



# The Story of lululemon

**BY**  
**FOUNDER**  
**CHIP**  
**WILSON**

*The Story of lululemon* by founder Chip Wilson

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First edition published 2018 by Time is Tight Communications, Ltd. under the title *Little Black Stretchy Pants*.

This book has not been authorized by lululemon athletica.

Library of Congress Control Number: 2021907702 (*ebook*)

ISBN-13: 978-1-7776943-0-2 (*ebook*)

“In the end, it is impossible to have a great life unless it is a meaningful life. And it is very difficult to have a meaningful life without meaningful work. Perhaps, then, you might gain that rare tranquility that comes from knowing that you’ve had a hand in creating something of intrinsic excellence that makes a contribution. Indeed, you might even gain that deepest of all satisfactions: knowing that your short time here on this earth has been well spent, and that it mattered.”

—Jim Collins, *Good to Great: Why Some Companies Make the Leap...and Others Don't*

# **DEDICATION**

To all past, present, and future employees of lululemon, and to my wonderful family and friends.

# **FOUNDER AND LULULEMON'S VISION**

(defined as an unwavering commitment to the number one principle) Elevating the world from mediocrity to greatness.

## **MISSION STATEMENT**

Providing components for people to live a longer, healthier, and more fun life.

## **NUMBER ONE PRINCIPLE**

The store/e-comm Educator is the most important person in the business, and all decisions are made with this in mind.

## **NUMBER ONE GOAL**

Within six months of being hired, a person will have taken the Landmark Forum, read Stephen Covey's 7 Habits of Highly Effective People and Jim Collins' Good to Great, listened to Brian Tracy's "Psychology of Achievement", and been coached on how to set two, five, and ten-year goals, each of which include two goals for health, business, and personal.

# FOUNDER AND LULULEMON'S CORE VALUES

## QUALITY

Our customers want to buy our product again.

## PRODUCT

We create components designed by athletes, for athletes.

## INTEGRITY

We do what we say we will do, when we say we will do it. If we cannot keep our promise, we immediately contact all parties to set new by-when dates.

## BALANCE

There is no separation between health, family, and work. You love every minute of your life.

## ENTREPRENEURSHIP

We treat and pay employees as though they run their own businesses.

## GREATNESS

We create the possibility of greatness in people because it makes us great. Mediocrity undermines greatness.

## FUN

When I die, I want to die like my grandmother who died peacefully in her sleep. Not screaming like all the passengers in her car.

Even though this vision and these values hold true today, they were written in 1998. I now believe a vision is replaced by a company's purpose and its values replaced by a linguistic abstraction. The linguistic abstraction is thirty terms and definitions culled from the top 5 business books and courses that define the business culture of a company by providing a common set of definitions for commonly used language within a company.

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## INTRODUCTION

# WHY I AM WRITING THIS BOOK

This is a book about ordinary people who took an opportunity to be creative, to be innovative, and to maximize their potential. My part in this story comes from the learnings gleaned from having made thousands of mistakes. I set the culture, business model, quality platform, and people development program, then got out of the way. Lululemon's exponential growth, culture, and brand strength have few peers, and it is because of those employees who chose to be great. Lululemon was a social experiment to determine if putting people development above profits would yield extraordinary profits. The experiment proved successful.

This book is also about missed opportunity – five years of missed opportunity. I was playing to win, while the directors of the company I founded were playing not to lose. Lululemon invented a new context for apparel and *how* we think about clothing. In 2013, just when five years of exponential growth was in its infancy, when the way people dressed was at the precipice of the most significant change in history, lululemon self-imploded. The company went from owning 95 percent of the women's technical apparel market in 2011 to 10 percent in 2018. It is this part of the book from which I hope entrepreneurs will learn.

There are two parts to a successful business. First, there are the product and customer. This is the part the entrepreneur knows better than anyone in the world.

Second, there is the business of public board governance. It includes the Machiavellian power moves and survival struggles of top executives and board members. This is generally not something the entrepreneur knows very well – certainly not as well as he or she knows the product and the customer. In this regard, my story is not unusual. The more I speak to successful entrepreneurs, the more I see that what happened to me is quite common.

