

LULU's Apparel Runway is Huge; Tougher Path in Fitness, Shoes

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Research Question:

Will Lululemon successfully expand beyond its core apparel business into a broader lifestyle and wellness brand?

Summary of Findings

- [Lululemon Athletica Inc.](#) (LULU) has ample room to increase its share of customer wallets with expanded apparel lines in areas such as everyday wear and undergarments. But its forays into connected fitness and footwear have technical and operational challenges that leave the company's path to success less clear, according to 11 interviews with specialists in retail, apparel, fitness, footwear, and international markets.
- International expansion, especially in Asia, should be lucrative, five sources said. Managers of Lululemon stores in Beijing and Shanghai both reported stellar results and said the brand has established a reputation for quality to support its high prices. Lululemon is benefiting from the growing acceptance in China of yoga pants and similar apparel in a wide variety of settings.
- Lululemon's brand loyalty and technical expertise with fabrics and designs give it wide latitude to move into new apparel segments, with sources suggesting everything from loungewear to sweaters to dresses to outerwear as opportunities. There is significant competition as Lululemon morphs into a broader lifestyle brand, but the company is in great position to expand its appeal. A source specializing in retail store design said Lululemon has been leasing much bigger spaces recently, a sign it intends to offer a wider assortment of products and possibly even workout space.
- Sources were more skeptical about the company's leap into connected fitness. Six sources said they see the potential of its [\\$500 million acquisition of Mirror](#) to add revenue from hardware, subscriptions, and cross selling more apparel. But the list of companies who have succeeded in hardware when their expertise is elsewhere is very short. Two sources who specialize in the connected fitness market said they have not seen much innovation from Mirror at a time when the market is getting vastly more competitive. Apple Inc. (AAPL)—with its [watch, Fitness+ service](#), and base of loyal users—is a particular threat. Ultimately, the quality of instructors and the fitness content Lululemon develops for Mirror will be key factors in whether it succeeds.
- Footwear is also a highly competitive and technical field. While Lululemon surely will get some traction because of its brand name and store traffic, two sources said it is not clear what niche Lululemon might fill that would make it a destination for shoe buyers or allow it to dent global powerhouses like [Nike Inc.](#) (NKE).

Silo Summaries

1) Retail and Apparel Specialists

Lululemon has everything in place to expand its line of apparel beyond activewear into areas like everyday wear, undergarments, and other casual but stylish apparel. One source said Lululemon has been expanding the size of its retail footprint in premium shopping centers, indicating plans to increase its product offerings. There is a lot of upside for Lululemon in connected fitness. **Its Mirror hardware can be used by multiple people at once, giving it an advantage over rival Peloton** as a family activity. Mirror also offers cross-selling opportunities for Lululemon with its core apparel business. Getting high quality instructors for Mirror fitness classes will be critical. In footwear, the bar for success is high because it is a highly technical business with a slew of strong competitors.

2) Connected Fitness Specialists

The market for streaming workouts is so hot that it would be easy to see one of the big competitors reaching \$1 billion in annual revenue, and the user bases of Lululemon and Mirror align well. But **the leap from apparel to hardware and software is a gigantic one. There is a lot of competition from big names like Apple and Peloton, and Mirror has not shown much innovation.** It is easy for an Apple Watch owner to stream fitness content to a TV without the need for another expensive piece of hardware like a Mirror. **The quality of Mirror's fitness instructors will be critical to its long-term success.**

3) Footwear Specialists

Lululemon could see some marginal growth from footwear, men's wear, and connected fitness, but these areas will not be significant revenue drivers. **Unless Lululemon has a unique technology for fitness shoes, it is unlikely they could take on giants like Nike.**

4) International Specialists

Lululemon is thriving in China, benefiting greatly from increased acceptance of yoga pants and similar apparel in non-workout settings. Lululemon does not have a direct rival in China in the high-end yoga apparel market but faces stiff competition from less expensive apparel brands. **The manager of a Lululemon store in Beijing said sales have soared in the first half of the year, while his counterpart in a Shanghai store said he expects Lululemon to open more shops in the region** because the market opportunity is so large.

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	LULU's Outlook as a Lifestyle Apparel Brand	LULU's Potential in Connected Fitness	LULU's Footwear Fortunes
Retail and Apparel Specialists	↑	↑	↓
Connected Fitness Specialists	↑	↓	↓
Footwear Specialists	↑	→	↓
International Specialists	↑	NA	NA

Background

Lululemon delivered [another impressive quarter](#) in Q2 as revenues soared 61% year-over-year to \$1.5 billion, which represents 28% growth compared to the pre-pandemic Q2 in 2019. Profits were up 72% from two years ago despite headwinds from COVID-related factory closures in Vietnam, congestion at ports, and reduced airfreight capacity. The stellar results have the upscale apparel maker on target to hit its 2023 revenue forecasts a full two years early. For the current quarter, executives said revenues should be up by about 25% compared to the same period in 2019, and full-year revenue is expected to reach about \$6.2 billion, which would also represent about 25% two-year growth. Lululemon's CEO said [the brand is gaining market share](#) as well as benefiting from fitness trends that have been accelerated by COVID lockdowns.

High-priced activewear and leisure apparel remain the core revenue driver for Lululemon, but the company has its eyes on several big opportunities outside of clothing. One is the connected fitness craze, which Lululemon dove into with its \$500 million acquisition of Mirror in 2020. Mirror, a \$1,495 hardware device that allows users to access live and on-demand fitness classes in their own homes, is expected to generate at least \$250 million in revenue this year. Longer term, Goldman Sachs has pegged Mirror as a more than \$1 billion opportunity by 2025, while acknowledging the need for substantial marketing and technology investments. While the connected fitness market has been extremely hot, it is not yet clear how much of the boom in at-home workouts will persist as people go back to work and gyms re-open. [Peloton Interactive Inc.](#) (PTON), the breakout fitness equipment star of the pandemic, continued to show strong growth in its \$12.99-per-month subscriptions but reported a much [deeper-than-expected fiscal Q4 loss](#), offered a weak outlook for the current quarter, and said it would cut the price of one of its bikes. The space is also increasingly competitive. Apple, for example, has been targeting entry-level fitness consumers through new Apple Watch features, expanded Apple Health software offerings, and its \$9.99 per month Fitness+ service.

In addition to Mirror's hardware sales and the recurring revenue from a \$39-per-month subscription, Lululemon hopes its foray into fitness classes will increase customer engagement with the brand. Such engagement was also central to Lululemon's aspirations for a membership program that it was testing—a \$148-per-year loyalty program that offered product freebies, entry to in-person or digital fitness classes, member-only events, early access to select products, and birthday discounts. However, the company said in September it was suspending its membership program rather than rolling it out more broadly and plans to rely on Mirror as the vehicle for increasing customer engagement and loyalty.

Lululemon is also about to finally [dip its toes into the footwear market](#), a plan it first announced in April 2019. The company said it is on track to launch its shoe line in early 2022. Its deliberate move into footwear included a pilot program with sneaker brand [Athletic Propulsion Labs](#) that executives hope gives them the operational experience to succeed in a competitive market. The segment is dominated by the likes of Nike and [Adidas AG](#) (ADDDF), but Lululemon's strong brand name could help it gain traction: In Piper Sandler's most recent "[Taking Stock with Teens](#)" survey, Lululemon placed ninth in a ranking of upper-income teens' favorite athletic footwear brands even though Lululemon's shoes have not yet hit the market.

Within apparel, Lululemon sees opportunities to expand beyond its core activewear lines, especially with its On the Move collection, which includes a growing assortment of comfortable workwear. The retailer is seeing some lift from its line of

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men's apparel, which delivered a two-year compound annual growth rate of 31% in Q2, and sees bras as an opportunity with the recent launch of its AirSupport Bra, which one reviewer called "[the only sports bra I can exercise in.](#)"

The retail landscape has been [showing massive improvement](#) from a year ago when stores around the world were shuttered due to COVID. Walmart Inc.'s (WMT) earnings beat expectations, Target Corp. (TGT) reported a blowout quarter, while Macy's Inc. (M) raised its full-year guidance and reinstated its dividend. But a good bit of uncertainty remains. Some, like off-price retailer TJX Companies Inc. (TJX), have declined to give near-term guidance because of supply chain disruptions and threats from coronavirus variants. One of Lululemon's key competitors, [Under Armour Inc. \(UA\)](#), is showing [signs of a successful turnaround](#) after largely missing out on the athleisure boom. Under Armour's Q2 revenues were up 91% and the company raised its full-year outlook for the second time this year. However, Under Armour's rebound strategy has focused on its core business rather than expanding into new areas the way Lululemon is proceeding. [Under Armour sold MyFitnessPal](#) last year for \$345 million after buying the exercise and nutrition tracking platform for \$475 million five years earlier.

Current Research

Blueshift Research explored Lululemon's opportunities and challenges for broadening its brand beyond athleisure apparel. We employed our pattern mining approach to establish five independent silos, comprising 11 primary sources (including one repeat source from prior retail reports) and one secondary source that discusses why worldwide supply chain chaos could hurt Nike more than Lululemon. Interviews were conducted Sept. 13–24.

- 1) Retail and apparel specialists (5)
- 2) Connected fitness specialists (2)
- 3) Footwear specialists (1)
- 4) International specialists (3)
- 5) Secondary sources (1)

Next Steps

Blueshift Research will continue to follow Lululemon's evolution as it adds new apparel lines, pushes into the connected fitness market, and launches its footwear line.

Silos

1) Retail and Apparel Specialists

Lululemon has everything in place to expand its line of apparel beyond activewear, including a strong brand image and an innovative approach to design and materials, according to the five sources in this silo. Such expansion into areas like everyday wear (sweaters, dresses, and work-appropriate clothing), undergarments, and other casual but stylish apparel represents Lululemon's best chance for capturing a greater share of customer wallets and bringing in new buyers. Becoming a broader lifestyle brand will have some competitive challenges, especially as some rivals are further along in such a shift. Sources were mixed on the outlook for Lululemon's men's wear, with two believing it holds promise because of the brands expertise with technical fabrics, but two others questioning whether men will gravitate to clothes that are perceived as a women's brand. One source who specializes in real estate and store design said Lululemon has been expanding the size of its retail footprint in premium shopping centers, indicating plans to increase its product offerings or add workout space to its stores. All five sources believe there is a lot of upside for Lululemon in connected fitness. Its Mirror hardware can be used by multiple people at once, giving it an advantage over rival Peloton as a family activity. Mirror also offers cross-selling opportunities for Lululemon with its core apparel business. Getting high quality instructors for Mirror fitness classes and keeping content fresh will be critical. In footwear, four sources said the bar for success is high because it is a highly technical business with a slew of strong competitors that will make it hard for Lululemon to carve out a niche.

