and others are pushing the same message.”
- “[Stella McCartney for Adidas](#) is a great example of a designer that has successfully embedded luxury into activewear without compromising performance. Her collection always looks amazing, and it is clear that the focus is luxury, function and style.”
- “Companies like Under Armour and Nike truly understand the importance of developing innovative and high-tech fabrics that are used for their undergarments as well as activewear.”
- “With that said, it’s going to be a race to innovate with these activewear companies. As fabrics become more technologically advanced and eco-friendly, pricing will go up.”
- “I expect Lululemon to increase the spend on these fabrics and also increase the amount of marketing dollars to get the word out they are using these fabrics. ... Sourcing will also become more expensive; however, there is no way around slashing prices on that expense.”
- “While I see a greater interest in men participating in yoga, I have not seen an increase in ‘yoga wear’ for men. Most simply wear a version of what activewear they already own that feels most comfortable and allows flexibility. Lulu’s men’s wear and others out there that offer yoga for men simply look like an extension of men’s activewear. In my opinion, many of the other companies that focus on the athletic guy like Under Armour and Puma do a much better job of appealing to men and what they want to wear to the gym and out of the gym.”
- “The challenge for most activewear companies is to constantly rethink the athlete and his or her changing needs that go beyond the traditional gym and workout. ... Keep in mind that most men and women wear activewear to run daily errands and go about their business without ever entering the gym. ... Activewear has definitely become a staple in American fashion.”

Lululemon Athletica Inc.

➤ Executive vice president and principal for a commercial real estate firm

Lululemon will face increasing competition from more traditional sporting goods outlets as it tries to expand its store count nationally. Lululemon's larger square-footage stores do not always translate into comparable sales increase, especially as other retailers are looking to control their brick-and-mortar footprint. The source also questioned the effectiveness of dedicating square footage to exercise and community spaces. Online sales will be a more effective means to expansion.

- "Fashionable product like yoga pants, workout shirts and activewear is more available now from the competitors like [Dick's Sporting Goods \[Inc./DKS\]](#), [Wal-Mart \[Stores Inc./WMT\]](#) and [Sears Holdings Corp.'s/SHLD] [Kmart](#). For Lululemon to expand into smaller markets would only mean they were going up against these companies. As they start scrounging for core customers in second-tier markets, it gets tricky sometimes. Not everyone has the same interest in yoga, and Lululemon has a narrow customer base."
- "Adding square footage for a store like Lululemon doesn't mean an automatic increase in sales. In fact, it probably hurts their bottom line more in terms of mechanicals. It's just a recipe for disaster. Lululemon should take a page out of the Starbucks playbook and stay lean and mean. I know they have flirted with big stores, but their core should stay at 1,000 square feet."
- "High-profile sites on the main drags don't usually have an extra workout space in them, even if they are trying to generate community interest. They are trying to make the yoga store a destination for everyone in the community, but what they don't realize is that workout spaces tend to be off the beaten path."
- "Putting a 'communal area' in a store is a risky proposition and will not necessarily translate into more stores. Rents are considerably higher for a 2,000- to 4,000-square-foot space in LA, Boston, New York and Chicago, and while the yoga studio idea is great for the brand, adding more space will just end up being negative cash flow."
- "In the near term, I don't see the spaces getting smaller, but two years from now the stores will start to shrink, especially if Lululemon is thinking about franchising."
- "The Internet is going to be a way that Lululemon is going to shrink their space but also generate revenue. They have had some missteps, but Christine Day is realizing bigger doesn't mean better nor does it translate into sales. The main thing is how are they going to up against the 800-pound gorilla that are these big activewear stores that are realizing yoga and wellness are a trend and that they must get on the bandwagon as well."

Adding square footage for a store like Lululemon doesn't mean an automatic increase in sales. In fact, it probably hurts their bottom line more in terms of mechanicals. ... I know they have flirted with big stores, but their core should stay at 1,000 square feet.

*Executive VP & Principal
Commercial Real Estate Firm*

➤ Executive recruiter in the retail industry

Lululemon has achieved enough brand awareness and a loyal following that its high prices are not a deterrent. In fact, lowering the prices would result in losing its cache and destroy its position in the market. Lululemon is starting to emphasize its online business as it attempts to capture a relatively open market and curtail an expensive retail expansion plan. Lululemon likely will hire as many as 40 people to help with its online efforts.

- "The online business for Lululemon is extremely important. Over the next year the company is trying to beef up market share within this aspect of their business. There aren't many players in this online space yet, but that is where their business is heading. Expect to see 30 to 40 people added to staff in order to get functioning at a top level."
- "Online represents two major hurdles Lululemon needs to face and overcome. The first is how they can beef up sales without expanding too quickly. They are already adding a bunch of new stores and, with that, new staff. Having a major online presence will allow Lululemon to reach markets without spending much overhead."
- "The second hurdle is obtaining more of the aspirational customer. People are starting to shop online. Even if Main Street doesn't have a lot of discretionary income, they will save up to purchase something nice online. In this case, it's a pair of yoga pants."

The online business for Lululemon is extremely important. Over the next year the company is trying to beef up market share within this aspect of their business. ... That is where their business is heading. Expect to see 30 to 40 people added to staff in order to get functioning at a top level.

Executive Recruiter, Retail Industry

- “Lululemon will always have midrange to high prices. Bottom line: Their customer will pay for it. And if Lululemon decides to decrease those prices, they are going to lose the cache of being a slightly aspirational brand. That’s going to cost them more money in the long run if they lose that customer.”
- “The company may be expanding a little too fast with 30 to 35 new stores in the next year. It would make more sense if they could see if their online business could take off more before establishing stores. It’s a large cost for a relatively small following and a not a lot of new product coming out.”

4) LULULEMON AMBASSADORS

These two Lululemon Ambassadors also represent yoga studios in New York City, and said their students are no longer wearing Lululemon from head to toe. Instead, students are wearing a mix of apparel and brands that includes Lululemon. Both sources wear Lululemon because of the Ambassador discount but also the quality and look. They also strongly support the company’s ethos. One said Lululemon continues to be a status symbol, unlike Athleta and Prana, and will stay in high demand as long as it has this allure.

➤ Lululemon Ambassador and yoga studio owner in New York City

Lululemon already has peaked. This source’s students still wear Lululemon but not from head to toe. She herself wears Lululemon because of the discount as well as the fit, the quality and the look. She is a firm supporter of Lululemon’s philosophy, and said the company’s social media efforts are well designed and often result in additional sales.

- “The clothes are extremely popular with the students of my studio. We completely believe in their brand and it makes you feel good and confident when you wear their clothes. It just made sense to partner.”
- “A majority of my students are wearing less Lululemon. Before, women were in head-to-toe Lulu. Now, my students are mixing it up. The economy has something to do with it. Lululemon doesn’t have a monopoly on the high end yoga/athletic wear market.”
- “We’ve only been open for about a year and a half, but I see about one-third of the people wearing all Lululemon and two-thirds wearing a mixture of other things.”
- “It’s something that I wear, but I do have a limited budget so I don’t wear it often. I try and mix it up. I love the material, and the clothing fits great.”
- “It is absolutely still cool to be a brand Ambassador for Lulu. Lululemon hasn’t deviated from a positive way of running its business.”
- “One of our yoga instructors happens to be a long-time Ambassador of the brand. She has positive energy and is extremely inspiring—something the brand I feel is trying to promote and maintain. And when one of the salespeople came into the studio to do a yoga class, they not only loved the class, they thought it would be a good fit in terms of similar community outlooks.”
- “Social media is really important. Word of mouth not only alerts our students about the partnership, I think it drives sales for Lululemon through Facebook and Twitter. The company knows that out of our ... Facebook followers and ... Twitter followers, they will garner sales.”

A majority of my students are wearing less Lululemon. Before, women were in head-to-toe Lulu. Now, my students are mixing it up. The economy has something to do with it. Lululemon doesn’t have a monopoly on the high end yoga/athletic wear market.

*Lululemon Ambassador &
Yoga Studio Owner, New York City*

➤ Lululemon Ambassador and yoga instructor in New York City

Lululemon remains very popular but not at the frenzied level of five years ago when her students were draped in the brand. Students now vary what they wear to classes. Lululemon still is a status symbol, more so than competitors like Athleta or Prana. She appreciates Lululemon’s “message.”

- “I’ve been teaching for almost 10 years, and I’ve definitely seen the interest in Lululemon hit a fever pitch about five years ago. I would teach a class, and everyone would have on some item of Lululemon whether that was a pair of yoga pants, a bra or shorts. Then you saw men getting in on the trend. Now I see a couple people wearing Lululemon, but it doesn’t look like a commercial for the brand in my classes. Students are definitely mixing it up with other types of activewear that seem more high-tech. There are still people who wear Lululemon; it’s just not head to toe anymore.”

- “I love the brand, and I think it fits perfectly into how I live my life and what I try to teach students in my class. The company really tries to promote that type of lifestyle, and I am on board with it. Do I think more people would be wearing the clothes if they were less expensive? Absolutely. I am fortunate to have these clothes given to me. But I like the message that is behind the company, and I think it’s more than just wearing a pair of yoga pants. It’s about being a well-rounded person that has body and spiritual balance.”
- “[Lululemon customers have] been doing yoga for a while, they usually are in the higher-income bracket, and they are willing to spend a lot of money to look good while they work out. ... Those that care more tend to wear Lululemon as a status symbol. Can they get the same look with other brands like Prana and Athleta? Sure, but for this particular group, wearing Lululemon says something about who they are. I hate to say it, but until people stop wanting to have this status, Lululemon will always have a customer.”

Wearing Lululemon says something about who they are. I hate to say it, but until people stop wanting to have this status, Lululemon will always have a customer.