I believe every person in life has a different genetic makeup and unique expertise that the world needs. My expertise was seeing athletic and apparel trends. My first company, Westbeach, saw the rise of the surf, skate, and snowboard culture from 1979 to 1997. In 1998, I had the same sense that something big was about to happen with yoga.

I had no way of knowing just *how* huge yoga would be – and how lululemon would explode like nothing else. The little company that I founded in Kitsilano, Vancouver would go on to redefine how generations of people dressed and lived. The financial rewards for my family and me would be enormous, but at the time I was rolling the dice – I could have just as easily lost everything multiple times. The journey was exhilarating and terrifying. I was 42, I had a young family, and I bet the farm.

After a thrilling 15-year ride at lululemon, I got hit by a proverbial “sensational media” bus. The need for the media to create fiction to drive advertising revenue was starting to gain traction. I became gun shy

when it came to discussing my thoughts, and I played defense for the first time in my life; being authentic was no longer acceptable or possible. However, I am no longer concerned with negative media because I choose not to acknowledge comments from writers of fictional sensationalism. I am out to live a great life – and to be great, I must be proud of the future I foresee that few are aligned with.

This is the story of that journey and an account of what I've learned.

It is just like me to immediately go off script. One of the manifesto terms I wrote on the side of the lululemon shopping bags said, "Without the first plane invented by the Wright Brothers, the jet would never have been made – greatness has to start somewhere." In the 80s and 90s, the term "visible panty line" was coined. On that note, I want to acknowledge the person who invented thong underwear as a solve for this major female complaint. Without the thong being invented, I doubt lululemon and street technical apparel would have grown as it did.

*Chip Wilson, 2021*

## PROLOGUE

# THE END OF THE SURF, SKATE, AND SNOWBOARD BUSINESS

### *The Final Days of Westbeach*

The year was 1995. After 16 years in the surf, skate, and snowboard markets, it had become clear that my company Westbeach Snowboard wasn't going to pay the mortgage or feed my family. There *were too many companies making too much product for too few snowboarding customers*. Profits were non-existent. Westbeach found itself taking bigger and bigger risks.

Finally, the inevitable happened. We had a \$5 million order of snowboard jackets being manufactured in China, and we ran out of zippers. We told our suppliers we needed \$30,000 worth of zippers on credit. They said no. We had extended ourselves repeatedly and had reached our limit. The goodwill of our suppliers had dried up. We asked our bank. They also said no. The bank then put us in *special accounts* – a euphemism for impending bankruptcy.

This was a do-or-die situation for Westbeach. We needed money for zippers, and we needed it quickly. In the seasonal apparel market, if you're a month late in delivering your inventory, the consequences are dire.

A private equity (PE) firm called Mercantile Bancorp had been waiting on the sidelines. They quickly invested in Westbeach in exchange for 30 percent of our company, providing the capital we so badly needed to address the zipper crisis. Mercantile saw our value and believed a cash injection would allow us to flourish.

Even though we were in dire straits, giving up 30 percent of our company seemed unfair. My two partners and I had been working hard for years, always intent on maintaining our independence. Unfortunately, there was no alternative.

Mercantile suggested we form a board of directors made up of mentors with no vested interest other than helping three inexperienced owners negotiate their way through the world of governance and oversight. A guy named Blair Mullen was the operating partner for Mercantile inside Westbeach. Blair got our accounting systems straightened out and fixed our inventory procedures. From the very start, Blair did a good job, and I respected his work.

Not long after that, I was in Japan showing our line at Tokyo Levante – the office of our Japanese

distributor. I was wrapping up there, getting ready to head to Norway, when a fax from Blair came through.

"I've decided to take over as CEO of the company," Blair's fax announced.

I was in shock. Even though I didn't hold the title, I had always considered myself the unofficial CEO of Westbeach. I'd founded the company, and believed I drove the outcome of most key decisions. I hadn't had a boss in 10 years. The whole scenario was the polar opposite of what I'd wanted to achieve by going into business for myself.