Key Silo Findings

Lululemon's Momentum and Customer Growth

- 3 of 5 said one of Lululemon's best growth opportunities lie with selling new lines of clothing to existing customers.

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- 1 said Lululemon's single biggest possibility for growth is through new stores.
- 1 said branching out from activewear into athleisure was once an opportunity but is now a mandate as many big brands are putting resources behind such lines.
- 1 said that while it is possible for Lululemon to become a broader lifestyle brand, there is plenty of competition in that market.
- 1 said Lululemon could benefit from a set of lower-priced offerings if it can offer such a line without diminishing its brand, but 1 other said the company will not go that route.
- 1 said Lululemon is buying bigger retail spaces in premium shopping centers, up to double its usual footprint, indicating plans to add new categories to its assortment or possibly include workout spaces for fitness classes.
 - o The economics of buying bigger spaces are very appealing right now.
- 1 said Lululemon is aiming for the family market.
- 1 said Lululemon can be more responsive to customer feedback than some larger brands.
- 1 said international markets represent a great growth opportunity for Lululemon.

Apparel

- 1 said Lululemon's strong brand gives it room to expand into new categories within women's apparel.
- 3 said under garments such as bras and underwear are a growth opportunity for Lululemon.
 - o 1 said such items are a pain point for most athleisure apparel makers.
 - o 1 said people are willing to pay a premium for what they wear underneath their clothing.
- 1 said it does not make sense for Lululemon to try to add work wear to its product lines.
- 2 said everyday wear is a possibility for Lululemon.
 - o 1 said Lululemon's high price points mean it could offer upscale cashmere sweaters.
 - o 1 said it will be fairly easy for Lululemon to shift its innovation around textiles into lifestyle wear.
- 2 said Lululemon's men's wear line holds promise because of the brand's expertise with technical fabrics and designs.
 - o 2 others, though, said growing its men's line will be difficult because Lululemon is perceived as a women's brand and men will not consider its clothing as a status symbol.
- 1 said sales of athleisure wear will continue to be strong but could slow slightly as people become tired of wearing casual clothes and want to get back to some dressier items.
- 1 said Lululemon's efforts toward sustainability in manufacturing and materials is a differentiator.
- 1 said outerwear is a natural extension for Lululemon as buyers of such apparel are used to paying premium prices.
- 1 said Lululemon needs to trim its product offerings so as not to overwhelm shoppers.

Connected Fitness

- 5 said Mirror is a great revenue opportunity, both for the hardware and the recurring subscription.
- 1 said Lululemon will have to invest heavily in marketing Mirror to take on the likes of Peloton.
- 2 said Mirror has an advantage over Peloton in that it can be used by more than one person at a time, making it suitable for family activities.
- 3 said Mirror will help Lululemon sell its clothing.
- 1 said the quality of Lululemon's instructors and ambassadors for Mirror will be key, as content needs to stay fresh.
- 1 said supply chain issues could pose some problems for Mirror but it has many fewer parts than a bike or treadmill.
- 1 said many people can justify the high cost of equipment like Mirror as self-care spending or a way to save money on gym memberships and classes.

Footwear

- 4 said moving into footwear is fraught with challenges.
 - o 1 cited competition from the likes of Nike and other global brands.
 - o 1 said it is not clear what Lululemon's differentiation might be in footwear.
 - o 1 said athletic footwear in particular is a highly technical business.
- 1 said Lululemon would be better off acquiring or partnering with an existing brand that is having some success.
- 1 said a Lululemon footwear line would have to be a premium priced product, while 1 other said footwear is the type of product for which people will pay more for the status of a certain brand.
- 1 said Lululemon would have a better chance for success with footwear in markets like Scandinavia or southeast Asia than in the United States.

Lululemon Athletica Inc.

1) Anne Brouwer, senior partner at retail strategy firm [McMillan Doolittle](#)

Lululemon will have to be selective in its efforts to expand into new apparel categories, especially as there are many lifestyle competitors. There has been a blurring of lines between activewear and everyday wear that can benefit Lululemon, but other athleisure brands like Athleta and Title Nine have already moved into more casual apparel. Lululemon has been successful with its men's line and its commitment to technical fiber fabrics is an advantage. Mirror offers a fun and unique way to exercise for the whole family. The quality and number of Lululemon's instructors will be very important to Mirror's success. Footwear is a difficult segment because it is very technical, and Nike is already a dominant brand

Lululemon's Momentum and Customer Growth

- "There is room for expansion [for Lululemon] in terms of end use. They started with apparel and initially targeted women. Now they've added men's and there is opportunity in that area because they are continuing to innovate with technical fabrics and designs. However, when they look at growth in their core organic business, there are going to be limits to how many stores they can open, how big they can grow e-commerce, how much they can add through a loyalty program and similar initiatives."
- "It's going to take a multi-pronged strategy [to increase share of customer wallets]. They've attracted a lot of competition since they began. You can look at the strength of brands like [The Gap's] [Athleta](#) or the big footwear brands who all have apparel—Nike, Adidas, Under Armour—they all started with men's, but they've added more women's product. Some of these brands are more expert in shoes, so the category already has strong established competition."
- "Competition in apparel is also growing with the recent announcement of [ThirdLove adding activewear](#), along with brands such as [Thinx](#) and [Allbirds](#), plus the success of Target reaching their \$1 billion goal with their [All in Motion](#) brand that replaced C9."
- "Lululemon competitors like Athleta and [Title Nine](#) have already moved into more casual everyday kind of looks. They are further down that path. This is something that Lululemon is probably looking at."
- "There is likely a segment of their customers who are devoted to yoga and are building a wardrobe around their yoga activities, whether they are a practitioner, a trainer, or someone who is leading yoga classes [so they only shop Lululemon in that one category]. They also probably have other more casual customers who are just interested in great apparel for various activities. They might do yoga occasionally, or pilates, or they might run, and they're building a wardrobe for that. There are also people who walk around wearing leggings and tights and with more athletic types of tops."
- "We've seen indications that some apparel categories are improving, like denim and some other back-to-the-office types of apparel. People are a little sick of what they've been wearing for the last one-and-a-half years, and they want to replace it with newer, fresher, and sharper looking at-home wear or exercise apparel, or they want to dress up a little. However, the Delta variant has paused the reopening with some school closures and companies delaying their return to the office or keeping restricted office hours and occupancy. It may be too soon to see a strong sustained trend yet. I'm sure, though, there are plenty of people who feel like they've been wearing the same thing for 18 months and they are sick of it."
- "[Lululemon] will need to be careful [in its effort to expand into a broader lifestyle brand]. They need to pick their track from a positioning standpoint of how they are going to do that. They need to pick their categories also very thoughtfully. It is certainly possible, but they are not going into total white space in the categories and it's not like there's a lack of lifestyle brands. Being smart and selective about it is going to be critical. So far, it seems like they have been."

[Lululemon] will need to be careful [in its effort to expand into a broader lifestyle brand]. ... It is certainly possible, but they are not going into total white space in the categories and it's not like there's a lack of lifestyle brands. Being smart and selective about it is going to be critical.

Anne Brouwer, senior partner at retail strategy firm McMillan Doolittle

Apparel

- "It is worthwhile for Lululemon to take a hard look at the whole concept of what everyday apparel is. The whole concept has been changing dramatically. We went from casual Fridays to casual everywhere to people showing up

for flights looking like they just rolled out of bed. What's appropriate is much broader today and it may also be in the eyes of the beholder."

- "Everyday apparel is definitely something [Lululemon] can think about, but if they want a cautionary tale, they can look at [Eddie Bauer](#). Originally, Eddie Bauer was known for outdoor apparel. They lost their way in the 80s and early 90s getting into casual apparel as they tried to appeal to a different consumer base and be more broadly based. It did not work. They went through a long period of changing CEOs and changing direction before they accepted that they were experts in outerwear and outdoor apparel. They went back to being for the outdoorsy lifestyle as opposed to casual wear. They are also appropriate for casual wear, but they appeal to a very specific mindset. In the same way, Lululemon will have to be careful that they don't lose their way."
- "Men's apparel seems to be working for them. They seem to be expanding it and investing further."
- "One of Lululemon's advantages is their commitment to technical fiber fabrics with a view to more sustainability. These are strengths they can market on."

Mirror and Connected Fitness

- "Their acquisition of the Mirror reflects a strategy about other opportunities for growth that are not just pure organic growth."
- "We've seen an explosion over the last few years of new health monitoring and tracking devices and exercise equipment that allow you to exercise away from the gym. There's the Apple Watch. Nike failed with their FuelBand, but they may try something else. COVID has also pushed the aspect of exercising without going to the gym."
- "The Mirror gives Lululemon a subscription business. They can make money while they sleep. It's an automatic renewal of income, which apparel isn't. It not only gives them a new category, but also a subscription base in addition to the big one-time purchase. Even if the retention rate is not great, it is still recurring revenue."
- "The Mirror has an advantage over Peloton because more than one person at a time can partake. That becomes more of an event. They show in their marketing [for Mirror] that it can be a family affair and be more fun than just pure sweat."
- "On the [Mirror CEO stepping down](#), it is not unusual for the founder to step back, but I have no insight into why or why at this time, although she is staying on through the transition to a new CEO."
- "Mirror is a small percentage of their revenue. I don't know how competitive the market for multi-user subscription-based exercise opportunities will be. The fun aspect of the Mirror makes it more appealing for some people than just racking up the miles hardcore. There is potential for the Mirror to get a broader base."
- "They might attract competition where they get pushed out or they might get to a volume level where they can decide to be more price competitive to attract a bigger market. Are there opportunities where they can be even more broad-based and appealing? I imagine that's a big part of their strategic planning—how to push it, make it stickier, make it more attractive, keep it premium."
- "Are there opportunities to attract more of a mid-market customer, and will consumers go back to gym memberships? There are a lot of still-to-be determined elements. They do have an interesting product right now."
- "It's also important that the Mirror brings the customer back to Lululemon's organic business. If the family is spending more time with this, they will want to consider if they have enough comfortable apparel. It reinforces Lululemon's apparel business."
- "I think the quality of [Lululemon's] ambassadors is pretty important. I believe they are expanding the number of instructors and the amount that is available on demand. You have to keep it fresh. An example is [Curves circuit training](#). It works well for some time but people get bored after a while and then the retention rate goes down. It's important to have a variety of activities plus a constant flow of newness. That might mean new and additional instructors because people pick their favorites."