Lululemon Ambassador & Yoga Instructor, New York City

5) FITNESS PROFESSIONALS

Six of 10 sources are seeing more Lululemon worn in their establishments and by their students compared with a year ago. Three others said it is as popular as ever and has maintained its appeal. Only one source reported seeing less of Lululemon apparel on a regular basis. Sources, including two men, wear Lululemon; they receive a 15% discount on the apparel, but also choose it for its quality, durability, looks and versatility. Lululemon appeals mostly to wealthy women in their 30s and 40s and is a status symbol. Price is a not a deterrent. It is catching on with men but not on the same level as with women. One source said Lululemon has replaced Under Armour as the club’s sponsor. Athleta and V.F. Corp.’s (VFC) [Lucy](#) also are growing but lack Lululemon’s appeal.

➤ Male director of personal training at a health and tennis club outside Kansas City, KS

Lululemon dominates the market for high-end activewear, but that market is limited. Lululemon has made strong inroads at this fitness center whose members’ incomes tend to be high, but most people still buy cheaper brands. The club is switching trainers’ shirts from Under Armour to Lululemon brand because of quality and a special discount. In addition, a Lululemon store recently opened a mile from the club.

- “We see a lot of Lululemon worn at the club, more all the time. Two years ago I didn’t even know what it was. The opening of the new store nearby a couple months ago has made a difference.”
- “Lulu’s market share overall in this type of clothing is still small because most people are going to buy Nike, Adidas or whatever because the price is so much lower.”
- “We see a lot of Lululemon here because this is kind of a high-end club. People can afford to pay \$50 or \$60 for a shirt. Lulu has that niche that nobody else really has in that price range. They have that market, but it is small.”
- “Our club has an agreement with the Lululemon store. Their people take classes here for a discount, and we buy their stuff at 25% off. Employees can get discounts of 25% too if they buy at the same time as the store does. It’s 15% off if they buy something on their own at the store.”
- “Our trainers have been wearing the Under Armour shirts, but we are switching over to Lulu. We just spent \$2,500 with them on that. We get the discount, but we also like the product.”
- “I buy Lululemon for myself.”
- “Their clothes for men are really limited. It’s frustrating. I’d like to spend more money with them. There are a million things for women, but I can’t even buy a sleeveless shirt for me. I’ll see something I like online and go to the store, and it’s not there.”
- “We see very few of their [yoga mats](#) here.”

Our trainers have been wearing the Under Armour shirts, but we are switching over to Lulu. We just spent \$2,500 with them on that. We get the discount, but we also like the product. ... I buy Lululemon for myself.

*Director of Personal Training
Health & Tennis Club
Outside, Kansas City, KS*

Lululemon Athletica Inc.

- “I see Lululemon being worn for a lot of different classes here—cycling, yoga, everything, and we have about 100 classes every week.”
- “Mostly, Lululemon is worn by women in our classes, but I do see some men wearing it.”

► Male fitness professional in a New York suburb

The number of Lululemon items worn in this source’s classes has increased 10% year to year as the brand’s appeal spreads from yoga to other fitness niches. Lulu’s popularity will continue to grow as long as it appeals to its core clientele of more affluent women in their 30s and 40s. The brand probably will never catch on in less-affluent communities or with young male athletes, who overwhelmingly prefer Nike. The source favors Lululemon for himself because it is durable and can be worn in social settings.

- “I am definitely seeing more Lululemon apparel on my students than a year ago—maybe 10% more since last year.”
- “The people who were regularly wearing Lululemon before are still wearing it now, but they’re wearing more. It seems like today people aren’t just wearing one Lululemon item, they are wearing outfits and own multiple outfits.”
- “Lululemon started out as a yoga product, but I’m seeing it more and more on students in regular aerobics, endurance and even strength training.”
- “Lululemon will definitely continue growing their business. They created an entirely new market of apparel for women in their 30 and 40s who have the money to spend on higher-end products. I think Lululemon will stay solid if it keeps catering to that clientele.”
- “I don’t see Lululemon ever taking hold in certain parts of the country, like less-affluent communities or college campuses.”
- “The younger guys I do strength and endurance training with for high school sports don’t wear Lulu, ever. They almost always wear Nike.”
- “I have seen a couple [Victoria’s Secret](#) [Limited Brands Inc./LTD] items, which is kind of surprising. I am also seeing more Athleta than I have in the past. But Lululemon and Nike are by far the two most common brands.”
- “I prefer Lululemon stuff because it is comfortable, it wears well, it lasts longer and is made of better material than Nike.”
- “Lululemon has almost a business look to it, as opposed to just normal sweats that you get from Nike, Adidas and Reebok. Lululemon looks a little more professional-casual. It’s the only fitness product that I would feel comfortable wearing out to lunch or a social occasion.”
- “My apparel recommendations depend totally on the age group. If it’s younger guys, it’s Nike, but for basically everyone else it’s Lulu.”

I am definitely seeing more Lululemon apparel on my students than a year ago—maybe 10% more since last year.

Fitness Professional, New York Suburb

I prefer Lululemon stuff because it is comfortable, it wears well, it lasts longer and is made of better material than Nike. ... It’s the only fitness product that I would feel comfortable wearing out to lunch or a social occasion.

Fitness Professional, New York Suburb

► Female Zumba dance instructor near San Diego

The number of women wearing Lululemon increased significantly during the last year. Wealthy women in their 40s are the primary consumer, but the styles and fits do not accommodate all women. Class participants have discussed the brand not being worth the cost, especially when online alternatives using the same materials are 30% lower in price. Women age 30 and under spend less money and shop at The TJX Cos. Inc.’s (TJX) [T.J. Maxx](#).

- “I have seen a big increase in Lululemon. There’s a store right by here.”
- “I see a lot of [Zumba](#); they have their own line of clothes. They do a lot of charity work ... and they give 30%.”
- “I do a bulk Zumba order for my students.”
- “There’s been a Lululemon backlash. A few women brought it up two weeks ago, and we discussed it in class. They were asking, ‘What’s the point? Why spend that much money just for a look?’ They were talking about an online brand that uses the same material but much cheaper. I hadn’t heard of them before and I can’t remember who it was—not Athleta.”
- “What will stop Lululemon is someone who offers similar products for cheaper.”
- “I don’t make enough to buy Lululemon. Plus, I’m petite, and it doesn’t fit me. I did a class there on Super Bowl Sunday. They offered me a free shirt, but it was huge. I asked about the alteration, but it’s just simple hems, not

adjusting straps or taking something in. So I wear Zumba. They like us to wear it and we get a big discount—25% to 30%; plus, there are always clearance items.”

- “People circle the clearance rack at Lulu.”
- “The people wearing Lululemon more are ladies in their late 40s and up—financially well off or don’t work, at least not full-time. Those wearing it less are overweight; they do not have styles that fit them at all. And the younger women—30s and under—wear T-shirts and go to T.J. Maxx.”
- “I had no idea Lululemon had men’s until I taught the class there last month.”

➤ Fitness manager for an athletic club in a suburb of Kansas City, KS

Lululemon is as popular as any workout clothing at this high-end fitness center, and its market share is growing. The health club is about three miles from a Lululemon store. The source, who has a degree in fashion merchandising, said Lululemon clothes do not fit her muscular body very well and that she does not plan to buy more of its products.

- “I see our women clients wearing as much Lululemon as anything else now. I have a couple of clients who wear it all the time. Its market share is growing.”
- “A lot of people wear the pants. The loose-fitting shirts are also popular, but I don’t think they look too good. Definitely, more women than men are wearing Lulu although I do see it on some men. Women are pickier about what they wear for workouts.”
- “Lululemon is popular with some of our trainers, but I won’t buy it myself.”
- “When I buy something for myself, I will just go to Target and get their [Champion](#) [Hanesbrands Inc./HBI] brand. Or if I want a tank top, I will get one at T.J. Maxx. Why pay a lot of money and not like something?”
- “I wear Lululemon, but I don’t like it that much. I have these pants, but they don’t fit that well when I move around. They don’t stay in place, and they always seem too short even though they are my size. It’s one of those things you don’t really know until you’ve worn them a few times and washed them and then it’s too late to return them. I got them for Christmas in 2011 and have only worn them about five times, including today.”
- “I had a gift certificate so I bought some tops, but they don’t feel flattering. They are not tight in the right places. I also have a jacket someone gave me. I am wearing that today.”
- “A person who gives yoga classes said she sees some Lulu, but that not a lot of people can afford \$100 for a yoga outfit. I give classes right now in cycling and weight training.”
- “I look at the Lululemon website sometimes but have not bought from there. But last time I went online they didn’t have the kind of shirt I was looking for.”

I see our women clients wearing as much Lululemon as anything else now. I have a couple of clients who wear it all the time. Its market share is growing.

*Fitness Manager, Athletic Club
Kansas City Suburb, KS*

➤ Co-owner of a fitness facility in Iowa

This source is seeing more Lululemon and less Nike and other comparably priced brands at her facility. Lululemon will stay a leader in the fitness industry because of its marketing program and philosophy. She has worn the brand for 18 months and has influenced dozens of students into purchasing the brand. However, she recently has read online reviews from longtime Lulu customers complaining about quality and design changes. She purchases mostly online because her area does not have a Lululemon store. Her husband is not interested in wearing the brand because of its pricing.

- “Since I am seeing more Lululemon at our gym, I am seeing less Nike or other brands that are comparable in price.”
- “Lululemon can absolutely withstand competition and keep growing. They have their marketing plan on lockdown. It is so awesome. From a business perspective, the culture they have is working. When you walk into a store, it is so inviting. It makes you want to buy something. The prices are another thing, but they stand by their products.”
- “What will keep Lululemon successful is their brand culture and their push at healthy living. Their [blog](#) is also outstanding.”
- “They even promote the culture of their brand with events outside the store. They have running clubs every Wednesday night and free yoga classes on Saturday or Sunday. Those activities are very dynamic, and

Since I am seeing more Lululemon at our gym, I am seeing less Nike or other brands that are comparable in price.

*Co-owner, Fitness Facility
Iowa*

the follow-up photos they post are quite motivating. You also see that 60% of the people in the photos are not necessarily wearing Lululemon, and that is very encouraging.”

