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Lululemon Grows Fast on a Slim Budget

Upstart Retailer Enlists Fitness Instructors as Marketing Warriors as It Seeks to Distinguish Itself from Sportswear Giants

By **KEVIN HELLIKER**

Personal trainer Michelle Cushing aims her clients not only at higher levels of fitness but a particular brand of apparel.

"I wear Lululemon, and I'd estimate that 90% of my clientele has switched to Lululemon," says Ms. Cushing, owner of a Chicago fitness company called Dare to be Fit.

She's part of an army of unsalaried marketing warriors for Lululemon Athletica Inc., a Vancouver-based maker and retailer of athletic wear. These "ambassadors," as the company calls them, are given up to \$1,000 of free apparel in return for modeling it for their clients.



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Richard B. Levine

Lululemon belongs to an emerging class of retailers focused primarily on designing, making and selling athletic wear to women. Above, a free yoga class in July in New York's Bryant Park organized by Lululemon.

It's just one of many ways that upstart Lululemon has distinguished itself from sportswear giants like [Nike Inc.](#), which dole out tens of millions of dollars for endorsements from celebrity athletes. Along with closely held Title Nine and VF Corp.'s Lucy brand, Lululemon belongs to an emerging class of retailers focused primarily on designing, making and selling athletic wear to women—and grabbing growing shares of the estimated \$15 billion market for women's fitness attire.

The companies' belief that traditional sportswear giants have treated female athletes as an afterthought resonates with many women. "At Lululemon, they don't just take a men's extra-small shirt and call it a women's medium," says Chicago insurance broker Holly Kleiman, a fitness fanatic who in the past year started buying all her workout apparel at Lululemon.

Even amid the recession, Lululemon's high-priced apparel is selling briskly. On Friday, Lululemon posted second-quarter earnings of 30 cents per share, far above the 24-cents-a-share mean estimate of analysts and more than double the 13 cents a share posted in last year's quarter. The earnings gain came on a 56% rise in revenue, and a 31% boost in sales at stores open more than a year.

One of few retailers to garner a recent buy rating on Wall Street, Lululemon has seen its stock more than double since the company went public in 2007 at \$18 a share. On Friday it rose 13% after the earnings report, closing at \$40.53, up \$4.68.

"Lulu presents the most robust long-term growth story in our apparel retail coverage," said an Aug. 12 Goldman Sachs research report that rated the stock a buy.

Any number of obstacles could slow Lululemon's growth. As the company expands, the market for its high-priced apparel could turn out to be smaller than hoped. Lower-priced imitators could ape Lululemon's distinctive designs, as happened years ago to Gap Inc. And in the yoga community there already are signs of a backlash akin to the anti-Starbucks sentiment that gave rise to more-independent coffeehouse chains.



Sipa Press

A staff member adjusts clothing at Lululemon's flagship in Vancouver.

"The potential headwinds are [those] that face all early stage companies," says Sharon Zackfia, a William Blair & Co. analyst who gives Lululemon stock an "outperform" rating. Besides the challenge of investing heavily in infrastructure to support growth, she says, "The athletic apparel market is intensely competitive."

Still, analysts say they are particularly impressed that Lululemon eschews the traditional marketing strategy of hiring high-priced sports celebrities to model its outfits. Lululemon spends almost nothing on advertising beyond occasional print ads in yoga and running magazines.

Instead, it recruits the type of athlete who tends to influence active women: fitness instructors who lead yoga, spinning, Pilates and running classes. The cost of this stealth strategy—Lululemon declines to call it marketing campaign—is minimal.

Lululemon provides apparel stipends of varying amounts to local fitness stars who model the apparel not only in their regular classes but also in sessions held inside Lululemon stores.

"Leading a class in the store is a great way for me to gain new clients and for my existing clientele to see the merchandise," says the 43-year-old Ms. Cushing, who boasts a strong clientele of Chicago professional women.

The first Lululemon store opened in Vancouver in 2000, touting yoga outfits for women. Since then, the chain has grown to 120 stores in North America, 75 of them in the U.S. The retailer also has 10 stores in Australia. Analysts say Lululemon's sales per square foot, a widely followed measurement, rank among the top of the industry, and its average ticket amounts to about \$100.

Yoga and Pilates—activities that appeal primarily to women—have skyrocketed in popularity since the inception of Lululemon, and women have come to eclipse men as participants in other types of amateur athletics. In 2009, for instance, 53% of road-race finishers in the U.S. were women, according to Running USA, an industry-sponsored research center.

Although Lululemon continues to market its goods for yoga and Pilates classes, analysts say consumers buy only a quarter of the merchandise expressly for those activities. Today, women also are wearing it to kick-boxing classes, weight-training sessions, road races and even social events.

The company has expanded its roster of ambassadors to include running, spinning and resistance-training gurus, including some men. A menswear line represents the company's fastest-growing category, although guys account for far less than 20% of total sales.

In keeping with the peace-and-love ethos of yoga, Lululemon publicly describes its primary purpose as promoting good health and well-being rather than making profit. The company says it offers free yoga classes in its stores to introduce people to yoga's stress-relieving benefits, not to sell clothes. Similarly, the company says its ambassador program offers vital feedback on new apparel from fitness experts such as Ms. Cushing.

Ms. Cushing first became a Lulelemon ambassador last year.

Besides recruiting her to lead in-store workout classes (for which she isn't paid), Lululemon hung a large photograph of her on the walls of one of its four Chicago locations.

Elena Gallo, a Chicago attorney who takes Pilates and boot-camp classes from Ms. Cushing, says that until she saw her instructor wearing Lululemon, "I was always adamant that I wouldn't spend a fortune on workout clothes.... Now Lululemon is all I wear."

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