### ***Team of One***

I knew myself well enough to know that in crisis or survival situations, I often acted like a "team of one", taking everything on because I couldn't trust others to do what I thought was right. It seemed like Westbeach had always been in crisis.

On the other hand, Mercantile had also made many weak areas stronger and fixed things I hadn't recognized as problems, due to my inexperience.

With three owners, we each wanted to use our third of the budget to make our own areas work effectively. But mediocrity is inevitable when there is not one final decision-maker to manage priorities, differentiate the company, and take advantage of a changing marketplace. Perhaps getting out of the way and accepting Blair as CEO was best for Westbeach.

Here we were, 15 years after I started Westbeach, and 10 years after partnering as a trio. We had a wholesale business with a few vertical retail stores, a Board of Directors, and an experienced CEO, but we still weren't turning a profit. (By 'vertical retail' I mean we owned retail stores and essentially sold to ourselves, eliminating the middleman-wholesaler. Typically, a vertical retailer is able to create double the profits compared to other apparel companies that use a wholesale model.) Year after year, our mixed vertical and wholesale model just wasn't working. After we'd covered our expenses, there was never anything left to move us to the next level.

### ***The Snowboard Scene***

Meanwhile, the snowboard market was about to hit its first major obstacle.

In 1995, the snowboard business was robust, particularly in Japan. But, by 1996, both the Japanese yen and its snowboard market began to falter. Japan represented 30 percent of our global sales. I was concerned. We still had our lease obligations, wages, operating costs, and everything else. If 30 percent of our sales went away, our company would collapse.

Within a few years, the snowboard market – just like the surf and skate market before it – entered a widespread product commoditization phase, followed by many mergers and acquisitions. As consumers begin to see products as commodities, they no longer see the unique features of individual products and often make purchasing choices based on price alone. Companies must merge with or acquire competitors to have enough product to spread expenses over more products. The only two public snowboard companies were Ride Snowboards (where my brother was VP of Brand) and Morrow Snowboards. Both companies had been hit hard trying to save their brands by limiting backdoor sales through fake overseas (Russian) companies to big Japanese trading houses.

As public companies, Ride and Morrow wanted to acquire companies to replace lost Japanese sales. They were playing the public market quarterly game and needed to show higher sales to maintain investor confidence. An easy solve was acquiring other snowboard apparel brands...brands such as Westbeach, which had been around since the beginning.

If we were going to get any money out of this business, we needed to sell. We'd already had talks

with Morrow, but those discussions had failed when Morrow decided to make their own apparel line. Fortunately for us, the Morrow clothing brand was not successful.

### ***Negotiating with Morrow***

As Westbeach was a proven brand in the global snowboard apparel market, Morrow came back to the table. Unbeknownst to Morrow, we were desperate. It was a Monday, and by that Friday we wouldn't be able to make payroll. We knew Morrow was operating without a chief financial officer. At this point, I'd had Westbeach for almost 18 years, earning an average of \$40,000 per year.

On Wednesday, Morrow bought Westbeach for \$15 million, based purely on brand value. This would be a lesson about the value of the brand and what cannot be measured before someone else is willing to pay.

The sale of Westbeach to Morrow had come with specific strings attached – primarily the requirement for me to work for Morrow and relocate to their headquarters in Salem, Oregon.

Because I love to learn, I was excited to observe what happened to a company's culture when it merged with another.

In my tenure at Morrow, I'd had one good idea. It was a yoga graphic T-shirt that the Japanese snowboarders loved. From the inspiration of the T-shirt, the next Japanese snowboard contest started with a yoga warm-up – on snowboards.

Unfortunately, my 12-month obligation to Morrow in 1997 lasted only eight months. Morrow had spent their last \$15 million buying Westbeach, and my job in future business development ended when I suggested the company pivot from snowboard hardware and apparel into mountain biking.

### ***My 18-year MBA***

I was officially unemployed. After Mercantile and the banks took their share and after our original debts were covered, each partner took home about \$1 million (or \$800,000 after taxes). For as long as I could remember, I'd been grinding it out, working long hours, constantly travelling. Having this new financial cushion was an indescribable relief. For the first time in a very long time, I could breathe.