- “I heard about Lululemon because one of my friends is an Ambassador. I held off for a while because I was scared off by the high prices, but I eventually went for it and don’t regret it. I am very happy with the quality.”
- “I have been wearing Lululemon for the last 18 months. I love that I can teach in it all day, and it still looks and feel great at the end of the day. I don’t get that with any other brand I have worn.”
- “I have influenced about a dozen students to buy Lululemon. I don’t necessarily tell them to go out and buy it. It is more they notice what I am wearing and ask where I got it. I warn them about the cost and refer them to the website since there is not a store close to us.”
- “Mainly women wear Lululemon. ... The majority of people wearing it are females in their later 20s to early 30s.”
- “Their online site is great. They post new products every Tuesday, and they sell out fast. There is this fear among the community that if you miss the email, you might be missing out on something good or a one-of-a-kind piece.”
- “Over the last 10 months, I have read lots of complaints on the blogs and online reviews saying the quality of the clothes have gone down. They also say the quality of the fabrics has decreased. I have not experienced that, but a friend has. A seam started to come out of her pants.”
- “Blogs also say they have recently changed the gussets of the [Groove Pants](#) and customers are not happy about it.”
- “They might be losing longtime customers over the latest quality issues, but they are gaining just as many if not more new customers.”
- “I see lots of Nike at our gym. There is also lots of Under Armour and some Old Navy. Old Navy has a decent line of workout apparel. Target brand clothing is after that. We only have one big-box sports store in town, so our only option is to get generic sports stuff.
- “I bought my husband a shirt. He likes it OK but said not to buy him anything else from there. He said there can only be one person in the family spending that much money on athletic apparel, and that is going to be me.”

➤ Female yoga instructor in Dallas

Lululemon is pervasive among her students and instructor friends. The brand is fashionable, and its durability helps to justify the premium price. Also, Lululemon is acceptable as everyday wear. It tends to appeal more to a younger demographic. The men’s line is a small but growing part of Lulu’s product mix.

- “Every yoga class that I go to, everyone’s wearing Lulu, either a shirt or pants. In my yoga training class, there are 11 women, and everybody’s always wearing Lululemon tops or pants.”
- “I see every ethnicity wearing Lulu and people in different economic brackets. The price point is higher, but everyone just seems to find a way to buy it.”
- “Lululemon is popular because it’s so comfortable, and all the pieces seem to last. You’re working out, doing laundry, and sometimes workout clothes can fade. But I have pieces that are five to seven years old that still look good.”
- “Lululemon looks OK to run around in too. If you go out wearing sweats, you might feel like you look a little sloppy. But Lululemon seems more fashionable. You’re not worried about how you look. I feel like what I’m wearing is not just comfortable, but versatile.”
- “Nike has tried to expand its product line, but they don’t seem to have captured the market the same way as Lulu. I have a friend who reps a yoga line and she’s getting traction, but it doesn’t seem the same as Lulu.”
- “I also run as part of my workout, so I like to go into stores and see what they have as far as Nike and other brands. There’s Lucy and another brand called [Spiritual Gangster](#) that you find at spas and boutiques, but I don’t think there is any company that is a true competitor to Lululemon yet.”
- “Lucy is a competitor in the yoga market, but they seem to cater to an older age range—40s, 50s, 60s. ... Lululemon seems to have a lot of younger staff members, so that may have something to do with the age range of their customers. Older people may feel a bit intimidated.”
- “I buy yoga pants at Lulu, along with running skirts, tank tops, and some long-sleeve shirts because they [wick sweat]. ... I haven’t bought a yoga mat from Lulu.”

In my yoga training class, there are 11 women, and everybody’s always wearing Lululemon tops or pants. ... The prices are a little high, but once you start buying the products and realize they last, it’s worth it.

Yoga Instructor, Dallas

Lululemon Athletica Inc.

- “I get a 15% Lululemon discount because I’m a yoga instructor. The prices are a little high, but once you start buying the products and realize they last, it’s worth it. I gave them a business card to get the discount, and they put me in the system.”
- “They have great sales. Usually, the stuff you like will go on sale. And they have new stuff coming in all the time. I will go into the store to check the prices. They have a lot of inventory. It’s not hard to find what I’m looking for. If it’s not on the rack, it’s usually in the back, or they can get it from another store.”
- “I haven’t bought online from Lulu, but I have a lot of friends who have purchased online. There are web-only deals too.”
- “I bought my husband a pair of pants from Lululemon, and he was a little mad that I had spent so much. But now he loves them. ... They’re kind of like cargo pants and also a little versatile. He’ll sometimes wear them not just for working out but around the house on weekends.”

➤ **Stroller Strides franchisee in the Northwest; repeat source**

Lululemon can increase its share because it has set the bar for athletic fashion trends. The source said she is seeing the same amount of Lululemon as in May 2012, when she last spoke with us. Athleta and Lucy have become more popular among the moms in her classes, while Nike—especially its jackets and outerwear—is popular among her friends. She wears mostly Lucy because of the 15% discount she and her members received for a year. Her favorite workout item is a Lululemon skirt, but she has had fit issues with a pair of the brand’s pants.

- “Lululemon can defend or grow its market share. They have a great reputation. Although, others are popular. But if you can afford it, Lululemon is the clear choice.”
- “I am seeing the same amount of Lululemon clothing as last year.”
- “I’ve seen some men wearing Lulu—not much but here and there.” [In our last report, she reported seeing no men wearing the brand.]
- “Lululemon is expensive and the less-expensive brands are making cuter things these days. Those without a lot of money to spend are buying it less.”
- “Athleta and Lucy are becoming more popular in my classes.”
- “I have one pair of Lululemon pants. I love how they fit my ‘booty’ but not my waist so I need to try on others. I also have a Lululemon running skirt, which is my favorite workout piece, and a couple of shirts. Besides that, I have mostly Lucy because of all the events we’ve had with them and the 15% discount card they gave all my members for a year. Lululemon is overpriced for my income.”

➤ **Female trainer at an Equinox health club in New York City**

Lululemon’s successful run is not over. The brand is worn by nearly half of this source’s students and will continue to gain in popularity as long as it remains focused on outreach and quality products. Women in their 30s are the brand’s main demographic. The high-end apparel is most prominent in group settings such as yoga and cross-fit classes, where people do not want to be seen wearing inferior products. This source counts Lululemon as her favorite apparel brand and the one she recommends most to students.

- “I would say 40% to 45% of my students wear Lulu. I can’t say I have noticed a change in the number of people wearing Lululemon over the past year though.”
- “I don’t think the honeymoon is over for Lululemon, even with new competition. As long as Lululemon keeps its focus on community, specialized classes and high-quality products, it’s going to keep climbing and climbing.”
- “I don’t think Lululemon’s customer demographic has changed much in recent years. It’s still mainly women in their 30s who don’t mind paying extra for better products. It’s an 80-20 split women to men.”
- “The women usually have multiple outfits, from the headband to the leggings, whereas the men wear individual pieces like the shorts.”
- “I’ve noticed that the group settings are where Lululemon is most prominent—yoga classes, cross-fit, fitness boot camps. Lululemon is seen as a high-end product, so when one person wears the clothes, everybody else starts wearing them too. Nobody wants to be the only one in Target gear.”

I’ve noticed that the group settings are where Lululemon is most prominent—yoga classes, cross-fit, fitness boot camps. Lululemon is seen as a high-end product, so when one person wears the clothes, everybody else starts wearing them too. Nobody wants to be the only one in Target gear.

*Trainer, Equinox Health Club
New York City*

Lululemon Athletica Inc.

- “I haven’t noticed any particular group of people wearing Lululemon less.”
- “The only other brands I notice here are Nike and Under Armour.”
- “Cheaper brands start to get smelly after several wears, even after you’ve washed them. Lululemon materials are higher quality. ... It takes a lot longer for that wear and tear to set in.”
- “I am not turned off by the high price. I think you want to buy something that is of value, and the price reflects the value of the product you get.”

➤ San Diego man who owns a gym

The source only recently became familiar with Lululemon, hearing about it only when his instructors needed proof of employment in order to get the discount. He is adding an apparel section to the gym but with his own label. Men care about the cut, the design and the comfort. Women wear tanks and shorts, and have shown interest in his brand’s thin hoodies.

- “Lululemon isn’t a brand I’d recognize, but I’ve been hearing the name a lot more lately.”
- “I’ve had to fill out a form on our letterhead for several of my instructors so they can get the discount, but that’s only recently.”
- “There are so many clothing companies. It comes down to not only the quality but the design—what’s on the front of the T-shirts. Cut is important too.”
- “The look may be what some people want, but it depends on how it is long term. If the material is coated, and after 25 washes it’s rough and scratchy it doesn’t matter [how much it cost].”
- “I wear a T-shirt until I don’t like it anymore. The goal here isn’t to look pretty.”
- “We’re adding apparel—our own gear. I have samples out to see what people like, and it’s been interesting.”
- “Other branded gear will not be sold. Everything we have will be our label. The clothing line will be like American Apparel or Next Level but with our logo. It will be done by a guy who works out here, his company.”

➤ Yoga school owner and instructor in New York City

Competitive brands are becoming more popular as students no longer wear Lululemon exclusively. Some of this can be explained by the price. Men are wearing less Lululemon as well.

- “I have seen an increase in other brands being bought at the shop, and I also notice students aren’t coming in so much of a uniform of the typical yoga by Lululemon outfits. I saw the change happening right around the time of the economic downturn. Lululemon is still very popular; I just see people wearing other stuff versus the same look everyone has.”
- “I see men wearing less Lululemon too. I think men’s activewear, specifically for those men who do yoga, is starting to look a little more form-fitted and better. There aren’t flashy colors or logos, and I think men that practice yoga want that more. In the past, close to half of the men were wearing Lululemon shorts; now only a handful are wearing them.”