Footwear

- "In footwear, you have to really know what you're doing."
- "Athletic footwear is a very technical business. Nike is already a global powerhouse and very well established. They are a leader in that business. What can Lululemon's point of differentiation be? What will allow them to enter that space and be successful? It's not a slam dunk."

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Anne Brouwer, senior partner at retail strategy firm McMillan Doolittle

2) Founder of a retail strategy consulting firm

Lululemon will continue to exceed revenue forecasts as it expands beyond athleisure into lifestyle apparel as current customers will buy more pieces from Lululemon. Lululemon has an opportunity to reach younger customers by offering a resale option, which brings prices down while promoting sustainability. Mirror holds significant potential to increase revenue. Its price point is reasonable based on the type of affluent customer buying Lululemon clothing. Through Mirror, Lululemon will be able to create an experience closer to in-person yoga classes that were offered in stores before the pandemic. As a smaller retailer, Lululemon can take advantage of customer feedback and alter product offerings more easily than larger brands like Nike and Adidas. Lululemon needs to cull some of its product offerings as the current “endless aisle” experience can be overwhelming and conflicts with the brand’s stance on sustainability. Lululemon should consider partnering with an existing footwear brand that aligns with its high-end athleisure apparel.

Lululemon's Momentum and Customer Growth

- “In the performance athleisure space, I like to use Nike as a benchmark, because to me, Nike is the best brand in the world in terms of how they’re increasing revenue and, of course, their shift into DTC [direct-to-consumer]. That said, I think Nike is at about \$50 billion [in annual revenue], where Lululemon is at about \$4 billion, but Nike still looks at Lululemon as a competitor. Lululemon does certain categories within performance and athleisure and yoga so well that even though they’re a smaller player in terms of revenue, they are really the ones Nike looks at when building out their leisure categories.”
- “Lululemon’s AirSupport Bra is best-in-class as one example, a product that is a pain point for most [athleisure apparel manufacturers].”
- “Lululemon’s customers are affluent or at least aspiring to be affluent in some way, shape, or form. So they must have some sort of spendable income. And really, in order to wear Lululemon from head to toe—which their customers love to do—I think Lululemon is doing a great job shifting a lot of their categories into lifestyle wear.”
- “Lululemon is shifting gears slightly to be more of a lifestyle brand as well as an athleisure yoga performance athletic brand. Their ability to innovate and listen to customers is giving them a lot more data to drive those decisions around product assortment and product mix to include those categories around lifestyle.”
- “Men’s wear is another area of investment and, of course, targeting a younger customer as well. Millennials and younger don’t necessarily have that expendable income to make Lululemon their primary brand of choice, but they are looking to build that out. They didn’t do such a great job when they attempted a youth line because the product assortment was not what a Lululemon mom is buying her tweens.”
- “I think the Lululemon brand is aspiring toward that family market. Mom is going to be shopping for her husband or a girlfriend for a boyfriend and they want to buy Lululemon. Not only that, Lululemon offers something for men that other brands don’t—it’s not so sporty so you can wear it to golf but still look cool. You can have joggers—so that fashion element from Lululemon is a lot more forward than other athletic brands.”
- “Younger shoppers, the Millennial shopper, is more aligned to resale. I think promoting that circularity is going to bring in that new customer segment.”
- “In terms of price points, I don’t think that is going to change. So it really depends on region and localizing those product assortments to cater to the right demographic and, of course, income for that younger customer.”
- “Work-from-home apparel is an area where I think Lululemon killed it. I don’t think they need to specifically design work wear, but they do have lifestyle and that’s what a lot of their customers are shifting toward.”
- “Their current customer base is just going to expand and start filling other parts of their wardrobe with Lululemon. If Lululemon started offering more items like dresses using their mix of fabrication and styling, I think they could definitely capture some of that market [of people] looking to expand their wardrobes.”
- “Lululemon isn’t the biggest brand but it’s definitely important in the European market to have that mix of fabrics and interesting silhouettes. That combination is currently missing from the marketplace and Lululemon could definitely cover that.”

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Founder of a retail strategy consulting firm

- “Competitors like [Sweaty Betty](#) are growing and scaling and will offer things like dresses and interesting designs and fits. Lululemon will have to step up their game in that lifestyle category for sure.”
- “Competitors should also be concerned about Lululemon’s advantages as a smaller retailer. They can close that customer feedback loop and customize their assortments. The way that their model is set up, they can listen to store feedback and that feedback drives into the product assortment that is localized to that particular store.”
- “They are much closer to the customer compared to, say, Nike. Nike is quite proud of their digital tools that will get you closer to the customer and give insights into better decision making around product assortment, fits and design, etc., [but] Lululemon can shift and adjust a lot more quickly. For a company like Nike, a giant, that’s a lot harder to do.”
- “The affluence of the line—it’s beautiful. They have great clothes, great silhouettes. People are wearing it with their luxury brand handbags, etc.”

Apparel

- “Lululemon is actively shifting toward sustainability around innovation and materials and I think this is something that separates them. If you think about the fabrication that all those performance brands use, those are the ones polluting the environment the most. I think Lululemon is doing a great job in promoting circularity—they will acquire new customers, even those that can’t afford the brand, because it aligns with their [sustainability] values as a consumer in terms of resale as well.”
- “When you think yoga, you think Sweaty Betty, [Fabletics](#). Lululemon had to make sustainability a core textile innovation.”
- “Lululemon already has innovation in textiles and textile development. They have a lot of stretch in their jerseys already compared to other brands that are still developing that. I say translating that into lifestyle wear or work wear and day wear clothing is a pretty easy transition for the brand because they already have the library, the textile and material management is already laid. They don’t need to develop that. It is about fit, style, and silhouette.”
- “I think one disadvantage for Lululemon is they have too many SKUs, too many styles. They offer an endless aisle to some degree. To me, it’s too much because when you offer the customer too many choices, you’re never going to see how well a particular item is doing. There are too many data points—one pair of pants can come in 22 colors. I checked and there was something like 105 different styles of pants alone. That’s crazy.”
- “For a sustainable-conscious brand, you can’t search by the type of fabric, like natural fabric, when on the website. It’s quite impossible. If you value sustainability [as a consumer] and you don’t want any synthetic fabrics in your clothing, it’s very difficult to find something that is purely natural. So that’s a miss for Lululemon.”
- “Lululemon should be taking note when certain things don’t sell. I don’t know how they manage markdowns and promos. I do think they make too much [product]. If sustainability is your core value, that’s a problem. You’re trying to cover your bases in every style you can think of, which is not how retailers should be assorting product mixes. When you oversaturate your online store with an endless aisle, consumers get tired of just scrolling. You can have too many options. And it’s not good for the environment. I don’t see how [its current abundance of offerings] aligns with sustainability.”

“People can justify fitness and self-care spending. I think the price point [of Mirror] could be even higher and still work.”

Founder of a retail strategy consulting firm

Mirror and Connected Fitness

- “We may no longer be in a completely locked down life, but it is definitely a new type of life and safety is still a challenge, especially as the COVID-19 virus keeps mutating. [Being] in the home is still a thing. People moved out into the suburbs into bigger homes in which they have space they didn’t before and they’re building up their own gyms.”
- “Mirror doesn’t take up much space. It is 70 pounds and hangs on the wall and it’s aesthetically pleasing when you’re not using it [for streaming]. Mirror is hardware that needs to be built so the only disruption to Mirror’s boom would be if Lululemon experiences supply chain challenges. When I spoke to a [sports equipment manufacturer], I was told they had a 180-day lead time. That’s excessive.”
- “I think the investment into Mirror is awesome, especially as we see the popularity [of connected fitness] and recent distaste around Peloton and NordicTrack, which was a disaster. Mirror hardware requires a lot less parts [than a bike or treadmill]. There is no supply chain chaos like with Peloton or NordicTrack.”

Lululemon Athletica Inc.

- “Another advantage is the Mirror doesn’t take up much space. Lululemon can suggest [apparel] products through Mirror, so the opportunity for growth is huge. They can collect lots of user data.”
- “When you enter a Lululemon store, you are surrounded by beauty—you take a class and then go shopping. Kind of genius. The Mirror is a great plan B [given current COVID-19-related restrictions on in-person classes].”
- “Lululemon is also marketing Mirror as a family activity. Their homepage shows a family doing yoga together. That’s a completely different experience than, say, Peloton. And, of course, they’re grabbing more customer engagement data while giving the customer an experience they’ve never been able to have before because you can’t do [a family activity] with Peloton.”
- “Unlike using the Peloton app with a TV, Apple Watch, or Nike+, Mirror uses AI to optimize the experience and personalizes it. It also shows your bpm [heart beats per minute] and calories on the screen so you don’t have to keep looking at your watch.”
- “Price point wise, Mirror comes in at around \$2,000. But then if you look at Peloton or anything around that price point, people are buying it and they’re making it work. They’re justifying it as not paying to go to the gym or using [yoga] class passes. If consumers are able to justify that spend, I don’t think investing in the Mirror is going to be challenging.”
- “For many customers, people can justify fitness and self-care spending. I think the price point [of Mirror] could be even higher and still work. They even have financing available for it, so it’s definitely accessible. I don’t think they will have a problem hitting those forecast sales numbers. ... The marketing is already there; the numbers speak for themselves.”
- “Instructors are very important. With Nike Plus or Nike Run and especially the Peloton app—people tend to develop preferences and follow the same instructors. In some cases, instructors are almost like influencers.”
- “I would like to see instructors that look like me, a person of color. And that may not be the cast across their store demographics, but from the ads I’ve seen, I think Mirror is doing a great job about inclusivity in their advertising.”
- “The Peloton app includes women and men of different sizes and colors and to me, that definitely matters.”

Footwear

- “I think they should partner with a [footwear] brand like [Allbirds](#) since it would align with the sustainability values Lululemon claims to have. Allbirds is a proven footwear brand with a loyal following, customer base. Why not just acquire or partner with a brand that is already doing a great job? Kind of like what [Wolverine Worldwide] is doing with Sweaty Betty.”
- “I don’t like that Lululemon closed their lab, which I believe was last year. I think that’s a mistake because brands like Nike and Adidas are actually pushing more toward innovation and that’s what a lab does. Who knows what Lululemon’s strategy is right now. Maybe they’re going for something bigger. Maybe it’s going to be in L.A., where Nike was.”