Westbeach was not profitable. Our two vertical retail stores made \$1 million dollars a year while our international wholesale business lost \$1 million dollars in the same span of time. Inside of this was a lesson worth billions: a purely vertical retail model, a principle that would be key to my next business venture. Insights like these are why I've come to think of my Westbeach years as my "18-year MBA." It was an education that would prove far more valuable than the \$800,000 I walked away with. My years travelling and manufacturing for Westbeach in China would come to be one of my greatest assets.

Coming out of university, I knew nothing about the production of fabric, how to open stores, or how to form partnership agreements. I knew nothing about selling or collecting money. I was inexperienced in the business of business. I knew nothing of financing, deals, and transactions. I was also a terrible negotiator. In fact, in many ways, I wanted to be a Phys Ed teacher, like my dad.

More than anything else, I wanted to help people achieve their full potential.

## CHAPTER 1

# FROM CALIFORNIA TO CALGARY

### *The American Dream*

If I look back at the earliest parts of my life, there are certain themes from day one that shaped me and steered me toward the companies I developed. This is true for everyone, but for me, those themes were: my grandparents' approach to business, my parents' tough financial circumstances, my dual Canadian-American citizenship (I was born in California and raised in Alberta), and – perhaps most of all – my involvement in athletics.

My dad, Dennis Wilson, was Calgary's Athlete of the Year in 1952 when he was 18. He played both hockey and football – the two big sports in Calgary in those days. Dad joined the farm team for the Chicago Blackhawks which soon folded due to team finances. In 1954, he went to Brigham Young University in Utah to play football.

My mom, Mary Ruth Noel, hailed from San Diego. She was a gymnast growing up and became the first female lifeguard at the Plunge Pool in Mission Beach, San Diego. When she was old enough to go to college, as the family story goes, her father, James Noel was worried about Communist infiltration in California universities (this was the '50s!), so he was eager for his daughter to go to university somewhere quieter. Like Utah.

So, there they were – my parents-to-be – probably the only two non-Mormons at BYU. She was 19, and he was 21. Since I was born in April 1955, I can only imagine mom and dad had known each other for all of 10 or 11 minutes before certain things happened.

My parents had a shotgun wedding in San Diego, mom's hometown. From there, they moved to Orange County, near a new development called Disneyland.

It didn't take long for our little family to get bigger. My sister Noel was born in 1957, and my brother Brett was born in 1960.

I'll share a few memories to help set the scene. Nuclear emergency drills were performed monthly at our elementary school. Despite the fears of a third world war, kids could roam freely. Neighbourhoods had a naturally occurring block watch from house to house and family to family.

All adults smoked and drank (including my parents, in fact, both smoked and drank all through my mother's pregnancies). This was an era best depicted today by the show *Mad Men* – a show which so accurately reflected the culture of 1960s New York advertisers who were themselves creating the image



of ideal life at the time. My mom regularly sent me to Safeway for a box of tampons and a pack of Du Maurier cigarettes.

Money was often short in our house. My dad wasn't playing football anymore – he was working on a teaching degree. To make ends meet, he also drove a UPS delivery truck from L.A. to San Diego and back most nights. This was in addition to attending classes during the day. Only a person in their mid-20s can keep a pace like that.

My mom, meanwhile, was the stay-at-home parent. She was born to be at a sewing machine, and from early on in my life I got to know about patterns, fabric, and clothing design through watching and helping her work.

As a young boy, I wasn't interested in sewing as a skill, because learning it properly was too time-consuming. But if I wanted to spend time with my mom, I had to spend it in the sewing room while she was working. The room was dominated by a large working table and shelves on which she stored fabric and patterns. She had all these paper Butterick patterns with pictures on the front. She would lay the pattern flat, cut it out, pin it onto the fabric, and from there use it to do the sewing and stitching.

I vividly remember watching my mom as she carefully adjusted the pattern to get full use of the fabric with no waste and without destroying the integrity of the garment.

With Westbeach and later with lululemon, I would see 20 to 50 layers of fabric being cut in a stack with an industrial laser cutter, meaning that every square inch cost thousands of dollars. By implementing my mom's tricks, and by understanding the real basics of sewing and patterning, the costs – expensive as they were – were kept as low as possible.