6) LULULEMON STORES

All nine sources said business is progressing as planned. Both sources who quantified sales reported a year-to-year increase; one represents a showroom while the other was from a store that once was a Lululemon showroom. Five others, including two whose stores opened in the second half of 2012, said sales still were strong, including during the holidays, thanks to good customer service, community focus and quality products. None said prices were a deterrent, though one cautioned that a price increase could have negative effects. Core products and new releases alike have been popular. Sources’ store Facebook pages play an important role in driving sales and introducing products. The men’s line is on track. Low inventory was a problem for only one store. A Chicago source said the nearby Iivva store was a success and proving the concept. Sources do not appear concerned with the rise in competition, but one source said a new Athleta store had claimed some customers.

➤ Assistant store manager in New York City

This location saw an increase in comparable holiday sales. Lululemon will continue to gain share as it attracts more people through innovative new products and time-tested favorites. Prices have been flat year to year; an increase might alienate some customers. This smaller showroom orders products online for about half of its customers. Social media efforts focus on classes and events.

Lululemon Athletica Inc.

- “Holiday sales were up this year compared to last. We had strong holiday sales.”
- “Lululemon will absolutely still grow its market share. We have our loyal customers who have been coming back for years, and we see new people in here all the time.”
- “Lululemon products speak for themselves. They have the best fits and best-quality materials.”
- “There are more competitors now, but the things we do well, we continue to do well. And we are always coming out with new apparel for new categories like running and cross-fit.”
- “We usually have enough inventory to meet demand. This store is smaller than our regular stores, so we sometimes run out of a product or don’t carry it. But if that happens we can usually direct people to one of our others stores that has it, or we order it with free shipping.”
- “I’d say about half the people who come here looking for a specific item find it or a good substitute, while for the other half we order it for them online.”
- “Prices have been flat year to year. We are not actively upping our prices.”
- “People have been willing to pay what we charge for our high-quality products so far. But if we went much higher, it probably wouldn’t be worth it anymore for customers.”
- “We get new colors and styles each week.”
- “We have a mix of customers buying new and old products. I’d say half the people come looking for specific articles, like the latest fit of a new tank, and the other half want core items like the Groove Pants.”
- “This store has its own Facebook page that we use to get the word out about classes and events. But we don’t really use it to promote products. It’s more a tool to build community.”
- “We don’t offer blanket discounts, but we do mark down individual styles or colors that didn’t sell well or that were left over because they didn’t sell as part of an outfit. Even with high-end products, people are always looking for a deal, so the markdowns do help clear out excess inventory.”
- “We still offer a very popular free yoga class every Sunday morning. People are always interested in free yoga.”

Holiday sales were up this year compared to last. ... Lululemon will absolutely still grow its market share. We have our loyal customers who have been coming back for years, and we see new people in here all the time.

*Asst. Manager, Lululemon Store
New York City*

Reporter Observations: This store was about half the size of a regular Lululemon store and had far less inventory in stock. Several marked-down [Cool Racerback](#) women’s tanks in purple and blue were displayed at the front. Five customers and two employees were present on a Thursday at 9:30 a.m.

► Store associate in the Chicago area

This store successfully transitioned from a showroom and has seen sales climb since, including during the holidays. Competition has not stopped the store’s growth. Word of mouth and Ambassadors bring in new customers. Straggler sizes are discounted to make room for new inventory, but other merchandise is not discounted. Sales of the men’s line are stronger on weekends.

- “We keep growing regardless of what our competitors are doing.”
- “Our store is doing very well. We were a showroom for two years, and we have been a full-fledged store for a year now.”
- “The holidays were great for us. We did better than when we were just a showroom.”
- “We are a unique store. We don’t really keep an eye on or care about competition. There is not really any store like ours around. We don’t have an Athleta in the area or anywhere else that sells athletic apparel.”
- “We don’t care about advertising, and we don’t do any traditional advertising. We have brand Ambassadors that promote us through their own businesses and lives.”
- “Rather than traditional advertising, we promote the store through cool events like free yoga every Saturday. Two days ago, one of our brand Ambassadors held a 5K Fun Run.”
- “Our customers come from pretty far away to shop here since there are not that many around.”

We keep growing regardless of what our competitors are doing. ... The holidays were great for us. We did better than when we were just a showroom.

*Sales Associate, Lululemon Store
Chicago Area*

Lululemon Athletica Inc.

- “There are several popular yoga studios nearby. ... We get the runners too. We get new people in all the time that hear about us through word of mouth and their instructors promoting our free in-store classes.”
- “We don’t really discount the clothes. We don’t need to. As new items come in, if there is one or two of something or just a few sizes left, we will discount it to make room for new inventory. We just mix that merchandise in with the full-priced items. We never have sales that encompass the whole store.”
- “Our classic items continue to do very well. Our Groove Pants for \$98 are a continual big seller.”
- “From our new pieces, the [Scuba Hoodie](#) for \$108 is a popular item now, and the [Heat It Up](#) bra for \$52 is selling well too.”
- “On the weekends, men come in with their girlfriends and end up getting something for themselves. They come in not knowing we carry men’s apparel, but once they look at it and see the quality, they are sold.”

Reporter Observations: Traffic was slow during our visit on a Thursday afternoon, but it was the day after a major snowstorm. Two women aged 35 to 45 were in the store. One purchased a bra; the other was trying on the tricolored Scuba Hoodie and some pants. Three to four employees were keeping busy with inventory. The store was bright, very clean and extremely organized. The newest merchandise was on a center table. The men’s section was to the right.

➤ Store manager in New York City

Lululemon will continue to grow amid competition because of its emphasis on customer service, community relationships and quality products. The source would only say that sales were positive and on track. She also noted that Lululemon is opening two new stores in the area. The classic yoga products remain popular, and customers have responded well to other apparel lines such as running. Lululemon introduces items every week and seeks feedback from customers and athletes hired to test new apparel. Prices have not risen in the past year; customers have proven willing to pay for higher-quality products.

- “I cannot share certain information. What I can say about sales is that we are still going strong.”
- “I personally am confident that we will continue to grow.”
- “We were training the people who will work at our new [Meatpacking District location](#) opening soon. There are also plans to open a full-fledged store in Brooklyn store, in addition to our smaller showroom there.”
- “We will continue to grow because of what distinguishes us: the guest experience, relationships in the community and high-quality products.”
- “Community means I know where my guests are sweating because it’s where I’m sweating—at our free yoga classes, in our running clubs, things like that. We also hire athletes who take or teach classes in the community.”
- “Our fabrics are preshrunk, our apparel fits well, and it’s built to last five years of intense workouts. You can’t get that anywhere else.”
- “We are constantly offering new apparel options for men and women. We introduce new products every week.”
- “We are always innovating based on feedback from guests and from athletes who test products and give us suggestions as part of our research and development program.”
- “We almost always have enough of the items people want here.”
- “I don’t think you will find that our prices have risen from a year ago.”
- “We do have high price points, but you get a high-quality product. If you are active and value that lifestyle, it’s an investment in yourself.”
- “I actually don’t really think about our competition. My focus is on my guest experience and my community relationships.”
- “Classic yoga products are still our core. It’s something people love and keep coming back for. But we are also crossing into general fitness. Different athletes expect different things from our fitness product, so we are always trying to accommodate that.”
- “One product area that people are responding to is [running](#). All our shorts are lightweight, and we offer different styles for marathoners or middle-distance runners. The shorts are especially popular with men.”
- “We do not offer discounts for regular guests—only for the instructors who test our products.”

“What I can say about sales is that we are still going strong. ... One product area that people are responding to is running. All our shorts are lightweight, and we offer different styles for marathoners or middle-distance runners. The shorts are especially popular with men.”

*Manager, Lululemon Store
New York City*

- “We don’t have any products marked down for clearance right now, so we are doing pretty well.”

Reporter Observations: The store was staffed with a mix of regular employees and trainees preparing for the opening of a new location. One employee greeted people at the door while others helped the three customers find the items they wanted. The store appeared to be fully stocked and well organized on a Wednesday at 6:45 p.m.

➤ Assistant manager in the Chicago area

The store continues to do brisk business despite a new Athleta store taking some customers. Once men are in the store and wear the merchandise, they purchase additional apparel. Word is spreading among Chicago’s professional athletes who buy Lululemon regularly. Weekly inventory updates drive traffic. An [Iviva showroom](#) in town is performing well.

- “People are still finding out about us and that we are here. We have lots of room to grow in the neighborhood.”
- “We opened last summer, and we continue to do better and better. The holidays were successful too.”
- “We are really looking forward to our second summer and expanding our class offerings.”
- “We see a lot of the same customers, so we are able to develop our clientele at this store. We are friends with and know many of our guests.”
- “Athleta is down the street. Sure, they are competition, but their merchandise does not have the durability that ours does. The price points might be a bit lower, but so is the quality.”
- “There is no doubt Athleta is taking some of our business, but they are targeting a different customer than we are. We are going for more of the athlete, where they are going for anyone.”
- “Everything is done with intention and how it will perform for what you are using it for. That is why people who regularly work out love our clothes.”
- “The pants are what everybody that shops here loves. They have a [five-year guarantee](#), and they are worth the price. They do not stretch out throughout the day as you are wearing them. They keep their shape.”
- “We get new inventory in three out of the five business days every week, so the floor is changing all the time. Customers visit weekly, sometime more, to catch the newest pieces.”
- “The men’s line does OK. Men tend to think of us as a ‘women’s store,’ but once they wear our stuff, they get it and want to wear it.”
- “Several of the professional hockey players from the Chicago Blackhawks shop here all the time. Other professional athletes—a few of the Cubs players—shop here, too. They recognize the care we take into the design of the clothes.”
- “Iviva is doing very well. The idea was that little girls want to dress like their moms but not exactly. The girls clothes vary slightly in style, and the concept is working.”

There is no doubt Athleta is taking some of our business, but they are targeting a different customer than we are. We are going for more of the athlete, where they are going for anyone.