3) [Melissa Raspantini](#), merchandising and product development executive for a global brand management firm

Lululemon can become a broader lifestyle and wellness brand with the right marketing strategy. Nike is an example of a brand that started out with sneakers but has grown to offer a wide range of apparel. Mirror has potential as people are still exercising from home because of COVID. Mirror also provides a mechanism for marketing the Lululemon brand and apparel. Lululemon’s expansion into everyday wear also offers growth potential, as shown by competitors like Athleta. However, women’s wear brands rarely succeed when they try to get into men’s wear. Footwear will also be tough because Lululemon is not considered an expert there. Athleisure wear could see some slowing in demand as people upgrade their wardrobes for work and dining out. However, athleisure will still have a strong market because people love such clothes.

Lululemon’s Momentum and Customer Growth

- “I think Lululemon still has areas they can grow [with existing customers]. They could expand into lounge wear—bras and underwear. They could still have innovation for the at-home [population], which I think is a phenomenon that’s not going to go away. They could be like NordicTrack, which has the bike and the treadmill, and other things.”
- “They could [increase their share of customer wallets] by expanding on the casual market. I would love to go to Lululemon and see some great cashmere sweaters. They could do nice sweaters because of their higher price point. I could wear a nice sweater with my leggings and I could also wear it to work.”
- “When Athleta added casual wear, they had cute dresses and sweaters all of a sudden. It attracts the customer who’s already in the store.”

- “People are going to be so tired of wearing sweatpants and leggings that they will want to put on something different like a pair of jeans or pants. People haven’t bought too many clothes during the pandemic. Maybe they’ve bought a couple of new tops but they certainly haven’t bought themselves a new wardrobe. People are itching to get out.”
- “Athleisure wear could slow [as a result], but I don’t see the athleisure trend ever dying because people love those kinds of clothes. People might want to get back to their go-to-work clothes or going-out-to-dinner clothes or something to get out of the house.”
- “But when you go to stores now post pandemic, there doesn’t seem to be anything new and fresh out there. Inventory is sparse. Even getting the goods into the stores is tough because of the pandemic and the supply chain issues. Stores are very uninspiring right now.”
- “With the right marketing strategy, the sky is the limit [for Lululemon]. Just look at Nike, who started out with sneakers, and now they are huge. They do every category—footwear, apparel, kids. It’s all about having the right marketing strategy. Lululemon could become a brand like Nike.”

Apparel

- “Expanding to everyday wear is definitely a growth opportunity for Lululemon. One of their key competitors, Athleta, already does that with travel bottoms, dresses, easy wear that you can wear to work or to go out. My co-workers wear a lot of Athleta to work.”
- “You can get a pair of leggings from [TJX’s] [T.J. Maxx](#) for \$9.99 or \$16.99 or you can go to Lululemon for the premium leggings. People can shop for one thing here and another thing there. But the true Lululemon customer will go to Lululemon to buy quality clothes that they know will last them. When you get true brand loyalty, I don’t think the price point is going to matter as much. They should also be able to capture new customers because of their price value. People are going to want to pay for the quality.”
- “People’s shopping habits may change a little after the pandemic and they will want their leggings to last them. They won’t want to run out and get new ones right away because they’re too see-through or they ripped. People are looking for that price value at Lululemon.”
- “A woman’s line going into men’s is a harder switch. The [DKNY](#) men’s line never really took off because DKNY is considered more of a woman’s line. On the other hand, Tommy Hilfiger started out as a men’s line and then went into women’s and did well with that.”
- “It will be tough to make their men’s line be successful. Men will probably perceive Lululemon as more of a woman’s line. It is something that will have to be broached through some good marketing.”
- “Bras and underwear are a growth opportunity for Lululemon. At the same time, everyone bought bras and underwear during the pandemic, just as everyone bought casual wear. Everyone even bought children’s wear, things to help get through a pandemic. Mirror was also something good for the pandemic.”
- “Now, people want the same ease they had—to be able to buy everything, including their bras and underwear, in the same place. It’s easier. That’s a trend that will help Lululemon.”
- “For now, people wouldn’t go to Lulu for their go-to-work clothes because it’s definitely considered more casual and more for working out. However, that, too, is a question of marketing.”

Mirror and Connected Fitness

- “I would assume the Mirror has brought them some younger customers who might not have been shopping there before because of their higher price points, but maybe now they are.”
- “The Mirror is definitely a growth opportunity for Lululemon. It’s also an opportunity to grow with different exercise equipment. People are not running back to the gym yet.”
- “Even when they’re marketing the Mirror, you don’t know really that it’s Lululemon. They don’t knock you over the head with that information. There’s an opportunity for them to not only sell the Mirror but also to sell their clothes.”

Footwear

- “I’m not sure how big an opportunity footwear is. Would people buy a Lululemon sneaker when Lululemon isn’t really known as being experts in footwear? I would rather go to a sneaker brand where they are experts. They would have to convince me they’re experts.”

People are going to be so tired of wearing sweatpants and leggings that they will want to put on something different like a pair of jeans or pants. ... Athleisure wear could slow [as a result], but I don’t see the athleisure trend ever dying because people love those kinds of clothes.

Melissa Raspantini, merchandising and product development executive for a global brand management firm

4) Retail analyst for a global research firm

Lululemon has room to grow within its core apparel business with more stores and possibly a line with lower price points. Expanding into work wear does not make much sense, but there is upside for Lululemon in both men's apparel and footwear. Lululemon has a great opportunity in fitness with its Mirror hardware, but success hinges on whether the company is willing to invest in an aggressive marketing campaign in order to compete with Peloton, [Tonal](#), and others.

Lululemon's Momentum and Customer Growth

- "Lululemon is still a relatively small brand and the women's apparel market is pretty large. If you were to look at other companies like The Gap, Lululemon is nowhere near that from a revenue standpoint."
- "I believe there is even more opportunity for Lululemon to open more stores. That is probably their single biggest [expansion possibility]."
- "The challenge will be how to expand and consider lower price points without diminishing the brand. A lower end line might be something they can launch. Within women's apparel, there are plenty of [competitors], but Lululemon is a brand that has a fair amount of latitude to stretch. I think they've been pretty careful about not overextending the brand too much in order to keep price points up."

Apparel

- "As far as moving beyond their current training and yoga casual wear, that will depend on their management and structure. ... At some point, you've saturated your existing customer base and you have to extend. With [The Gap](#) [Inc./GPS] or [Ann Taylor](#), for example, a huge percent of the revenue comes from their lower price point offerings, not from their highest price point offerings."
- "The Gap, as an example, [Banana Republic](#) is super small [as a source of revenue]. Their highest source of revenue is coming from [Old Navy](#). So what does that tell you? Consumers want cheap products. If you really want to expand a brand [and] grow your revenue, you expand to a lower tier ticket item price. The trade off and challenge is that you diminish the brand as well. So Lululemon has to figure out the balance of how you do that without losing your rooting with your [current customer base]."
- "Lululemon could potentially shift into work wear, but if you look at Ann Taylor or [J.Crew](#), there are simply different segments. There is casual wear and then there are going out clothes, teen clothes, clothing for special events—there are so many different segments. Why would Lululemon tackle work wear? If they did expand into something like that, they'd be better off just buying a company, a beta brand, or somebody that already has casual work clothes that are about comfort. But I just don't know how large of a market something like work wear is right now. I think they'd be better off tackling footwear versus something like work wear."
- "[Regarding Lululemon's AirSupport Bra and similar new products], innovation drives your brand—so yes, they would benefit from [launching more standalone custom products]."
- "The men's wear segment is growing and I believe it would be a lot more promising than a children's line. There are a lot of advantages to men's wear."
- "Lululemon doesn't discount very much, but men tend to buy things at higher price points. They don't return things even if they don't like them or they don't fit. So there are some structural advantages."
- "Lululemon has done a good job of not making it a unisex brand. Kudos to them for doing that. I don't know that you can see Ann Taylor being unisex, but a company like J.Crew and Gap have shown that it's possible. Men's wear is an addressable market. It's just a much smaller space compared to women's wear."
- "I do believe Lululemon is trying to target the men's wear active consumer, which puts them into competition with Nike and Under Armour and companies like that."

Mirror and Connected Fitness

- "There are a lot of questions around the Mirror acquisition and what happens with that branching out. I haven't seen Mirrors in physical stores but it seems like a natural thing for them to start putting in their stores as this is a potential huge new revenue stream for them."

If you really want to expand a brand [and] grow your revenue, you expand to a lower tier ticket item price. The trade off and challenge is that you diminish the brand as well. So Lululemon has to figure out the balance of how you do that without losing your rooting with your [current customer base].

Retail analyst for a global research firm

- “The big question is how many resources is Lululemon willing to dedicate to it? How much are they going to lean into that or will it kind of languish on the side? Will they put forth the serious marketing dollars to try and take on Peloton? [If so], I think that’s something that’s really promising for Lululemon.”
- “Lululemon has to see the economics behind whether they’re going to invest in something new.”

Footwear

- “Moving into footwear makes sense. The market size of the show space is bigger than the size of work wear. Athletic shoes are especially popular these days. If you’re looking at it strategically, footwear works. You have to ask, where is your brand? Where does your brand have permission to go? What is the biggest market opportunity you can tackle?”
- “A Lululemon footwear line would have to be a higher ticket [priced] item.”

5) Retail strategist and brand consultant; repeat source

Lululemon is expanding its retail store footprint, indicating plans to either add new category offerings or services, such as fitness classes. International markets offer revenue opportunities, especially Europe, Southeast Asia, and South America. Mirror could bring recurring revenue and might be a complement, rather than a competitor, to fitness equipment like Peloton. Consumer behavior indicates continued increased demand for versatile active and casual wear that can be worn for activities beyond workouts. Segueing into outerwear geared toward its core female base would be a natural next step for Lululemon.