When my dad finished his teaching degree a few years later, he and my mom moved to Calgary. Calgary was dad's hometown, so he was happy to return to the place he knew best. My mom wanted to put distance between herself and her parents. My maternal grandmother, also named Mary, was a very dominant person, and my mom had a rebellious streak. A move to Canada was her way out.

I was five when we relocated to Calgary and became landed immigrants.

We weren't wealthy, but we still had a good time growing up in a suburban neighborhood. As my sister Noel remembers, "Chip would organize games like prison tag or kick-the-can every night during the summer. Kids just gravitated to our house because of him."

Mom continued to stay at home, and Dad got a job teaching physical education and drove a taxi at night to make the mortgage payments.

### ***James and Mary***

Even after the move to Calgary, I returned most summers to California to visit my mother's parents. I didn't know it at the time, but my grandparents would both play key roles in my life as an entrepreneur.

My grandparents were both from the Midwest but kept in touch with each other when my grandpa moved to California. Once there, he asked my grandma to come out to the coast and marry him. She accepted. They moved to San Diego, where they opened a furniture business. Their business specialized in selling furniture to and then repurchasing it from US Marines in the area around Ocean Beach.

Part of the success of their business was due to my grandfather's personality. He'd always had a personal style that appealed to his community, and it wasn't long after he and my grandmother had moved to San Diego that he was serving as head of the Kiwanis Club and became deputy mayor. People loved to visit him and get caught up on all the local gossip.

My grandmother, meanwhile, did the selling. Grandma was a hard-nosed businesswoman through and through. She had a very strong personality; some people might even say she was overbearing, but I never thought so – she just knew what she wanted in life and was passionate about getting it. And even though she'd trained as a nurse, she'd also studied sales closely for a long time.

In those days, Dale Carnegie's famous book *How to Win Friends and Influence People* was a popular reference for aspiring businesspeople. When I was older, my mom told me she thought that she would never have been born had the birth control pill existed when my grandmother was a young woman. This wasn't a comment on their relationship, it was just to say that my grandmother was a fiercely independent, smart and determined woman. She likely would have put business first in her life had she grown up in different times. Once their furniture business was well-established, my grandparents diversified their interests. They bought apartments throughout San Diego. My grandparents had also invested in mutual funds. As a kid of 9 or 10, my grandparents helped me invest my own funds in the same places they had invested theirs. I remember watching and being excited as those stocks kept climbing.

And then, in August of 1966, there was a massive computer fraud of a multi-level marketing company, one of the very first of its kind. My grandparents were among the victims of the fraud, lost their house, and had to move into a trailer park east of San Diego where the property taxes were much lower.

It was tough, but one of the great things about being American is that big reward comes with big risk. In interviews I've heard or read, it seems as though Americans fundamentally understand that income disparity can be viewed as a by-product of a capitalist society in which big risk can lead to big reward. To rebuild some of what they'd lost, my grandmother took her born business skills into multi-level marketing. She was the perfect person for it.

My grandfather, meanwhile, spent a lot more time with me and my sister and brother whenever we were down there visiting. He'd help us look for skis, and he took us to the beach. He also took us to the hospital where he was getting chemotherapy treatments. He had been diagnosed with prostate cancer right around the time they'd lost their mutual funds. In retrospect, I understand now he was spending all the time he could with us because Grandpa knew he had little time left. He died in 1967 at the age of 65. He'd lived only 24,000 days.

Outside of the business they ran and their investments in mutual funds, my grandparents also provided a significant source of stability through my childhood. This was especially true as my parents' relationship became more and more strained.

While my grandfather was still alive, I saw that he and my grandmother were two people in love who worked together every day. There wasn't one thing they did separately, through thick and thin alike. That was the life I knew I wanted to have. Having a woman in my life who embodied the same partnership qualities as my grandmother would someday be my perfect match.

### ***Hard Times in Calgary***

In Calgary throughout the '60s, times were tough for my parents. Money was still short much of the time, and I don't think my mother had known what she was getting herself into when she agreed to move to Calgary.