*Assistant Manager, Lululemon Store
Chicago Area*

Reporter Observations: Traffic was slow when we arrived shortly after the store opened on a Friday. One middle-aged man came in to pick up two pairs of altered pants for his wife. Two women also came into the store. One browsed briefly and left; the other purchased a tank top. The newest merchandise was on a central table while the men’s line was immediately to the right. Three employees were working the floor.

➤ Shift manager at a store near Kansas City

This Lululemon had a good holiday season and is doing well overall, but the manager declined to specify. The store is big on community relations and holds free yoga classes and occasional social events.

- “We had really good holiday sales. But I can’t talk about increases over what we expected or how it compared to last year. We don’t give that out.”
- “We sell gift cards but don’t keep track of how many we sell.”
- “I’m not sure how our prices compare to other stores. We do have Lululemon products at some fitness centers in town.”
- “We are community-based and are trained in giving back to the community. We have free yoga classes on Saturday mornings before we open. It usually draws 25 to 50 people. Some people stay and buy things.”
- “We know a lot of customers by their first names.”

Lululemon Athletica Inc.

- “We don’t do any local advertising. We run ads in *Yoga Journal* and *Runner’s World*.”
- “We don’t really stock up for certain seasons, like spring and fall. We get new stuff in every week and every month.”
- “There is a high turnaround on our products. Something new comes in and people buy it, but we are able to get it back in. We take inventory three times a year.”
- “We are a very technical brand and a luxury brand. It’s high quality.”
- “We do not put our stuff on sale.”
- “We have a Facebook page where we have new product postings, upcoming special events, things like that. This is our local page. We do not do Twitter or other social media.”
- “Some of our customers do buy a lot online. Others may look for something in the store; if we don’t have it, we can help them look it up online. ... Shipping is free, no matter how small the order.”
- “We carry men’s clothing too, and it sells well. We do not have kids’ clothing.”
- “We sell yoga mats. They sell alright. Some people have two mats they use in different places. The mats wear out in about five years.”

Reporter Observations: This Lululemon was in a shopping strip of high-end stores but was not easy to find. Several women were in the store on a Friday at 3 p.m. The manager said men often wait for their wives or girlfriends in a small sitting area in the back. The clerks and manager were friendly but left shoppers alone unless asked for help.

➤ **Manager of a store near Kansas City**

The store has had brisk sales since opening a few months ago, including over the holidays, but the source was uncertain whether sales projections were met. Core products have sold especially well. Facebook is a big marketing tool for the store, which otherwise does no advertising.

- “The holidays were busy. But I can’t compare it to the year before because we just opened a few months ago.”
- “I am not sure if our holiday sales met expectations or if we made any. Same goes for our sales in the three months we’ve been open.”
- “All of our core products are selling well, such as these men’s workout shirts with the special [Metal Vent Tech](#) fabric. It’s moisture-wicking.”
- “We sell a lot of the yoga mats. Some buy a second, smaller one for travel.”
- “There is really no one else I know of around here that sells only workout and yoga clothes as we do, so I can’t really say much about the competition.”
- “We sell gift cards; I’m not sure how many since we opened in November.”
- “We don’t have sales, but sometimes we discount items in older colors.”
- “You won’t see us do any advertising locally.”
- “Our Facebook page is popular. It’s the best way for people to keep track of what we have and what we are doing. We feature some products on there and post events. We don’t use Twitter.”
- “We do yoga every Sunday morning before we open. I’m not sure how many we had today, but last Sunday we had 58.”
- “Some of our customers shop online. I don’t know how those sales compare to in the store. We don’t match prices of what is online. The prices there depend on their inventory.”
- “We sell a lot of men’s stuff. We don’t have an Ivivva, the children’s wear.”

Reporter Observations: At 4 p.m. on Sunday, this small store was busy with about eight to 10 shoppers; all but one were women. The men’s wear was near the front and comprised only 25% of all clothing stock. The store was located in the area’s most popular shopping district. On its local Facebook page in recent weeks, the store promoted the [Out and About Jacket](#), [Energy Bras](#) in five colors, and the men’s [Sprint to Studio 2 in 1 Jacket](#).

➤ **Store associate, Atlanta**

Lululemon will continue to grow its market share because of its product quality. Demand for its classic line remains steady. Online reviews and forum feedback have indicated that new products are being well received. Inventory can be hit-or-miss in meeting demand. Thanks to use of social media, sales increase during weekly product spotlights and community event postings. When new items come in, old products are marked down. The store gets significant walk-in traffic because it is in a mall. Gift card sales have been strong.

- “Our store just opened a few months ago, but we had a great holiday season.”

Lululemon Athletica Inc.

- “Our inventory is hit-or-miss. We get shipments regularly but maybe the day before we will be low on a certain size. Popular sizes like 4, 6 and 8 go faster than the other sizes, so sometimes we are out of those.”
- “Our classic line is still our core. It’s definitely where people start out.”
- “From the comments on the website and the feedback from forums, people like our new products.”
- “Social media helps sales in stores a lot. We go on the site and do weekly product promotions and talk about different community events. It gets people involved.”
- “Prices are the same in store and online. In fact, the prices are the same companywide. If someone comes in and we don’t have their size, they will order online.”
- “We do mark down when coming out with new stuff. ... It helps clear out inventory.”
- “People will walk by and see us and stop in to find out what we are. Then we have customers that come here to take a yoga class on Sunday.”
- “Gift card sales were good ... and I expect it to continue. Especially when men come in to shop, they don’t know what to get so they buy a gift card.”
- “People who come here and buy the clothes realize the value of the product, so not discounting the clothing isn’t going to hurt sales. They will buy anyway.”

Our inventory is hit-or-miss. We get shipments regularly but maybe the day before we will be low on a certain size. Popular sizes like 4, 6 and 8 go faster than the other sizes, so sometimes we are out of those.

Sales Associate, Lululemon Store
Chicago Area

Reporter Observations: The store was large with plenty of merchandise filling the shelves. Few products were marked down. Newer items were near the front. Traffic was steady on a Saturday at noon. One woman came in to return a large bag given to her for Christmas. After looking around the store, she opted for a refund.

➤ Store associate, Southern California

Lululemon will maintain or grow market share by making functional clothing for active women, listening to customer feedback and continuing its community outreach. The brand relies on educating customers about its products in order to keep them from buying cheaper alternatives or knockoffs. Core and new products are equally popular. Prices stayed the same during the last year.

- “We educate people as much as possible, and then they can make their own decision about buying from us or a knockoff.”
- “The pricing is the same since last year.”
- “There is a mix of old and new products being bought.”
- “We rely on customer feedback in everything we do. That’s how the company started. They listen to what people like and don’t like—where the seams go, the inseam, the fit. It does take up to a year to bring back something if there are a lot of people asking for it.”
- “It started as a yoga brand, but they saw that yoga and running went together.”
- “The store is a mix of classes and retail. There were 30 people in the last class.”
- “We know a lot of customers by name. We are active in the community and see them because we work out where they work out.”
- “I used to wear clothes from Target until my sister introduced me to Lululemon seven years ago; I still have that first pair of pants. And now I work here.”

Reporter Observations: Located in a higher-end shopping center, this Lululemon was busy on a Tuesday morning. Multiple people were trying on clothes, six to 10 customers were browsing, and one to two customers were at checkout. The average age was 45 to 50. One man was trying on shorts and a shirt, and another man was returning an item; both were in their 60s. A single, 4-foot rack for sale items was in the middle of the floor.

➤ Store associate in San Diego

Customer feedback and community outreach are top priorities that will help Lululemon’s market share. Lululemon has competition coming from other major apparel companies like [REI Inc.](#), Lost Arrow Corp.’s [Patagonia Inc.](#), Nike and Under Armor, but only on individual pieces or lines. Smaller competitors and big-box stores like Target do not have the technical

capability. Men have been asking for more functional styles. New products are extremely popular, but the core products are just as important. Classes average 35 people per week.

- “Community outreach, constant feedback, putting ideas on actual people and seeing how they work keep Lululemon on top.”
- “Our biggest competitors are REI on the technical side, Patagonia for microfleece, and Nike and Under Armor. ... Under Armor is selling themselves out by winding up in T.J. Maxx.”
- “Smaller or new competitors are in a different game. They do not have the technical products we do.”
- “Places like Target make a short so they can say they have a short; it’s a generic fit compared with our shorts.”
- “We’ve had some great classes lately—yoga and kickboxing. We average about 35 customers per week.”
- “It may seem like there is a push for a men’s line, but it’s been around. My husband wore Lululemon before me, and now I work here.”
- “This is a great place to work. You should ask any of the people who work here. I came from a corporate job. Here, they really care about people. They don’t just preach that they care about work/life balance; they really do.”
- “The men are also seeing what’s being made for women and asking why they can’t have that too. That’s how we got the [For the People Pant](#). The men are asking for the technical side, not necessarily the style.”

Reporter Observations: The store was located in an area known for high-end shopping, and was busy at 2 p.m. on a Tuesday. At 12 customers were present—all women aged 40 to 60. Many were wearing Lululemon clothing or workout gear. One woman asked about a headband that the store no longer carries. The store had a larger sales rack than another sister store. Two associates were putting out pants.

7) LULULEMON CUSTOMERS

Eight of 13 sources said they are buying more Lululemon apparel than a year ago, two are maintaining their purchase patterns, and three others are buying fewer Lululemon pieces. Four of the eight sources buying more product added that they are shopping less with competitors. Quality, durability, looks, versatility, and a good balance of core and innovative products are the driving force behind customers’ preference for Lululemon; sources added that the high prices are justified by the superior quality. Sources prefer going into stores. Most sources buy between 10% and 20% online, though one source shops 70% online because she lives a distance from a Lululemon location. Similarly, most sources are not interested in the men’s line, though a few said their husbands are more open to the line than in the past. Of the sources buying fewer pieces, one complained that quality was in decline; this source now spends more on products from [Icebreaker](#) and [NUX](#). Another frequently seeks deals, which limits her Lululemon purchases.

