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Lululemon Athletica



Marketing Project

Presented to: Professor Saks

Marketing 201 – Introduction to Marketing

Group 3

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Identification of New Product

Lululemon Athletica was founded in 1998, with its first store in Vancouver. Lululemon's initial goal was to open solely one store, but quickly realized the popularity and potential of our brand. As stated on Lululemon's website, "it was really a matter of grow or die because active minds need a challenge¹". Today, Lululemon Athletica is an internationally recognized active wear brand with over 212 stores and we are looking to begin a new challenge. Lululemon will be introducing a product line extension: Lululemon Tea. Tea is a yoga tradition, thus a perfect fit for our yoga-inspired company. The tea line will include an assortment of 4 flavours, each carefully selected for specific health, mind and body purposes.

We will target the current clientele, as our tea line will be sold in current North American stores. Lululemon's success lies in the store culture that we have built. Our community-based philosophy is our platform to building and maintaining healthy relationships with customers. With Lululemon's strong brand image and loyal clientele, avid Lululemon shoppers will also be avid Lululemon tea drinkers. The tea line will further heighten the Lululemon experience and is the perfect way to grow our lifestyle brand message of healthy and positive living.

Nicely written '10' section.

Macro-Environmental Impact

Cultural

In North America, an emerging trend is the rise in the health and wellness. Today's consumers are more aware and educated on the importance of leading a healthy lifestyle. This has resulted in a shift towards healthy food consumption and an increase in fitness. Governments and institutions are also placing more importance on communicating health-related messages to the public through campaigns.

*Says who?
Footnote
your sources*

The food market has shifted, with consumers purchasing more organic foods, locally grown, gluten-free products and natural beverages. This health-conscious mindset has resulted in an increase in the popularity of tea, seeing as it has many health benefits. A recent study by Nielson states that "specialty tea grew by 5% in 2010, while



decaffeinated and caffeinated tea each grew by 1% and 2% respectively²". Tea is becoming more and more incorporated into the daily routine of North Americans.

The rise in healthy living has not only impacted the food market, but the fitness industry as well. Yoga has become a common practice among North Americans, with yogis following the spiritual, not religious movement. Tea is a cultural tradition in Yoga. There is a correlation between the increase in yoga practitioners and tea consumers. Most yoga studios serve tea following a session, as tea is a soothing transition back to the world beyond the yoga studio walls.

A healthy lifestyle is not only a rising phenomenon, but it is a fashionable trend. With social networking and applications like Instagram, Facebook and Pinterest, the public can upload images of their healthy meals in hopes for as many "likes" from their Internet "friends" and "followers". This fashionable health trend ties directly into fulfilling "self-actualization needs" and is therefore favorable for a brand like Lululemon, who is both trendy and encourages healthy living.

Demographics

Prior to 1940, tea was the most popular beverage in Canada, however the baby boomer generation followed a new trend: coffee³. Today, tea has become popular again, being the 5th most popular drink in Canada, with 10 billion cups consumed by Canadians each year⁴. Half of all Canadians drink tea weekly, which is more than Americans: 264 cups/person a year compared to 212 cups/person a year⁵. 1 in 4 of these Canadians are between the ages of 35 to 49 and individuals over the age of 65 are 27% more like to drink tea⁶. Studies have shown that tea drinkers tend to have a higher education and to be female⁷. Out of tea drinkers, one third belong to the greenest environment cluster, with 60% of them willing to pay more for environmentally friendly products. 20% of tea drinkers belong to the Living Healthy group, which has been rising in recent years allowing consumers to move away from soft drinks and sugar filled caffeine beverages to a healthier yet flavourful alternative⁸. The increase in tea drinkers is an important and



excellent, intelligently written 'Macro' section

essential factor for our product line extension. There is a clear need and want for tea and we will be satisfying this demand through Lululemon Tea.

Environmental

Tea and coffee are grown in tropical environment and recent reports have shown that they are having negative impacts on tropical habitats. The reason for this is that tea is grown in high elevations, which causes harm to numerous different species. Increasing tea production would result in forest depletion creating a monoculture, the growth of only one crop⁹. Other harmful effects are erosion and soil loss. The drying of tealeaves can result in local deforestation from chopping and burning wood.

In response to these environment concerns, organizations have been founded in order to preserve these natural habitats, such as the Rainforest Alliance Certified Seal, which helps companies ensure that their products are not harming the environment¹⁰.

Economic

From 2000 to 2008, per capita tea consumption has grown by 34.3%. In 2003, it was forecasted that tea would grow by 40% by 2020¹¹. Starbucks has taken note of this trend and has invested 600 million dollars to obtain Teavana, a popular teashop. Speciality teas, rather than the normal black tea and earl grey, account for 60% of Canada's tea market, showing that Canadians will pay more for superior tea¹². Food service sales of tea are the fastest growing beverage accounting for \$380 million in 2010¹³.

With the growing trend of health awareness, an increase in fitness, the rising popularity of tea and the importance of brand recognition, the macro environment proves for the introduction of a tea line to be a favourable market to for Lululemon to enter.