For one thing, she'd had no idea how bitterly cold the winters would be. She'd grown up with the fresh fruits and vegetables for which California had always been famous, but Alberta in the '50s and '60s was solely a meat-and-potatoes kind of place. The complete lack of fresh produce appalled her and made her question what she'd done.

My parents were in their early 20s when they met – the unplanned pregnancy had really almost forced them to come together. They tried to make it work, but were never very good at communicating with one another.

Added to that shaky foundation were constant financial pressures and three young children. My dad once told me the most important thing he'd had on his mind on the day of his wedding had been how to accurately throw a football. That put their relationship into perspective for me.

Despite the struggles of survival mode, we received a fantastic amount of love. My parents took the

approach that by age six, we should be able to take the bus downtown and return on our own. We had a lot of freedom in our house since any spare time my parents had was mostly taken up with trying to earn a few extra dollars – the rule was to do what you wanted and make it to bed on your own time. But, because we were all competitive swimmers, we automatically knew we needed to get to bed early, so we could make 6 o'clock practice the next morning. This was one aspect of self-sufficiency I learned early on.

### ***Competitive Swimming***

Noel, Brett, and I had all been swimming for as long as I could remember. My siblings and I had access to a swimming pool every summer when my mother had worked as a lifeguard in San Diego, and my dad had a summer director job at a Kiwanis camp for underprivileged kids. That was our introduction to swimming.

“Our whole family would get up every morning for swimming,” says Noel. “Chip was pretty motivated. I think he was probably the most motivated. I did not really like swimming. I was very successful in it, but I would have much rather been hanging out with my friends. But Chip embraced the swimming and was exceptional at it, too.”

It worked for my parents, too – given their relentless schedules, it was good for us to be busy. Our family life soon revolved around seven or eight swim practices a week and swim meets on the weekends. Swimming was everything.

Swimming was also a great activity for us because it was affordable. All you needed was a bathing suit and a pair of goggles, and you were good to go. Despite that, I managed to find something I so desperately wanted but couldn't afford – the perfect swimsuit. The only swimsuits available in Calgary at the time were made by Speedo, and they were all solid colours. In fact, when Speedo introduced simple stripes on their suits, it took the swimming scene by storm.

One day when I was 11 or 12, I saw a suit at a swim meet that was totally different. The material was a colourful flower pattern. I wanted it immediately. I asked the kid wearing it where he'd gotten the suit. “Texas,” he replied.

I'd become used to not being able to afford the clothes I wanted, but I was determined to get that suit. My mom considered it, and I suggested to her that if I liked the style of the suit, then maybe other kids would like the style, too. If we ordered a bunch and sold them, I told her, then we could make a small profit and use the money to cover the cost of my suit.

We brought in the bathing suits, and they sold immediately. We'd purchased the suits from the supplier for maybe 13 dollars each, then sold them for double that. They were something no one had ever seen before – something new. Since they weren't available in Canada, their exclusivity gave them an additional appeal. As I had negotiated with my mother, I got my own suit for free. It was a small but powerful success.

That experience taught me about importing, shipping costs, and sales. Because I had been on a couple of age group teams at the national level and was a good swimmer, I also noticed that others started to follow what I wore. I couldn't afford an on-deck tracksuit, so I wore torn, beat-up, loose jeans and graphic T-shirts. That ensemble was emulated and soon became standard swim meet gear. Nike later realized the power of tastemaker athletes and changed the sports business model through sponsorships.

### ***The 100-Metre Backstroke***

I believe every person has 10 moments or decisions in their life that stay with them and affect who they become. For me, one of those moments happened at a swim meet when I was 10. Although I had a naturally athletic build, I was a very mediocre swimmer overall. I hadn't done anything spectacular in my

age group.

Anyway, at this particular swim meet, just as I was getting ready for the 100-metre backstroke, my dad came over to me and said, “Chip, I’ve got this theory . . .”

It wasn’t unusual to hear this – my dad had many theories about vitamins, nutrition, and athletics, long before the wellness movement became popular. My dad also believed pain was all in the mind. As such, the mind could learn to control that pain and harness it to train and compete.