➤ 27-year-old woman in Kansas City

This source is buying more Lululemon apparel than a year ago. Lululemon appears to be growing its share, based on store traffic and the number of people sporting the brand. She buys 90% of her Lululemon products in the store rather than online. She frequently monitors Lululemon for new products.

- “I buy Lululemon quite a bit, and I am buying more as time goes by.”
- “Lulu’s market share is definitely growing. There a lot of people in the store, and I see people wearing their things all the time. A lot of my friends shop there too.”
- “I love Lulu. They have amazing stuff. It looks good and is quality.”
- “I look at their Facebook page a lot. It has some of their new things and causes me to come in to see it.”
- “Their new product launches are always fun. I watch for those.”
- “I usually only buy online if I see something that is not in the store.”
- “About 90% of what I buy is at the store and 10% online. It’s easier to just go there and see stuff.”
- “Employees are very friendly, not pushy at all.”
- “I did buy some things over the holidays as gifts.”
- “I don’t do yoga, so I have not been to their yoga classes and I have not bought any yoga mats. I do [Bar Method](#) exercises, so I get clothes for that.”

I buy Lululemon quite a bit, and I am buying more as time goes by. ... Lulu’s market share is definitely growing. There a lot of people in the store, and I see people wearing their things all the time. A lot of my friends shop there too.

Customer, Lululemon
Kansas City

- “They really don’t have sales. I have not seen that. So I am buying at full price.”

➤ 45-year-old woman in Iowa

This source shops more often at Lululemon year to year and is very enthusiastic about the store, the brand and the quality. As a result, she is spending less on sports apparel from sporting goods and department stores. Lulu is also very popular among her friends and her teenage nieces. Word of mouth, especially among athletic people, is contributing to its growth. She expects the brand to go beyond athletes to everyday wear apparel. Finding a nearby store is an issue, so future purchases will mostly be made online. She recently spent \$265 in a store while on vacation. Although she admitted the prices are high, she plans to make further purchases, possibly even for her husband.

- “I am buying more than I was a year ago. I just found out about it from my friends last year at my gym.”
- “I will spend less at Dick’s Sporting Goods and [MC Sports](#) and even Target by buying more at Lululemon.”
- “Lululemon is really hot right now, but I am probably behind the curve on them. I had never heard of them until late last year, and now I am hearing about it from many different people. That shows there is growth happening as word of mouth is spreading.”
- “It is my 15-year-old niece’s favorite store. She is a dancer. She and her friends all wear it. That is probably an emerging market: the teens.”
- “Lululemon could be one of those brands that become a status symbol. They could keep growing in popularity for years if that happens. People that are not even athletic might want to wear it too.”
- “The nearest store is at least a 90-minute drive one way. People have to drive to Madison or Milwaukee to shop in-store, and my friends do it.”
- “Last month, when my husband and I were in Vegas, I went to the store there and got a few pieces. I spent \$265 on my first visit. Those was crazy high prices, but supposedly they last forever.”
- “I plan to get more Lululemon in the next month or two, as the weather warms up.”
- “I tried on the pants but was not comfortable with the fits. The pants did not come up over my belly.”
- “Lululemon is for the totally in-shape athlete. The clothes are not forgiving if you are not in shape.”
- “The jacket is great. It was worth the money.”
- “I did look at the men’s shorts for my husband. I am thinking about getting him some. They get rave reviews.”
- “The owner of my gym is driving the word of Lululemon. At least five ladies I work out with have gone out and bought Lululemon upon her suggestion.”
- “I get an email from Lululemon now once a week. I read them. I like the company’s approach and message of healthy living.”
- “I probably would not buy any of their yoga products.”
- “Other apparel brands I work out in are Adidas, [Fila \[Korea Ltd./KRX:081660\]](#), Old Navy and so on—all pretty cheap stuff. My favorite workout pants are from Old Navy. They have lasted a long time and are still supportive.”

I am buying more than I was a year ago. I just found out about it from my friends last year at my gym. ... I will spend less at Dick’s Sporting Goods and MC Sports and even Target by buying more at Lululemon.

*Customer, Lululemon
Iowa*

➤ Atlanta woman in her late 20s

This source has increased her spending at her nearby Lululemon store year to year and has reduced the amount she spends with its competitors. She chooses Lululemon for the comfort and styling. Primarily a runner, she is not interested in the yoga mats and yoga classes. She also is not interested in the men’s line.

- “I’m buying a lot more clothes from Lululemon than I was a year ago. I really like the clothes.”
- “Compared to a year ago, I am buying a lot less of competitor brands.”
- “I think Lululemon can grow their market share; it’s the only place I shop.”
- “Lululemon is my main activewear clothing. I just love how comfortable it is and the styles. Overall, I like everything about Lululemon over the competition.”
- “The new product launches aren’t important to me. I buy the same items.”

I’m buying a lot more clothes from Lululemon than I was a year ago. I really like the clothes. ... Compared to a year ago, I am buying a lot less of competitor brands.

*Customer, Lululemon
Atlanta*

- “Social media doesn’t enter into my decision on when to shop at Lululemon or what to buy.”
- “I’d say 90% of my shopping is done in the store.”
- “I always have paid full price at Lulu. I’ve never noticed anything marked down.”
- “I don’t buy anything from the men’s line.”
- “I don’t buy the yoga mats or blocks because I’m not in to yoga. I’m a runner.”
- “I consider Lululemon a retail destination. I don’t take classes.”

➤ Atlanta woman in her early 40s

This recent convert to the brand is buying more Lululemon products and spending the same amount with competing brands year to year. Price is a factor, but quality wins out. She gets excited about Lulu’s new products and buys items for running. She makes 80% of her purchases in the store. When she buys online, she takes advantages of markdowns. She does not purchase products from the men’s line.

- “Lululemon will be able to keep and grow their market share because of the quality of their clothing. Style is also a big draw, and I like the styles.”
- “I didn’t know about Lululemon a year ago so I’m buying more there now that I know about it. But I am spending the same on competitor brands.”
- “My main activewear is [Brooks](#) [Berkshire Hathaway Inc./BRK.A]. I’m comfortable with it, it’s good quality, and I can count on them to keep being comfortable.”
- “Lululemon is pricey; however, I know it’s comfortable and it will last, so I’m willing to spend the extra money.”
- “I’m always interested to see what new products they come out with. I enjoy seeing the new lines. I think it is very important for their growth to continue adding new items.”
- “I see when they post about new products. Seeing it on Facebook keeps them front-of-mind for me. I also get emails from Lululemon, and those prompt me to go into the store.”
- “Eighty percent of my shopping is done in the store, and 20% is online.”
- “Online most of the stuff is on sale, especially seasonal items at the end of the season. I visit the website every week to see what has been marked down.”
- “I don’t buy anything from the men’s line. I don’t buy lifestyle products either.”
- “I consider Lululemon a retail or sales destination. I don’t take classes; I just go there to buy running gear.”

Lululemon is pricey; however, I know it’s comfortable and it will last, so I’m willing to spend the extra money.

*Customer, Lululemon
Atlanta*

➤ Kansas City woman in her mid-30s

This customer has increased her Lululemon purchases but never buys the products online. Lululemon is growing in popularity and is preferred over other brands because of fit, quality and favorable return policies.

- “I buy more from Lulu all the time. I don’t buy much of the other brands anymore.”
- “Lulu’s market share has to be increasing, from what I can tell. It seems to be doing better than the competition. I have a lot of friends who wear Lululemon things.”
- “Most of the things I buy are activewear clothes, for running and weights. I don’t buy any of their mats or blocks.”
- “I only buy in the store, not online. I like to try it on, and I don’t want to have to take it back.”
- “Nothing I buy is ever on sale. The prices are horrible. It’s always full price. But the high prices are a reflection of the product and its quality.”
- “I don’t look at Lulu’s social media, its Facebook page or anything like that to track their new products. I just go to the store to see what is new.”

➤ Chicago woman in her late 30s

This source has increased her purchases from Lululemon (only from its stores) and has lowered her spending with its competitors. The brand’s high prices deter many potential customers, which could allow lower-priced competitors to claim some share.

- “I am buying more Lululemon compared to a year ago. There are more and better choices of every day wear. Lululemon is not just work out/yoga gear. It is my ‘uniform’ for going forth into the day. As a result, I am buying less competitor brands compared to a year ago.”

- “I spend a couple thousand on Lululemon every year. I am one of their biggest fans.”
- “Lululemon will probably not be successful warding off its competition. Lulu’s biggest issue is price point. Price is the biggest complaint I hear from people and a reason to buy competitors like Target or even [Nordstrom \[Inc./JWN\]](#).”
- “Lululemon probably needs to further promote the fact that, if taken care of correctly, the items last a very long time.”
- “I have never gone into the store to find or test a product and then bought it online.”
- “None of my Lululemon purchases have been done online.”
- “I would not buy lifestyle products from Lululemon. I get them from [Sports Authority](#) or [Amazon\[.com Inc./AMZN\]](#).”
- “I do not take classes at Lululemon. It is solely a retail destination for me.”

I am buying more Lululemon compared to a year ago. There are more and better choices of every day wear. Lululemon is not just work out/yoga gear. It is my ‘uniform’ for going forth into the day. As a result, I am buying less competitor brands compared to a year ago.

*Customer, Lululemon
Chicago*

➤ Dallas woman in her early 40s

This customer prefers Lululemon over competitors because of fit, color and quality. She subscribes to the store’s email list and spends about \$2,000 a year at Lululemon, mostly in stores. She believes Lululemon’s prices are comparable to its competitors’ and are not high enough to deter her spending.

- “I like the way Lululemon fits. It’s the best. I wear it mainly for the fit and the colors. And it’s very good quality.”
- “I’ve worn Lululemon for at least a couple of years. How much do I spend? It goes in spurts. But it’s probably a couple of thousand [dollars] a year.”
- “I do think Lululemon has fair prices because a lot of women I know who play tennis wear Nike and their prices are pretty comparable. Nike and Lululemon cost about the same, but Nike always seems to change their fit. Lululemon does not.”
- “They never used to have markdowns, but now, yes, they do. I haven’t bought any of those things yet. I mean, I’ve seen items marked down, but if it’s marked down, I usually already have it.”
- “If you see something you like, you need to grab it right away or it’s going to be gone. They’ll run out of certain things, like this tennis skirt I’m wearing. They don’t make this style anymore. If it comes out in a really cute color, you need to buy it, like that day or the next day.”