Secondary Data and Potential Sales

In light of conducting our financial research, we have observed that secondary data from indirect competitors such as David's Tea, Cesar's Tea and Teavana are all inaccessible, as they are private business firms. Therefore, with a limited selection of data to work with, we will use the company's own data from the annual financial reports, Statistics Canada and business articles.



what is your cost to the stores?

With a retail price of \$8.50 and a cost price of \$3.40, Lululemon Tea has a 60% profit margin and a 150% mark-up, thus generating a gross profit of \$5.10 per product.

$$\begin{aligned}\text{Profit margin} &= [(\text{Retail price} - \text{Cost price}) / \text{Retail price}] \times 100\% \\ &= [(\$8.50 - \$3.40) / \$8.50] \times 100\% \\ &= 60\%\end{aligned}$$

$$\begin{aligned}\text{Mark-up} &= [(\text{Retail price} - \text{Cost price}) / \text{Cost price}] \times 100\% \\ &= [(\$8.50 - \$3.40) / \$3.40] \times 100\% \\ &= 150\%\end{aligned}$$

The 60% mark-up will cover import costs, since the tea will be imported from foreign countries that do not belong to the North American Free Trade Agreement (NAFTA), such as India. The mark-up will also cover the packaging costs of the product: we estimate roughly a cost of \$0.01 per tea bags and \$0.35 per tin, which will all be outsourced at a wholesale price in China. We estimate that Lululemon Tea will generate net revenue of \$2.76 million in its first year of operations, as shown in the following:

- We first calculate the amount of net revenue Lululemon earns approximately *per day* in the North American market. To do so, we use last year's annual net revenue as a basis, which was net revenue of \$1.37 billion¹⁴. Given as Lululemon Tea will be marketed exclusively in North America in the first year, annual sales from Australia (\$68.8 million¹⁵) must then be deducted:

$$(\$1,370,000,000 - \$68,864,000) / 365 \text{ days} = \$3,564,756 \text{ North American annual sales}$$

- We then divide the figure found in the formula above by the number of Lululemon retail stores in North America, that is 186¹⁶ stores.

$$\$3,564,756 / 186 \text{ stores} = \$19,165 \text{ sales reached per Lululemon store}$$

- Next, we find the average number of customers per day by dividing the daily sales by the average cost per transaction, which we estimated it to be roughly around \$120, considering a pair of yoga pants can easily cost up to \$100.

$$\$19,165 / \$120 = 159.71 = 160 \text{ customers per day}$$



- Lastly, with a goal of selling a canister of Lululemon tea every 20th transaction (or customer), this sets an approximation that 8 canisters are to be sold daily per store.

160 customers / 20 transactions = 8 canisters sold daily per store

Now that the estimated number of Lululemon tea sold daily per store has been established, we can therefore determine the net sales:

- 8 canisters of Lululemon tea x (\$8.50 - \$3.40) = \$40.80 of net revenue per store/per day
- \$40.80 x 186 stores = \$7,588.80 of net revenue in all North American stores per day
- \$7,588.80 x 365 = \$2,769,912 of net revenue in a year

Net revenue of \$2.7 million represents 0.2% of last year's sales of \$1.37 billion. Nevertheless, a mere 0.2% shows it accounts for an impressive amount of sales. Furthermore, Lululemon's men's clothing line accounts for approximately 12%¹⁷ of total revenue and 15%¹⁸ over the holiday season. If Lululemon's menswear carries products with a much higher profit margin and take over a bigger portion of the retail stock than tea retailed at \$8.50 placed at the cash register, and yet brings in just a little over 10% of total revenues, then it is fair to approximate that Lululemon Tea, that also caters to a segmented market, will generate a much smaller fraction of that percentage, that is 0.2%, or \$2.7 million in a year.

*OK
nice logic
✓*

Segmenting and Targeting

Lululemon uses a concentrated niche marketing strategy, as we focus on one specific target market. Our primary market is "active young-thinking" women who practice yoga and or other fitness activities. Lululemon Tea is a product extension to the current clientele. Therefore, we will be using three existing segmenting dimensions. The dimensions most focused on are psychographics, geodemographics and behavioristic. The common trait between the Lululemon clientele is the importance of leading a healthy lifestyle. These women are in the middle to upper social class. They are well educated, appearance conscious, fashion forward and active. They have a healthy balance between work, family and fitness and have a comfortable disposable income to spend on clothing,



vacations, dinners and other social activities. We will also be targeting our current male clientele, however since 73% of tea drinkers are women, we are focusing primarily on the female market. While our potential clientele is all current Lululemon shoppers in North America, our goal in the first year of launching Lululemon Tea is to reach 1 out of 20 purchasing customers, placing our potential market size at 543,120 customers.