Lululemon’s Momentum and Customer Growth

- “The pandemic environment has shifted consumption even further to casual wear. [The definition of] casual often refers to the technical term of fabrics: easy to use, comfortable, expandable. It’s something to wear across a wide variety of times and activities. So if you might have said [in the past], ‘I can only wear this type of product when I’m performing a certain function at a certain place,’ casual wear has adapted to being used 24/7. Casual wear is expanding to a variety of places; it’s not just for exercise.”
- “The jacket I used to wear to work was lined and now that jacket is unstructured and made from a technical fabric. ... Lululemon has the best structuring fabric.”
- “The Gap talked about Athleta [athleisure wear] as their primary place of growth. There are other multi-brand or category brands [for whom] that is where their future growth is going to be.”
- “Before, branching out into athleisure was an opportunity. Now it’s a mandate because with Levi’s and all these other much larger players acquiring athleisure brands [such as [Beyond Yoga](#) and [Sweaty Betty](#)], they put their extensive resources behind it.”
- “What I’ve been hearing from every premium landlord is that Lululemon is looking to expand their physical footprint in premium shopping centers. Lululemon can’t be planning to expand in 150 or 250 of the best shopping centers unless they intend to house categories they’re not in already, because [otherwise] why would they want to double their footprint? It might be a combination of categories and services.”
- “I think Lululemon is expanding its footprint at a time where the economics of expanding a footprint are particularly appealing. They’re ready to move into high productivity bigger spaces. The challenges of the retail real estate market favors companies doing well and makes it possible to grab real estate at advantageous prices.”
- “If Lululemon takes out a pipeline of ideas that allow them to productively expand their retail footprint, it’s probably not so much in terms of number of stores but rather the size and location and quality of the stores.”
- “I don’t see Lululemon going the route of [Tapestry Inc.’s/TPR] [Kate Spade](#) or [Ralph Lauren \[Corp./RL\]](#), where they did a lot of licensing or commodity product. Lululemon isn’t going to build an off-price business. It’s not fashionable to destroy products. They will need to tighten their excess of inventory. They’re going to grow by building their men’s apparel or outerwear business or building the footwear.”

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*Retail strategist and brand consultant;
repeat source*

- “I think Lululemon should look international. If I look at the U.K. or Germany, northern Europe, parts of Asia—Lululemon could take what they’re currently doing and replicate their business very effectively through international growth and not have to dilute what they’re doing here [in North America]. They should pick up geography in those markets where there isn’t a competitive brand—other than the likes of Nike and Adidas.”
- “The South American market holds potential because South Americans are familiar with American brands because of travel. Sao Paulo in Brazil is over 12 billion people. The South American market is less locked into only Nike or Adidas. Those big brands aren’t as dominant in some of those markets because those markets have such a European bias for brands as well.”
- “I think there’s not much dominance between one or two brands in those markets [South America]. It’s not like the U.S., where the European brands are disadvantaged because—maybe other than the top luxury brands—we’re not biased toward European brands. Whereas in South America, they like both. I think a brand like Lululemon would have a seat at the table. They might know Lululemon because of Miami or Los Angeles or Orlando, but they don’t pigeonhole it as an American brand.”
- “I’m interested in seeing that if people start staying home more often, will they continue to buy Lululemon and pay the premium price or will they buy a cheaper product because, ‘I’m just using it at my house.’”

Apparel

- “I think one of the reasons the [Lululemon] kids’ line didn’t work is it was just too expensive for the market. Footwear is probably an example of where people will pay a premium for the badge value of it. For men’s wear, Lululemon is not necessarily a badge in the way Nike is.”
- “There is a crossover happening between intimate and workout [clothing]. It’s not necessarily shape wear, but people are willing to pay a premium for what they’re wearing underneath their clothing.”
- “When I think of things like outerwear, [I think of] brands like [North Face](#) or [Patagonia](#). Lululemon has a lot of permission to sort of push into the outdoor space, where performance and quality and price come together to push into that space. I think the customer would go there. People found themselves changing how they exercised during the pandemic and headed outdoors.”
- “I think the outdoor apparel sector favors premium brands because the outdoor consumer is already conditioned to pay a premium for a product that’s effective for the outdoors. They don’t have to talk to the customer and convince them to pay those higher prices because their customers are already conditioned to expect to pay higher prices for products in that activity.”
- “There are several European type brands that are in the U.S. in that premium outdoor space. I think it would be a natural extension [for Lululemon] to outdoor performance activity where other outdoor brands don’t have a strong female heritage. And then if they open up outerwear and things like that, you’re talking about \$300 to \$500 [items]. You have to sell a lot of yoga pants to get to \$500.”
- “Lululemon doesn’t have to build quickly. They don’t have any investor pressure, so they can build slowly.”

Mirror and Connected Fitness

- “[The Mirror acquisition is a] logical extension that puts them into that higher price point. It’s an evergreen revenue stream because it’s recurring revenue, not just a one-time sale.”
- “The Mirror is less intrusive on your lifestyle. I wonder if the Mirror is a complement to the Peloton customer or it’s where I evolve from Peloton. ... Is the Mirror the gateway to the other product?”

Footwear

- “Footwear is probably the hardest thing to do because there is no small way to do footwear.”
- “If Lululemon expanded into Scandinavia or southeast Asia, they could probably do footwear. In some of those markets it would be easier to launch a footwear brand compared to trying it in the U.S.”

2) Connected Fitness Specialists

Lululemon is so popular with its fans because of the way its clothing fits and feels that the brand has numerous opportunities to branch out into new apparel categories, according to the two sources in this silo. The connected fitness market, however, is a different animal. On the plus side, the market for streaming workouts is so hot that it would be easy to see one of the big competitors reaching \$1 billion in annual revenue, and the user bases of Lululemon and Mirror align well. But the leap from apparel to hardware and software is a gigantic one. Under Armour tried something similar and failed, while multiple big companies with expertise in software have stumbled trying to break into hardware. There is a lot of competition from big names like Apple and Peloton, and both sources said Mirror has not shown much innovation recently or established itself as a unique technology. It is easy for an Apple Watch owner to stream fitness content to a TV without the need for another expensive piece of hardware like a Mirror. The quality of Mirror's fitness instructors will be critical to its chances of long-term success. One source questioned the timing of Mirror CEO's recent departure, suggesting it was abrupt and unplanned. Customer acquisition costs for connected fitness vendors were fairly low in the early days of the pandemic because of the huge growth in interest for at-home workouts. Those costs grew as competition increased but have now stabilized at a fairly high level. Footwear will be a tough sell for Lululemon, one source said, especially if it has its eyes on the sports performance market.

Key Silo Findings

Lululemon's Momentum

- 1 of 2 said Lululemon's leisure wear market is continuing to expand.
- 1 said Lululemon could see some slowing of sales as people go back to offices.
- 1 said Lululemon resonates so strongly with customers because of the way its products make them look and feel, which opens opportunities for the brand to cross-sell.

Apparel

- 1 said Lululemon has already achieved mainstream acceptance of their activewear as everyday wear.
- 1 said Lululemon has room to expand its men's wear, an area where it is already seeing success.
- 1 said a youth apparel line is a possibility for Lululemon.
- 1 said that although Lululemon has numerous options for expanding its apparel assortment, it will be tough to capitalize on all of them while preserving its premium positioning and prices.

Connected Fitness

- 1 said the connected fitness market is big enough and growing fast enough that at least one of the key competitors could hit \$1 billion in annual revenue.
- 1 said it is such a big leap to move from apparel to hardware and software that he is skeptical Lululemon can do it.
 - o Under Armour is an example of a company that tried and failed, partly because its core customers did not align well with the fitness platforms it acquired.
 - o Facebook Inc. (FB), Snap Inc. (SNAP), and Alphabet Inc. (GOOG/GOOGL) are examples of companies with software expertise who have struggled with hardware.
- 2 said there are a lot of commonalities between Lululemon customers and Mirror users, making the combination a good fit for cross selling.
- 1 said Lululemon faces significant competition in the connected fitness market, with Apple being a particular concern.
 - o Users can easily stream a fitness program from their Apple Watch to a living room TV.
- 2 said Mirror does not appear to be offering anything unique or especially innovative.
 - o 1 said Tonal has some AI capabilities while others offer a lower price point than Mirror.
- 1 said fitness enthusiasts who might be drawn to Peloton or Mirror equipment tend to engage in multiple workout activities at multiple locations, which Mirror can't address.
- 2 said the quality of fitness instructors will be a big factor in whether Mirror succeeds.
 - o 1 said his firm's customer surveys show that instructors are more important than brands by a 3-to-1 margin.
- 1 said customer acquisition costs were fairly low at the start of the pandemic because of the surge in interest in working out at home. Those costs rose significantly as the field got more competitive and have now plateaued at a fairly high level.
- 1 said the recent departure of Mirror's founder and CEO seemed rather abrupt.

Footwear

- 1 said footwear will be an extremely difficult market for Lululemon to succeed in, especially so if it tries to get into sports performance shoes.
- 1 said Lululemon's footwear line will have to be positioned as a premium product to line up with its brand image.

1) Advisor to connected fitness and sports technology companies

Lululemon is unlikely to succeed in connected fitness because of competition from the likes of Peloton and Apple. It is a lot to ask of a Lululemon customer who is spending \$100 for yoga pants to also invest \$1,500 into Mirror and then buy a subscription on top. Peloton's foray into apparel is more likely to succeed, as it's a smaller leap to buying apparel after making a costly investment into an exercise machine. Combining a physical goods business with a hardware and software business is very hard to pull off. Under Armour failed at a similar effort. The percentage of existing Lululemon customers who buy a Mirror is likely to be low but because the brand has a big user base, it could see some gains. In apparel, Lululemon has room to expand into everyday wear and men's and children's clothes, but the company will have to be careful about preserving its price points and maintaining its status as a premium brand. The chances of succeeding with footwear are 50-50. Footwear is a hard business to break into, whether it's for performance shoes or luxury shoes, and there are already many established players.

Lululemon's Momentum and Customer Growth

- "We could be in a bull run on athleisure. If people go back to the office, there could be some athleisure fatigue and then [Lululemon] would be in trouble."

Apparel

- "In comparison to Under Armour, whose heritage was football and technical [apparel] and went hardcore after sports performance and organized team sports, Lululemon's target of women between 12 and 65 all wear some sort of leggings as regular anytime wear. Lululemon achieved mainstream acceptance with their athleisure wear."
- "They could extend in that arena in different ways. They've already been successful in moving from female to male offerings, even if their biggest market is female. They could keep going with that."
- "They could also definitely do a kids line and grow with that."
- "However, it's not certain they could do all that and still remain a premium brand and preserve their price points."