➤ San Diego woman in her late 30s

Lululemon is the go-to brand for the source, her husband and up to a quarter of the people at her gym. She is buying less workout apparel this year because she has the Lululemon basics, but her husband has bought four items since last summer when he and the other men in their social group began to overcome the perception that it is a women’s-only line. The source rarely buys Lulu items online because the sizing of the tops varies widely. She wears Lululemon workout gear all day or mixes items with street clothes for everyday casual wear. Competitors like Gap are catching up to or copying Lululemon, making future market share difficult to determine.

- “Lululemon figured out why something fits—where to put the seams to make it fit really well. What that means is I can now go to the Gap and if the seams are in a certain area or if the cut is the same as Lulu, I don’t even have to try it on and it’s 40% of the Lululemon price—but you do have to buy it more often.”
- “I am not buying as much [athletic apparel] as last year. I bought my first Lululemon pieces two years ago and slowly buy more when I can afford to add it. I’d like to buy more, but I have the basics and they last.”
- “I don’t really do yoga. I like spinning, running, weight training. I’d say 20% to 25% [of people in classes] wear Lulu. Outside of Lulu, I don’t really recognize what brand people are wearing. Lululemon is easy to spot, and I’ll ask people about how they like their Lululemon [apparel]. I see a lot of people who wear it at the gym, but a lot of people go to

My husband wears Lululemon, and so do a lot of his friends. At first he was embarrassed, but now he loves it. ... My husband thinks they are the most comfortable shorts in the world, and he also loves the running pants. He got the shorts last summer and has added two or three more.

*Customer, Lululemon
San Diego*

Costco and Target wearing Lululemon too.”

- “When I started buying Lululemon, I realized I would work out and then couldn’t shower until much later, and it was my outfit for the day. And I knew that at least my workout gear looked great.”
- “I just weeded out everything, and most of what remains is Lulu. I’ve heard good things about Gap—the actual line. I get the Athleta catalog, but I’m not a catalog shopper. Nordstrom has [Zella](#), but it’s the same price point so it’s not worth my time to try something else. That’s the only reason I would move away from Lululemon is if there was a significant price difference.”
- “Target stuff faded, and you don’t want to feel frumpy all day.”
- “I buy mostly in the store and I’ll check the sales online, but there’s never much there. Tops, jackets. But my girlfriend shops online all the time.”
- “My husband wears Lululemon, and so do a lot of his friends. At first he was embarrassed, but now he loves it. In our group of friends, the wives slowly convinced the husbands. My husband thinks they are the most comfortable shorts in the world, and he also loves the running pants. He got the shorts last summer and has added two or three more.”

➤ 31-year-old New York City woman

Intense loyalty among Lululemon customers will help the brand to ward off new competition. This source used to wear Nike and Under Armour and was skeptical about Lulu’s high prices. But after trying a pair of Lululemon leggings last summer, she became hooked. She now spends about \$40 a month, largely on discounted apparel bought in the store. She likes Lulu’s fabric, fits and styles.

- “Lululemon will be able to defend its market share because people who buy it swear by the products and rarely buy other brands. They have some serious customer loyalty.”
- “I became a Lululemon customer about six months ago. I was skeptical at first about spending \$88 on a pair of leggings. But I tried some for the first time this past summer based on my friend’s recommendation, and I loved them. Now Lululemon crops and long leggings are the only things I work out in.”
- “Before, I was buying mostly Nike and Under Armour, but today I probably buy just one Nike article for every three Lululemon articles.”
- “I like Lululemon because the fabric is comfortable for running and yoga, and the fits are flattering and current without being too sporty-looking.”
- “I have never bought any Lululemon men’s wear.”
- “I almost always buy items that are marked down. ... I think I have only bought one pair of crops at full price.”
- “I often see new products online, but all of my purchases so far have been in the store.”
- “Lululemon’s social media efforts have not really lured me into the store any more than normal. But I do like that they are trying to connect and build a sense of community around the brand.”

I became a Lululemon customer about six months ago. I was skeptical at first about spending \$88 on a pair of leggings. But I tried some for the first time this past summer based on my friend’s recommendation, and I loved them. Now Lululemon crops and long leggings are the only things I work out in.

*Customer, Lululemon
New York City*

➤ Dallas woman in her mid-30s

This source shops for nearly all of her workout attire at Lululemon, choosing it over Nike because of the look and fit. She spends about \$500 a year at Lululemon, and has started to buy more from Lulu’s website. On the day of the interview, she had bought shorts for her husband based on a recommendation.

- “I get all my workout gear at Lululemon—yoga pants and tops. It’s just cute, cute stuff. It fits well, and I love the colors.”
- “I’ve been shopping at Lululemon for about a year, and last year I spent about \$500. I don’t think I’ll be spending any more or less this year. I like Nike too, but I mostly get my workout gear from Lululemon.”
- “I don’t buy yoga mats or towels or water bottles here. I can get those cheaper someplace else.”
- “Price is important, yes. But the good thing about Lululemon is that if anything falls apart, they’ll take it back. I’ve never had anything fall apart, so I haven’t had to test their policy.”
- “I do shop online now, a little bit more than in the past. I bought a bunch of Christmas presents from the Lululemon website. The prices didn’t seem to be any different online, but it was more convenient.”

- “Today, I got my husband the [Pace Breaker Short](#) for \$64. I don’t usually look for men’s clothing here, and this is the first time I’ve bought anything for my husband at Lululemon.”

➤ 31-year-old New York City woman

Lululemon is getting “too big for its britches,” with material quality and selection declining. This longtime customer is spending 40% less on Lululemon apparel year to year and instead buys products from Icebreaker and NUX. Still, Lululemon remains among her favorite brands, in large part because of its focus on community. She is not a fitness instructor but co-owns a fitness studio and gets a 15% discount on most Lululemon apparel.

- “The brand has gone through so much huge growth over the past five years, I think it has finally gotten a little too big for its britches.”
- “I have been a Lululemon customer for the past eight years.”
- “Around this time last year, I was buying myself about \$85 worth of Lululemon products per month, but now I’m down to about \$50 per month.”
- “The main reason I’m buying less Lululemon is that there are more brands now like Icebreaker and NUX that offer more options with better fits and that use better-quality materials.”
- “I am spending about \$30 to \$35 more per month on those competitor brands now.”
- “Lululemon lately seems to be using decidedly lower-quality materials and selling too many new styles that have not been properly tested for athletes.”
- “My three favorite brands of activewear are Icebreaker, Patagonia and Lululemon.”
- “What I like most about Lululemon is the brand’s emphasis on community with things like the in-store yoga classes and local fitness events.”
- “The quality of the products has taken a huge hit in the last few years; the apparel is not as unique as it used to be; and the price points remain very high.”
- “I don’t find the classic product line as appealing anymore because the products are not made nearly as well as before.”
- “Of Lululemon’s new products, the bike line seems to be very popular. The commuter pants, on the other hand, are awful.”
- “All of my Lululemon purchases are done in store. I don’t think I have ever shopped for Lululemon online.”
- “I never buy the lifestyle products, only the apparel.”
- “I buy about a half-dozen items of Lululemon men’s wear every year for friends and family.”

The main reason I’m buying less Lululemon is that there are more brands now like Icebreaker and NUX that offer more options with better fits and that use better-quality materials.

*Customer, Lululemon
New York City*

➤ Portland, OR, woman in her mid-30s

Lululemon is a strong competitor, and its prices are in line with Nike, Athleta and Lucy. However, this source is driven by sales and deals, which keeps her away from Lululemon. Also, she has easy access to a Nike store but not to a Lululemon location. She is buying more activewear this year than last after losing a significant amount of weight.

- “Lululemon is a very strong competitor in activewear and prices seem to be in line with Nike, Athleta and Lucy—the brands I usually see. I would definitely consider purchasing from them if I did not have access to discounted apparel elsewhere. Although it would be tough competition with Athleta, because I love the quality of their clothing.”
- “I do not buy a lot of Lululemon apparel because I do not have time to get to a specialty store where I have to pay full price. And due to price, I do not shop with them online.”
- “I am buying more workout clothes than last year because I have had to replace my exercise wear due to my weight loss.”
- “My primary activewear apparel is Nike because I know an employee and receive a discount on their apparel.”
- “I generally look for sales and deals so that is a very big motivator for me.”
- “New products are not that important. I basically want comfort and style while being able to sweat profusely in my clothes. I also want it to transition to being a cute outfit once the workout is done.”
- “I have never bought any men’s wear from Lulu.”
- “[Lululemon purchases] would all be online at this point.”

- “[I] never [buy lifestyle products], and I do not take classes at Lulu; it would be a retail-only destination.”

➤ 44-year-old woman in Chicago

This customer is buying less from Lululemon because she temporarily is living overseas. Still, she said the brand’s high quality and durable apparel will keep it ahead of against its competitors. She purchases Lululemon items online 70% of the time and 30% in stores. Lululemon is very popular with her friends.

- “I am buying less Lululemon compared to a year ago because we are temporarily living overseas now. It is more difficult to find in London.”
- “I am buying more from competitor brands compared to a year ago because I find those brands available in more stores, especially in Europe.”
- “Yoga pants are my primary activewear apparel because they are versatile.”
- “Many friends also wear Lululemon, and they love it too. It is comfortable and still looks good after tons of washes.”
- “Price and need are the main factors that play into my decision on whether or not to buy Lulu.”
- “I find that the product launches are not as important as actually finding their apparel available.”
- “Lululemon can defend their position as competition grows. Their apparel is very well made and lasts.”
- “Social media plays no presence with regards to helping me with in store purchases.”
- “I have gone into the store to find or test a product, and then I buy it online at a later time.”
- “I purchase Lululemon about 70% online and 30% in the store.”
- “I don’t buy the lifestyle products often. I have got a few things, but it is not what I am shopping for at Lulu.”
- “I have never taken classes at Lululemon, but I am looking into it.”
- “I have been wearing Lululemon for four years or so.”