Lululemon has built a distinct store culture and athletic community, which has successfully differentiated us from our competitors, securing a loyal share of the yoga apparel market. Lululemon has a very strong understanding of who our target market is and this will be portrayed in the tea line as well. The Lululemon client trusts and believes in Lululemon products and our goal is to meet that same level of satisfaction. Having built such secure relationships, Lululemon shoppers will also be Lululemon Tea drinkers. The tea line will be perceived as “more for more” as it will be higher priced than regular mainstream teas, but with the added ^{or which are} benefits that come with purchasing Lululemon products. Our value proposition is to continue supplying our clients with products that promote healthy living and secure happiness within. The tea line will be a bridge to further heighten the Lululemon yoga lifestyle and shoppers will now be able to enjoy the Lululemon experience from the comfort of their home through an array of Lululemon Tea flavours.

Marketing Mix

Product

Lululemon’s tea assortment will support and encourage our mantra of healthy living and will include an assortment of four tea flavours:

1) Energizing Vanilla Chai Black Tea

Black tea contains 14% of caffeine, considered one of the highest dosages among teas. The spices and antioxidants found in chai are renown for promoting our health and well being, and will give the Lululemon woman a great morning boost¹⁹.

2) Rejuvenating Goji Berry Rooibos Tea

The antioxidants found in white tea are known to increase cardiovascular health, lower cholesterol, enhance weight loss and reduce the risk of cancer. White tea also contains a low dose of caffeine and preserves the skin’s natural elastin and collagen.



3) Recovering Citrus Green Tea

Green tea is one of the most popular teas for weight loss and is rich in antioxidants. It is also proven to have a lower risk towards a number of diseases such as cancer, osteoporosis and heart strokes²⁰.

4) Relaxing Jasmine and Hibiscus Flower Chamomile

Made up of a blend of herbs, flowers, fruits, and seeds, an herbal tea is known to be a muscle relaxant and a stress reliever. This herbal tea will be great to have after a Lululemon yoga session²¹.

Lululemon Tea will be available for purchase in 42g canisters, containing 15 tea bags. The tea bags will be packaged in tight-seal canisters to preserve the freshness of the tea²².

Price

As a leader in the women's athletic apparel market that focuses on high tech and high quality yoga wear, Lululemon uses a premium pricing strategy to attract our market of active young women²³. By targeting a very defined market segment, Lululemon has created a strong brand image and we have been successful within our niche market. A premium pricing strategy will be used for Lululemon's tea to support the brand we have created. A 42g canister will be sold for \$8.50. Although we are starting at a high price, we ~~will not be~~ ^{are} using the skimming pricing strategy, as we will not lower our retail price in the future. Lowering the price would hinder the prestigious image that is Lululemon.

Place

Lululemon Tea will be sold in all Lululemon stores across North America and available online. In the future, Lululemon will sell the tea collection to affiliated yoga studios, which currently accounts for 2% of net revenue²⁴. In launching the tea line, samples will be given to affiliated yoga studios, fitness centers and ambassadors. Ambassadors will be able to introduce the new tea line to their clients following their yoga sessions. Once Lululemon Tea becomes more recognized in North America, we will expand, joining other Lululemon stores and affiliated yoga and fitness centers across the

you are using a skimming strat.



world. The tea collection will be displayed by the cash area, making it more accessible, thus an impulse purchase by customers who are not aware of the recent line extension.

Promotion

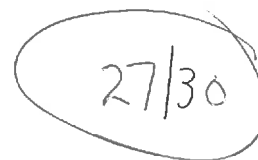
To successfully introduce the Lululemon Tea, we will use our philosophy of "Community-Based Marketing Approach". Lululemon defines the community-based marketing approach as, "a multi-faceted grassroots marketing strategy that includes social media, local ambassadors, hosting community events and creating in-store community boards²⁵". As opposed to most athletic wear brands, Lululemon does not use mass-marketing or celebrity endorsements. Our brand, products and events are all specifically designed and coordinated to target our niche market. Lululemon's main promotional strategy is local marketing using our *Ambassador Program*. Fitness instructors that best represent the Lululemon brand and lifestyle are invited to become the brand's ambassadors. Our ambassadors are offered \$1000 worth of Lululemon apparel to wear while teaching their fitness classes in exchange for feedback on our products and to promote our brand to their students²⁶. Upon the launch of the tea line, ambassadors will also be offered tea samples in order to carry on our word of mouth tradition.

Every year Lululemon hosts the *SeaWheeze*²⁷ event, a weekend dedicated to healthy living with running, yoga and a music festival. Lululemon Tea will be available all weekend for both sampling and purchasing by consumers who have travelled from all over the world to attend to the event.

We will also promote the new tea line through our *#Thesweatlife* campaign; a photo gallery of events and products posted by Lululemon users.²⁸ Additionally, we will advertise in current yoga magazines and through our community blog and social media. Our website and social media accounts update and inform shoppers on new products, fabrics and upcoming events.

Lululemon has been successful by building a strong community centered around living a healthy lifestyle. This success has transformed a one-store location into an internationally recognized and reputable brand. With the line extension of Lululemon Tea, we will continue satisfying our clients mind, body and soul.

The best paper
that I have read in
10 years! Great, intelligent
organized writing style
Brawo!



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