Mirror and Connected Fitness

- "Lululemon can stay concentrated in being a lifestyle brand and continue to build the ecosystem of wellness, surround the customer with the things they need for their lifestyle. But the leap to connected fitness is very great. If they do it, it'll be a great leap. It's a giant leap to go to hardware and software."
- "People thought the acquisition [of Mirror] made sense and it was a natural extension of Lululemon—that it would create a holistic experience. But I think it will be challenging for Lululemon and I don't necessarily see a positive outcome."
- "It is hard to think of any companies around the world that have been able to successfully marry a traditional brick-and-mortar and e-com or physical goods company with a hardware/software company. An example of this kind of thing having gone wrong is Under Armour."
- "It would be exactly the same thesis for Lululemon with the Mirror, to, over time, engage the customer base through an experience with this type of technology and make money with it. The plan, at the same time, is to create long term engagement with these consumers and be able to sell more of their physical goods, their apparel."
- "It did not work for Under Armour. They spent \$750 million for their software platforms with close to 200 million users, but they didn't see a demonstrable uptick in conversions for selling shirts and shoes. I think the primary reason was a misalignment in the audience. The heritage customer of Under Armour didn't align really well with the customer profile of MapMyFitness and MyFitnessPal."

People thought the acquisition [of Mirror] made sense and it was a natural extension of Lululemon—that it would create a holistic experience. But I think it will be challenging for Lululemon and I don't necessarily see a positive outcome.

Advisor to connected fitness and sports technology companies

Lululemon Athletica Inc.

- “Lululemon wants to be able to sell more yoga pants to Mirror customers. Their audience matches up pretty well, but I think they’re spending more money on existing consumers instead of presenting something to the marketplace that would help accelerate and deepen their relationship with new and existing customers.”
- “This acquisition is now over a year old. We had the pandemic during this time. Now, there is so much competition in terms of software. Apple is going heavily into fitness. There’s also Peloton. The Mirror is a TV with some fitness content. I don’t think it’s unique.”
- “For an apparel company to get into a race with a company like Apple or to compete with Peloton, who are completely focused on their platform, is going to be very tough.”
- “I think it will be easier for [Peloton to go into apparel](#) than it is for Lululemon to go into hardware and software. There’s more upside for Peloton to sell apparel through their channel and their distribution than there is for Lululemon to sell technology and software. There is too much competition.”
- “For a customer who has spent \$1,000 on their Peloton bike and also pays their subscription, it would be straightforward e-commerce to incrementally sell them a shirt, or shoes, or pants. It would be an easy conversion. But to say to someone who has just bought yoga pants for \$100 that they should buy a \$1,500 piece of technology, plus a subscription, I just don’t see it.”
- “Facebook also tried to do hardware with their [Oculus](#) glasses and they’re trying to [re-do it with Ray Ban](#) [glasses]. Snap [also tried to do glasses](#). Google tried to do it also, [to go from software to hardware](#). But no one has succeeded yet.”
- “Many of the individuals who use Peloton and the Mirror are multi-activity and multi-location. They are going after the fitness enthusiast type of consumer who works out two or three times a week, and maybe seasonally if they take vacations. They are probably professionals or in school and may work out at the gym or in home or while they’re traveling for work, but they would want continuity in their fitness regimen. They are open to different types of solutions that meet their needs and they want continuity so they can exercise whenever and wherever they want.”
- “The Mirror may address being in the house, but spending \$1,500 for the house—and, on top, also spending for a gym membership—might just be one too many things vying for their attention. I don’t know how many people will want to make that kind of investment to have the Mirror be a regular part of their exercise program or equipment.”
- “Already today, I can go to my living room and turn on my TV and stream a fitness program from my Apple Watch.”
- “If you’re trying to win the heart and mind of a fitness consumer, which is what Lululemon is trying to do—whether by selling them yoga pants first or engage them with the Mirror—Apple has already won from the standpoint of smart technology. It’s the same with [Garmin \[Ltd./GRMN\]](#) and other fitness trackers. They just have to turn on the subscription service for fitness videos.”
- “The barrier to entry for Lululemon where they sell someone \$100 yoga pants and then expect that person to make a leap to buy a \$1,500 screen for their house, when already everybody has flat screens, is, I think, crazy.”
- “I don’t [think Mirror is differentiated enough]. It’s a new experience but it’s not new technology. The Apple Watch is more new technology with the different biofeedback capabilities it offers. Coupling that with their fitness instruction is an interesting differentiation. Apple also has such a big and dominant market share.”
- “I think the percentage [of Lululemon customers who would buy a Mirror] would be extremely low. Still, they have enough of a user base that they can still do pretty well.”
- “I think Lululemon wants to win both ways. They want to get their Lululemon customers to buy the Mirror and the subscription to get recurring revenue and, additionally, try to get Mirror customers and new users who are not already Lululemon customers to buy additional Lululemon products. It would be a premium on top of what they’re getting from buying Mirror.”
- “[The quality of the instructors for Mirror classes] is everything. In that scenario, content is everything. The concept essentially is virtual fitness instruction in your home. It’s interactive, but you have to have a great instructor to keep engagement high.”
- “I think they will be able to recoup their investment [in Mirror] because they already have an existing install base with their Lululemon customers. They have the ability early on to have lower [customer] acquisition costs, but they still

For an apparel company to get into a race with a company like Apple or to compete with Peloton, who are completely focused on their platform, is going to be very tough.

Advisor to connected fitness and sports technology companies

have to break even on the acquisition itself. It also works the other way in terms of acquisition costs of new Lululemon customers.”

- “Another thing to consider is that it would be very difficult to have a proprietary closed platform like Apple does, particularly in this day and age, as fitness enthusiasts are moving around a lot and have different needs in different places and at different times. If Lululemon is trying to create a walled garden, like Apple has, and with established competitors like Peloton and Apple, I think that is a formidable headwind for them.”
- “It’s not unusual for a CEO to depart post acquisition, but this [resignation by Mirror’s founder and CEO] seems a bit premature, in my opinion. Typically, there would be some sort of two- to three-year employment agreement and/or earnout. The press release seems to suggest that it was a bit more sudden versus planned, given the needed search and temporary leadership backfills.”

Footwear

- “Moving to footwear is really hard. It’s the most difficult game to break into.”
- “They will have to do a premium footwear product that is consistent with their image. I think their opportunity with footwear is 50-50 and it will be challenging.”
- “If they want to break into sports performance [shoes], that is even more difficult to do, but I don’t think they would go in that direction. If they’re getting into athleisure and more a luxury type of shoe, there are already established players.”
- “In the last couple of years, there’s been a huge resurgence in originals and legacy brands like Nike, Adidas, [Puma \[SE/PUMSY\]](#), and [V.F. Corp.’s/VFC] [Vans](#). Under Armour had a lot of difficulty because of that, because they didn’t have a legacy offering as that trend was evolving. They didn’t make it and it was expensive for them.”
- “Under Armour launched a line of connected shoes. Very few people who bought the shoe actually uploaded the data to the app.”

2) Mike Hansen, managing partner at [Endorphinz](#), a fitness content streaming agency

Lululemon’s expansion into connected fitness has good potential because COVID has accelerated the exercise-at-home trend. Mirror should help Lululemon sell more fitness apparel as well. COVID expanded Lululemon’s market because of people working from home and wearing leisure wear almost all the time. Lululemon and Mirror are a good pair because their customer data seem to match up well. However, while other connected fitness brands such as Tonal are innovating with AI or have lower price points like Echelon, Lululemon is not yet seen as innovating in connected fitness. The market is big enough for at least one of the competitors to reach \$1 billion in annual revenue. Talent will be very important to Mirror as customers prefer instructors over the brand. Customer acquisition costs rose significantly from the time when COVID started but now they have plateaued and are holding steady.

Lululemon’s Momentum and Customer Growth

- “Most people nowadays live in leisure wear all the time [because of the work-from-home lifestyle]. I am one of those and many of my friends are also. That market is still expanding.”
- “People are craving the opportunity to buy things like yoga mats and yoga bands and the Mirror and all the other peripherals [Lululemon] can sell. I feel that [Lululemon CEO] Calvin McDonald was making a move in that direction with this acquisition [of Mirror]. He was probably thinking he can promote and grow this brand in a big way because of their retail footprint. I think he’s done well. There are price points that would have been lower than Mirror’s [but the acquisition was consistent with the company’s positioning]. Mirror was a smart move.”
- “People get an emotional sense from wearing Lululemon. Their product is so strong that people have a sense that it looks and feels good. People identify with it and if they see an opportunity to cross-shop into other Lululemon categories, the barriers to entry get much lower. That’s because of how Lululemon makes people feel.”
- “Lululemon is an aspirational brand for people who tend to be fit and want to identify as fit. Their actual market got bigger with COVID.”

Apparel

- Did not discuss.

Mirror and Connected Fitness

- “Mirror had the benefit of getting into the market early on. I am concerned because I haven’t seen that much new come out from Mirror even though there is a lot of innovation in connected fitness at the moment. For example,

Lululemon Athletica Inc.

Tonal is working with AI. Echelon, sometimes considered a copycat, has a wide variety of offerings with a lower price point strategy.”

- “I’ve heard that COVID accelerated consumer adoption in the connected fitness market by five years. As the market gets bigger, we will need more innovation. I would assume Lululemon has some innovation play, but I haven’t seen it yet.”
- “Tonal believes they can get into 45 million homes and I assume Mirror is looking at the market in the same way. Mirror has a better opportunity to get in front of consumers because of Lululemon. But others also had the same idea, as, for example, Tonal with its [strategic partnerships with Nordstrom \[Inc./JWN\]](#). I do think the market is big enough for somebody to grab \$1 billion in annual revenue.”
- “The whole shift to the work-from-home model is going to drive working out at home even more. Sixty percent to 70% of consumers who are fitness oriented, like Lululemon’s customers, work out omnichannel and use some sort of technology. It could be as much as half that number who would have the ability to buy the Mirror. That’s who Lululemon could target, but it will also depend how well Lululemon markets the product with their apparel and how well they do sell-through.”
- “There are interesting insights that say that for people who identify their fitness level as unfit, buying the Mirror would be a replacement of their other fitness option, maybe a gym. However, for a person identifying as fit, Mirror would be supplemental to their current fitness. I would consider a high percentage of Lululemon buyers identifying as fit.”
- “Live [fitness content] brings a new dynamic. Tonal has announced they will go live, for example. For monetization, it will depend on how well Mirror embraces talent and the break-out creator market that will happen. Subscriptions are, of course, another way to monetize it.”
- “In independent research that we’ve done, we surveyed content preferences. The data tells us that the consumer prefers the instructor over the brand three to one.”
- “When COVID started, customer acquisition costs were really low because there was such a surge [in working out at home]. Now, it’s become more competitive. There are more options—the gym, the boutique, etc. I heard a statement at a conference today that COVID expanded the market six times. I don’t think acquisition costs are consistently increasing still but they’ve found a place where they will remain for a time and they definitely increased from the start of COVID.”
- “There are more people working out because of COVID and though COVID affected the brick-and-mortar fitness business, I feel it is the entrepreneur’s job to create a new business model. There are more people consuming our workouts than ever before. They have the time, they don’t have to go to work, and they want to stay on top of health concerns. I don’t know if the increase is actually six times, but I do believe it’s increased dramatically.”
- “When a consumer buys an outfit, we know from buying patterns that endorphin levels spike and there is a sell-through opportunity for other things where they can use that outfit. Mirror is then a perfect match in terms of Mirror’s branding positioning and Lululemon’s positioning and price points. Their consumer data seems similar.”