Secondary Sources

Thirteen secondary sources focused on Lululemon’s store expansion, community events, and efforts to grow internationally. Sources also focused on Ivivva and the rise in competition from large retailers and startup companies alike.

LULULEMON

These six sources focused on Lululemon opening new stores in Oklahoma and North Carolina, and discussed an enthusiastic crowd at the first Lululemon clearance event, a strong Lululemon following among NHL players, a new member of the board of directors to help with international expansion, and a hint to finding lower-priced Lululemon apparel in stores.

➤ Feb. 14 NewsOk.com [article](#)

Lululemon is seeking a permit to open a store in Oklahoma City.

- “Lululemon, the Canada-based upscale yoga apparel retailer, has requested a building permit to open a store in the Classen Curve shopping center. A \$150,000 permit to remodel a 3,250-square-foot space in the Chesapeake Energy-owned development was filed Wednesday with the city of Oklahoma City.”
- “If plans for the store are successful, it would be one of the few multiunit retailers at the shopping center. Currently, Classen Curve, at Classen and NW Grand, includes local tenants such as Balliets, Republic Gastropub and Matthew Kenney OKC. One exception, Barre3, is a fitness chain based in Portland, Ore.”
- “From the permit information, it appears Lululemon would be located next to Liberte, a women’s boutique.”
- “In September, Lululemon opened a showroom in Automobile Alley, near downtown. The showroom is open limited hours.”

➤ March 1 *The Business Journal* [article](#)

Lululemon is opening a small format store in Greensboro, NC.

- “The lease commitment for the 1,000-square-foot shop at 301 State St., Suite E, starts in April. ... That retail space had been vacant for more than a year. ... Lululemon has signed a short-term lease with several options for renewal.”

Lululemon Athletica Inc.

- “The Vancouver-based clothing retailer has existing North Carolina stores in Asheville, Charlotte, Raleigh and Durham.”
- **Feb. 13 *New Yorker* [article](#)**

Lululemon held its first-ever clearance event in New York, attended by a rabid crowd that came from far away for the chance to buy items at a discount.

 - “The first-ever East Coast clearance fest, called YogaBowl, was held on Super Bowl weekend, in the basement of the stadium where the New York Islanders play hockey.”
 - “On Saturday, a woman from Vermont had left her house at 2:30 A.M., picking up a friend in New Hampshire along the way.”
 - “Buyers had been limited to twenty items on the first day, but the number was raised to thirty by the second.”
- **Feb. 28 *Yahoo Sports* [article](#)**

Lululemon’s men’s underwear has become popular among professional hockey players.

 - “[According to Canadian Business](#), [Lululemon CEO Christine Day] told a Toronto Region Board of Trade luncheon this month that NHL stars are wearing her company’s new boxer briefs but can’t discuss it because of their sponsorship deals.”
- **Feb. 4 *FashionWorld.com* [article](#)**

Lululemon announced Robert Bensoussan as a member of the Board of Directors. Bensoussan’s experience with brands in the UK and Europe will serve Lululemon well as it expands into international markets in the upcoming years.

 - “Chip Wilson, Founder and Chairman of the Board of Directors of lululemon athletica, commented, ‘We’re unrolling our mat in some exciting new international markets over the next few years and Robert’s extensive experience and perspective will prove valuable to lululemon as we expand globally.’”
- **March 1 *The Budget Fashionista* [blog](#)**

Lululemon is among this blogger’s list of the best five workout outfits on a budget. The post highlighted the discounted section called ‘We Made too Much’ as a way to purchase Lululemon apparel for less.

 - “Here are five wallet-friendly workout outfits that won’t lean your wallet, but will definitely make you feel as hot as you’ve been working for:”
 - “1. Lululemon: I’m sure you are thinking ‘there is no cheap item in that store’—but, have you ever shopped the ‘we made too much’ section? Here, you will find what I like to call ‘sale’ items—for about 30% off. Luckily, workout clothes never go out of style since they always have a function, so stock up. This hot running jacket with long sleeves and finger holes is a favorite of mine—[Forme Jacket *Brushed](#) (only \$89).”

IVIVA

These two secondary sources praised Ivivva’s high-quality and durable products, as well as its community involvement.

- **March 1 *Just Us Girls* [blog](#)**

Ivivva’s emphasis on durability, style, comfort and selection are key selling points. Loyalty and repeat business are fostered by the brand’s dance lessons and its openness to design input from consumers.

 - “From dance, figure skating, yoga and gymnastics Ivivva has apparel for it all.”
 - “What I loved most about these items is that after she wore them and I put them in the wash, they came out looking great. They didn’t shrink or fade. And she was able to wear them again and they still fit great.”
 - “Not only do they provide dance classes for you, they also host design parties where girls can come together and share their ideas on what they think the next piece should be and look like.”
- **Ivivva’s Facebook [page](#)**

Consumer comments on Facebook carried positive sentiments for Ivivva’s events, fashion-forward looks, everyday use, and active consumer relationship.

 - [Jan. 5 comment](#): “Thx Ivivva, Jaiden had tons of fun at the Flash Mob @ Bayshore Shopping Ctr (Ottawa) this morning!!!”

Lululemon Athletica Inc.

- [Jan. 30 comment](#): “This is ALL my daughter wears and I'm completely ADDICTED to buying it!!”
- [Feb. 6 comment](#): “Can you please make more of the activity racer in new spring colors! Like blues and greens! They are the only tank top my cousin will wear!”

COMPETITION

These five sources highlighted Lululemon’s greater competition from established retailers like Gap and Under Armour as well as new upstarts like Ellie, all of which are using strategies that made Lulu successful.

➤ **Dec. 28, 2012, *San Francisco Business Times* [article](#)**

The yoga clothing and active wear market is valued slightly over \$13 billion nationwide and is the fastest growing segment of the apparel industry. This increase has caused a wide range of retailers to expand their retail offerings and locations.

- “[L]ucy is remodeling all its existing stores and rolling out a new advertising campaign.”
- “Athleta is another contender. The brand now has 35 stores nationwide, including five in the Bay Area, and plans to open at least 50 by 2013.”
- “Calvin Klein Performance is using a similar tactic in Union Square, where the entire second floor of its store is reserved for yoga classes.”

➤ **March 1 *St. Louis Post-Dispatch* [article](#)**

Athleta is becoming a direct competitor for Lululemon; half of its stores nationwide are located within a one-mile radius of Lululemon and convey a similar atmosphere and community outreach. Athleta is opening a new store in St. Louis.

- “Now Gap-owned Athleta, whose motto is ‘Power to the She,’ is shaking things up by entering the local scene. ... an Athleta store is slated to open in May, just a few stores down from the wildly popular Lululemon Athletica.”

➤ **Feb. 16 *Delaware Online* [article](#)**

Under Armour is piloting a women’s store in Baltimore to move its women’s apparel out of sporting goods stores and into an environment more alluring to female shoppers, taking a cue from Lululemon.

- “Under Armour is opening a test store in hometown Baltimore that has ditched the company’s prevailing locker-room vibe for natural light, cheery colors and 10 times as many mannequins. Call it a pitch to the Lululemon crowd. The outreach to women is part of efforts to broaden out beyond performance apparel and become the next Nike Inc. or Adidas AG.”

➤ **Feb. 5 *Brand Channel* [article](#)**

Ellie is offering the same quality active wear as Lululemon but at half of the price, and has utilized social media and in-house pattern makers to test designs with potential customers and then to quickly produce the most popular designs. Fit Fashionista Club membership, a once-a-month delivery of customized workout gear, is being used to attract customers.

- “Infused by a recent \$2 million investment from Trinity Ventures, Rustic Canyon Partners and Blumberg Capital, Ellie is flush and hungry as it pulls out the stops in its online-only model, which blends subscription and a la carte e-commerce.”
- “Ellie is buying the same fabrics as Lululemon, but have made the process by which the clothing is created and sold much more efficient, so these costs are not passed on.”
- “With an onsite pattern-maker, they can showcase designs they are testing across social media to get users/fans to decide if they like them, and if it’s popular, the outfit is manufactured within four days and available for mass market retail.”
- “What usually takes four to five months now only takes less than 2 months ... and of course, there are no brick and mortar stores, so that overhead is cut out as well.”

Additional research by Tina Strasser, Lindsay Gadsby, Cindy Elsberry, Colin Gustafson, Kevin Murphy and Ken Turetzky

Lululemon Athletica Inc.

The Author(s) of this research report certify that all of the views expressed in the report accurately reflect their personal views about any and all of the subject securities and that no part of the Author(s) compensation was, is or will be, directly or indirectly, related to the specific recommendations or views in this report. The Author does not own securities in any of the aforementioned companies.

OTA Financial Group LP has a membership interest in Blueshift Research LLC. OTA LLC, an SEC registered broker dealer subsidiary of OTA Financial Group LP, has both market making and proprietary trading operations on several exchanges and alternative trading systems. The affiliated companies of the OTA Financial Group LP, including OTA LLC, its principals, employees or clients may have an interest in the securities discussed herein, in securities of other issuers in other industries, may provide bids and offers of the subject companies and may act as principal in connection with such transactions. Craig Gordon, the founder of Blueshift, has an investment in OTA Financial Group LP.

© 2013 Blueshift Research LLC. All rights reserved. This transmission was produced for the exclusive use of Blueshift Research LLC, and may not be reproduced or relied upon, in whole or in part, without Blueshift's written consent. The information herein is not intended to be a complete analysis of every material fact in respect to any company or industry discussed. Blueshift Research is a trademark owned by Blueshift Research LLC.