Footwear

- Did not discuss.

People get an emotional sense from wearing Lululemon. Their product is so strong that people have a sense that it looks and feels good. People identify with it and if they see an opportunity to cross-shop into other Lululemon categories, the barriers to entry get much lower.

Mike Hansen, managing partner at Endorphinz, a fitness content streaming agency

3) Footwear Specialists

Lululemon could see some marginal growth from footwear, men's wear, and connected fitness, but these areas will not be significant revenue drivers, according to the one source in this silo. Unless Lululemon has a unique technology for fitness shoes, it is unlikely they could take on giants like Nike. Manufacturing footwear involves engineering and technology skills as well as fashion know-how. Only a few brands find niches and succeed. Men's wear is another area that might be tough for Lululemon because men are unlikely to shop at a store that is considered a women's brand. Still, Lululemon has done a very good job of developing key products like leggings and bras and can continue to grow with these premium priced products. Lululemon has an enormous opportunity for growth internationally, especially in Asia.

Key Silo Findings

Lululemon's Momentum and Customer Growth

- 1 of 1 said Lululemon's best growth opportunity is with international expansion, especially into Asia.
 - o The Asian market fits well with Lululemon's strategy of single-brand stores and few wholesale operations.

Apparel

- 1 said Lululemon will struggle to grow its men's apparel line because it is best known as a women's brand.
- 1 said Lululemon has generated tremendous brand loyalty because of the great fit, comfort, and quality of its products.

Connected Fitness

- 1 said Mirror offers some growth opportunity but not a significant one.

Footwear

- 1 said Lululemon will have difficulty succeeding in footwear against established giants like Nike unless it comes up with some innovative design or technology.
- 1 said Lululemon will gain some incremental revenue from footwear because of its large and loyal customer base.
- 1 said few apparel makers have successfully made the leap into footwear.
 - o Manufacturing footwear is much more complicated than apparel, as it requires engineering, technology, and fashion know-how.
- 1 said Lululemon is unlikely to reach Nike's apparel-to-footwear sales ratio of 60-40.
- 1 said Lululemon's affluent customers will generally choose the best in any category, and for footwear that is not likely to be Lululemon.
- 1 said Lululemon could achieve, at best, a 5% conversion ratio of existing customers who come into the store for apparel and end up buying shoes as well.

1) Killick Datta, Chairman and CEO, [Global Brand Partners](#)

Lululemon's Momentum and Customer Growth

- "Lululemon could have some growth areas. There will be some growth when they launch footwear. It might not be a huge percentage of their sales, but there will be some extent of growth, but it will not be significant. For a customer to buy footwear at a Lululemon store can be an emotional purchase, like when someone goes in to buy leggings and then also buys a yoga mat."
- "Internationally, however, there is potential for growth. For now, their international business is extremely small as a percentage of their sales. Nike, for example, is about 60% international. The U.S. is only 4% or 5% of the world's population. Lululemon could grow into a significant international business, especially in Asia. China and India, for example, have the two biggest populations with fast-growing GDP."
- "Asia will also fit well into Lululemon's strategy because there are mainly mono-brand retail stores with not many multi-brand stores or much wholesale business."
- "Footwear could give them marginal growth [and] equipment like the Mirror can also give them marginal growth, but the most potential growth would be from international expansion."
- "Lululemon's top line revenue can expand. For example, if they sell one million pair of shoes at \$100 each, that would be another \$100 million in sales. However, as a percentage of their sales, things like footwear—or, if they decide to expand into plus sizes, or nutrition, or beauty products—it might not help that much. I think instead they can

Lululemon Athletica Inc.

extend growth with their own product line globally. Footwear and the other expansions would add to their top line but not be a significant percentage of their sales.”

Apparel

- “Lululemon is primarily known as a women’s brand. They are always going to struggle with men’s. Men don’t buy from [Forever 21](#). They tag along with their daughters and wives, but they don’t go there to buy for themselves, nor do they buy much. [H&M](#) [Hennes & Mauritz AB/HNNMY] and [Zara](#) sales are predominantly for women.”
- “Bras are very difficult to manufacture because of sizing. There are so many variables. Yet Lululemon has built a reputation of excellent fit and the word of mouth has been incredible. They have amazing products and brand loyalty generated by women-to women about how well their product fits, feels, and performs. Product is the most important thing today and they do have great product.”
- “In women’s apparel, they do have exceptionally good fit and comfort. It’s not a unisex brand like [Bathing Ape](#) or [Ambush](#). To work out, most men are happy with a torn t-shirt, whereas women dress up to the nines for the gym. Men’s fitness apparel is a different type of market.”
- “Women are willing to pay Lululemon’s premium price point for comfort and fit. Women are very particular with fit for anything that touches their skin. Lululemon has done an extremely good job in product for women and with catering to different shapes. Their product is their biggest single strength. Leggings are not just athletic. They cross over into all day wear if you combine them with the right top.”

Mirror and Connected Fitness

- “The Mirror is also a growth opportunity [with existing customers], but it’s a finite market.”

Footwear

- “Unless they’ve come up with unique technology for fitness and therefore can take on a brand like Nike, customers will continue to buy Nike shoes.”
- “They do have a growth opportunity in footwear because they have access to consumers. Their D2C [direct to consumer] business is very big as a percentage of their total sales because they are not wholesalers. They have their own retail and online stores where they can place new product such as footwear. So they can increase their sales with footwear.”
- “However, it remains to be seen if Lululemon footwear would be successful.”
- “The reality is that not too many apparel companies have been successful going into footwear, not even Zara nor H&M with their disposable fashion shoes.”
- “Sports footwear is even harder.”
- “Apparel is easier to get into than footwear and this is why there are thousands of apparel brands. Footwear involves engineering. It involves technology, performance, fashion know-how. It is much more complicated to manufacture than apparel.”
- “I don’t think Nike or any other established footwear brand would sit back and allow Lululemon to take over the fitness footwear category.”
- “Lululemon will find that just because you buy their bra, it does not necessarily mean that their customer will dump their Nikes or Pumas and buy Lululemon instead.”
- “They could increase their sales with footwear but it’s doubtful they could have the same level of success as with their yoga apparel.”
- “At Nike, apparel is maybe at around a 40-to-60 ratio. I don’t think Lululemon will be able to reach that kind of ratio.”
- “New footwear companies enter the market with very unique and different products. [Hoka](#) came from nowhere but it is unique and filled a niche. [Crocs \[Inc./CROX\]](#) also satisfied a niche and became successful.”
- “Unless Lululemon comes up with something radically different in footwear design and technology, just coming up with a Lululemon shoe where they slap on their logo, will not be sufficient for them to become a significant player in the footwear industry.”
- “People who buy Lululemon leggings or bras are paying a significant amount of money for that. They can afford the best and that means they would want to go to Nike to buy the best [shoes]. Runners, for example, will want to buy [Asics \[Corp./TYO:7936\]](#) or [New Balance](#), top-end performance products to avoid injury. I really don’t think people would walk into a Lululemon store to buy shoes. At best, they might be browsing for leggings or bras, notice that Lululemon has shoes, and then they might buy them. That kind of conversion rate would be less than 5%.”

Footwear could give them marginal growth [and] equipment like the Mirror can also give them marginal growth, but the most potential growth would be from international expansion.

*Killick Datta, Chairman and CEO,
Global Brand Partners*

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- “If Lululemon was tomorrow to launch a fitness watch, would the customer going into their store buy leggings, a bra, and a watch? Or would that customer go to the Apple store instead for the fitness watch? People choose brands known for their product excellence.”

4) International Specialists

Lululemon is thriving in China, benefiting greatly from increased acceptance of yoga pants and similar apparel in non-workout settings, according to all three sources in this silo—two representing Lululemon stores in China and one from a Beijing-based sportswear distributor. Lululemon does not have a direct rival in China in the high-end yoga apparel market in terms of quality and premium pricing. But it faces stiff competition from less expensive apparel brands, including international manufacturers Nike and Adidas, and domestic players such as [Li-Ning](#). The manager of a Lululemon store in Beijing said sales have soared in the first half of the year, while his counterpart in a Shanghai store said he expects Lululemon to open more shops in the region because the market opportunity is so large. The distributor source, whose company distributes major brands like Nike, said she thinks Lululemon has its sights set on becoming the top high-end athleisure brand in China, far beyond its current foothold in activewear.

Key Silo Findings

Lululemon's China Opportunity

- 3 of 3 said Lululemon is reaping the rewards of a trend in China toward wearing yoga pants and leggings in many different settings.
- 2, both representing Lululemon stores in China, said there is no direct rival to Lululemon in high-end yoga apparel.
- 3 said Lululemon's toughest competition in China comes from lower-priced brands, including Nike and Adidas.
 - o 3 said Nike and Adidas are very well known in China and have large customer bases.
 - o 1 said the high demand for yoga pants and similar apparel is attracting new competition from both international brands and domestic Chinese manufacturers.
- 1, the manager of a Lululemon store in Beijing, said sales in the first half of this year were up significantly over the same period last year.
- 1 said he is expecting Lululemon to open more stores in the Shanghai region because the market opportunity is enormous.
- 1 said she believes Lululemon aspires to expand beyond activewear in China and become the top high-end athleisure brand.

1) Manager of a Lululemon store in Beijing

Sales at this store were up significantly in the first half of the year and should continue to grow healthily. Lululemon is benefiting from several trends, including the growth of yoga and the willingness of female consumers to wear yoga pants and leggings in a variety of other settings. Lululemon is considered a high-status brand in China. Competition will be fierce, however, from both international brands like Nike and [Alo Yoga](#) as well as Chinese apparel makers.

Lululemon's China Opportunity

- “In [the larger and wealthier] [tier-1 and tier-2 regions](#), there are more and more women engaging in yoga. But in the yoga apparel market, there is a lack of the high-end brands at present except for Lululemon. I think this is a huge opportunity.”
- “For our Lululemon store, our sales in the first half of this year increased [a lot] year-over-year, which is amazing.”
- “I believe that competition is the biggest obstacle for Lululemon. Both Adidas and Nike have yoga apparel series. As far as I know, the international big yoga apparel brand, Alo Yoga, is trying to enter into the China market now. Meanwhile, Chinese sport apparel brand Li-Ning launched a new yoga apparel series with the low price in the market.

Nike and Adidas are still the biggest rivals for Lululemon because Nike and Adidas have huge installed customer groups with the highest reputation in the sportswear market.

Manager of a Lululemon store in Beijing

Lululemon Athletica Inc.

- Because of the higher demand and more brands, I think the competition will be serious in the yoga apparel market.”
- “Nike and Adidas are still the biggest rivals for Lululemon because Nike and Adidas have huge installed customer groups with the highest reputation in the sportswear market.”
- “I think Lululemon is [considered] the high-priced brand, definitely, in China. At present, Lululemon is famous for Chinese yoga [instructors] and considered as the ‘Chanel’ of the yoga apparel field. In many Chinese tier-1 regions, Lululemon yoga pants are considered as the lifestyle and social status symbol for many mid-class women consumers.”
- “Besides [being worn for] yoga sport, yoga pants are worn for many occasions like shopping, dating, sporting, etc., by so many younger people now, even in office spaces. I think Lululemon is [colliding] with the current athleisure trend greatly. For many young women, the yoga pant has become a part of the daily clothes.”
- “So far, our sales have recovered to the normal level [from the pandemic] ... and I do not see any decline trend for our sales now. I am very positive for Lululemon. I think our sales will keep the high rate of growth in the next one to two years.”

2) Manager of a Lululemon store in Shanghai

Lululemon has a huge opportunity in China as demand for yoga pants and leggings explodes. Lululemon does not have any direct rival in China in terms of pricing and quality. It has a strong brand reputation but its high pricing could be an issue now that brands like Nike and Adidas have entered the yoga apparel market at a lower price point.

Lululemon's China Opportunity

- “If you are a top brand, you can make money easily in China because the customer base is so huge. I think Lululemon is this type of brand, focusing on the yoga apparel segment with the top reputation.”
- “Currently, I do not see any comparable rival with Lululemon in the market. I do not see any real rival for the high-end yoga apparel brand comparable with Lululemon—same pricing and quality—in the China domestic market.”
- “I think the biggest obstacle is [Lululemon’s] high pricing. In recent years, both Nike and Adidas have launched yoga apparel series with mid-end pricing. Furthermore, both Nike and Adidas have strong installed customer groups, which are easier to expand in the China market.”
- “Undoubtedly, Lululemon is a high-end brand in China. As you know, Lululemon’s star product—yoga pants—are priced about [\$150]. In the Shanghai region, so many women customers will pay that much for this brand now. Moreover, our Lululemon products have nearly zero promotions or discounts, but our sales are good all the while. I think it shows that Lululemon has a strong brand reputation in our region.”
- “Yoga pants are suitable for both indoor and outdoor workouts now with the comfortable design and beautiful appearance. I think this is one of reasons why yoga pants are so hot now. Like jeans, more young girls consider yoga pants as daily clothes now, especially in the tier-1 and tier-2 regions.”
- “Currently, this trend is very popular and influencing more and more of the new generation gradually in China.”
- “There are 11 Lululemon stores, including our store, in the Shanghai region. As far as I know, more Lululemon stores will be opened later this year because of the high demand. I think Lululemon is trying to gain market share with more new stores in the short term because the market [opportunity] is so huge for Lululemon.”

I do not see any real rival for the high-end yoga apparel brand comparable with Lululemon—same pricing and quality—in the China domestic market.

Manager of a Lululemon store in Shanghai

3) Sales manager for a major sportswear distributor for Nike and others in China

Lululemon is well-known for its yoga apparel but is trying to branch out into broader athleisure categories. It may have some trouble, however, because it is higher priced and not as well known in the larger sportswear market as Nike and Adidas. Lululemon is benefiting from a trend toward wearing yoga pants in more settings.

Lululemon's China Opportunity

- “Lululemon is well-known by so many yoga practitioners in China. Besides yoga apparel, Lululemon enriched [product] lines gradually and launched more fashionable and athletic products covering both women and men

Lululemon Athletica Inc.

customers. I think Lululemon's goal is to become the [leading] high-end athleisure brand in the future—not only yoga or activewear products.”

- “With the increasing [spending] ability of women, I think the Chinese yoga apparel market will be fast growing in the next three to five years. Currently, Lululemon holds the biggest share of the yoga high-end apparel market. But with more brands [coming in], I think the competition will be more serious in the future.”
- “In the yoga apparel market, I think Nike is the biggest competitor. Nike's yoga pant price is about [\$45 to \$108], while Lululemon's yoga pant price is about [\$115 to \$150]. And while Lululemon's pricing is far higher compared to Nike, Lululemon's [brand awareness] is far lower compared to Nike in China. I think the big price and reputation gap between Nike and Lululemon is a big challenge for Lululemon.”
- “In the high-end yoga apparel market, I think Lululemon is very well known as the top brand for customers. I believe Lululemon's reputation is still mostly in the yoga pants market now. But both Nike and Adidas are well-known by almost all Chinese people and across almost all of the sportswear field already. At this point, I think Lululemon's brand reputation is weak compared to Nike and Adidas in the domestic market.”
- “Lululemon's yoga pants are being worn as more than yoga apparel and sportswear. With the athleisure trend, yoga pants have been considered as both the activewear and casual apparel in daily life now in China. With both the sport function and fashionable element, I think Lululemon is definitely benefiting from the increased activewear demand in the China domestic market.”
- “I think the pandemic hurt the real economy deeply and many people have to cut daily spending now. But for the high-end consumers, they are hardly impacted because there are so many rich people now.”
- “I think the pandemic influence is mostly for the mass consumption, but hardly for the high-end consumption. I think Apple iPhone's strong sell-through is a good example of the high-end consumption in China. As a result, Lululemon will be hardly impacted as a high-end brand in China.”

While Lululemon's pricing is far higher compared to Nike, Lululemon's [brand awareness] is far lower compared to Nike in China. I think the big price and reputation gap between Nike and Lululemon is a big challenge for Lululemon.

Sales manager for a major sportswear distributor for Nike and others in China

Secondary Sources

This secondary source analyzed the impact of supply chain disruptions on Nike versus Lululemon. The author suggests Lululemon is in better position to handle the chaos because it sells its products almost exclusively through its own stores and website, rather than through third-party retailers.

Sept. 28 Motley Fool [article](#)

- “Nike has long been the undisputed leader in the global athletic apparel market, but its recent quarterly results show a business battling shipping delays, labor shortages, and production shutdowns. Sales of \$12.45 billion in the most recent quarter missed Wall Street expectations, and the stock price tanked roughly 6% following the news.”
- “Then there's the [fast-growing](#) stock market favorite Lululemon Athletica, whose top- and bottom-line beats and higher full-year guidance have pushed its stock 14% higher since reporting on Sept. 8. While dealing with the same issues as Nike, Lululemon has a distinct advantage that lets it handle the negative situation better.”
- “Nike's first quarter of fiscal 2022 was a poor performance all around. Revenue in North America, the company's largest geographic segment, also disappointed Wall Street. And Greater China, which is usually its fastest-growing region, registered the slowest gains out of any of Nike's geographies.”
- “To make matters worse, management lowered guidance for the full fiscal year. ‘We now expect fiscal ‘22 revenue to grow mid-single digits versus the prior year, versus our prior guidance of low double-digit growth,’ CFO Matt Friend mentioned during the [Q1 earnings call](#).”
- “Because 51% of Nike's footwear and 30% of its apparel is made in Vietnam, COVID-19-related shutdowns in the country are having an extremely adverse effect on the company. Management admits that 10 weeks of production has already been lost in the Southeast Asian nation, and it will take several months of phased reopenings to get

Lululemon Athletica Inc.

things back up to speed. Moving finished goods from Asia to the U.S. is a different animal altogether, something Friend says now takes 80 days on average, double the time it took before the pandemic.”

- “Shareholders will be happy to know that Nike is by no means dealing with a demand problem, as consumer interest in the brand remains as strong as ever. Inventory levels, however, are not expected to normalize until fiscal 2023, so how the company navigates the upcoming holiday shopping season will be important for shareholders to watch.”
- “Having less inventory on hand has had one positive impact on Nike. Since the business didn't have to resort to as many price markdowns and other promotions, its [gross margin](#) for the quarter came in at 46.5%. But as you'll see, this doesn't hold a candle to Lululemon.”
- “Lululemon is the [darling on Wall Street](#), as its stock has soared nearly sevenfold over the past five years, crushing bigger rival Nike. Revenue for fiscal 2021 is forecast to be \$6.23 billion [at the midpoint], compared to previous guidance of \$5.87 billion [at the midpoint]. Lululemon is now on track to achieve its 2023 revenue target an incredible two years ahead of schedule. For what it's worth, earnings expectations also received a boost.”
- “Operating in the same industry, you'd think Lululemon would be in the same boat as Nike, and that is definitely the case. But the athleisure clothing maker's unwavering focus on going direct-to-consumer gives it a leg up on the competition.”
- “Relying primarily on its own website and global footprint of 534 stores to distribute its insanely popular items, you rarely, if ever, see Lululemon products go on sale at huge discounts. And that's why the business produced a gross margin of 58.1% in the most recent quarter. CEO Calvin McDonald revealed why this profitability is so important, especially in a supply-constrained economy like the one we're currently in. ‘Our vertically integrated model and high margin structure allows us to use more airfreight while still delivering gross margin expansion.’”

Additional research by Eva Cahen and Gretchen Salois.

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