In athletics in 1965, the prevailing theory about how to approach a race had been to save your energy until the end and make sure you looked good at the finish line. “Let’s try something different,” my dad said. “Why don’t you just go full out from the start, instead of saving it up and looking good at the finish? If you collapse or start to drown, I’ll come and get you right away, but instead of thinking it’s a 100-metre race, think of it more like it’s 25 metres. Just a one-length sprint and take it one length at a time and go for it.”

I went with his theory and ended up breaking a Canadian record, finishing the race eight or nine seconds better than my previous time. We had to do the race again the next day because the officials thought it had been a mistake with the clock, but I did it the same way again, and it worked just as well the second time.

As I look back at my life now, I realize this event created in me a new way of thinking. I’ve long noticed how most people never give 100 percent in their relationships, business, or commitments. Personally, I’ve always been afraid of failing because I *haven’t* given something 100 percent. I’ve been fearful of someday lying on my deathbed, thinking, “God, if I’d just gone for it, would it have been successful?” I think I owe this mindset to that one moment at age 10 when my dad gave me his “poolside theory.”

### ***Discovering My “Act”***

With three of us growing and swimming, we were also burning an astronomical number of calories. The practical side of this hit hard after my parents’ inevitable divorce (I was 13 at the time). Once the divorce was final, my dad had to fund two households on his small income as a Phys Ed teacher.

I came home for lunch one day, and there was nothing in the fridge. My mom was out working one of her many part-time jobs, but her family allowance check had come in the mail. So, I forged her signature on the check, cashed it at Safeway, bought groceries, came home, and ate.

From this situation, I (or at least my subconscious child) learned that I couldn’t count on anybody else in my life to take care of me, including those who loved me. I had to be self-sufficient if I was to survive.

As I got older, my self-sufficiency appeared whenever I perceived myself to be in any situation where my survival was threatened. When I would find myself in tight spots in business or relationships, I would often shun everybody around me and think, “I’ll fix this by myself. I can’t count on anyone to help me.” I came to the immature conclusion that there wasn’t much point in asking others for help.

With my first company, Westbeach, I believed I could never go on vacation or take days off, and that I had to be in on every single move and decision. I would make a lot of mistakes trying to do it all on my own and not recognizing that people love to help someone who’s passionate and working hard.

Later in my life, through the Landmark Forum self-development course, I would learn how every person, family, company, and government develops an “Act.” An Act is learned early in life when a child faces a perceived moment of survival where their parents are not around to save them and the child develops a strategy to help them survive the situation. For the balance of each person’s life, their Act – effective or not – subconsciously kicks in whenever the person perceives themselves in a threatening situation.

## **Changing Circumstances**

It's counterintuitive, but looking back, I think my parents' divorce was a turn of good luck for my siblings and I. Despite his roots as an Albertan (a province known for its oil business and conservatism), my dad was very much a hippie at heart. He wanted a partner who would discuss anything and everything with him. My mom, on the other hand, wanted to take care of the house and defer most of the decision-making and leadership to her husband. In between husbands, my mom saved her pennies, so that once a year she could expose us to the best dining experience in Calgary. In retrospect, I understand my mom was providing us a window into greatness. I would have had no other way to experience what was possible in customer service, ambience, and product excellence.

My parents just weren't suited to each other, but after they split, they both married people who turned out to be their perfect partners.

Remarriage also changed my parents' respective financial situations. My mom married an intellectual geologist named Frank Conrad. Our living situation changed dramatically. We moved from Lakeview to the upper-class neighbourhood of Mount Royal in Calgary. The neighbouring families were all well-off, but they also had a strong work ethic. I learned a lot from the parents of the new friends I made. And, I found those friends welcomed me with open arms.

My dad, meanwhile, married a woman named Cathy Lyness, who worked as a flight attendant with Air Canada. This worked out to be an amazing opportunity. As family members, my siblings and I were entitled to five free trips per year anywhere in the world, to be used until we were age 25 if we were still in school.

Before I turned 25, I would take the opportunity to travel the world and in 1980, I might have been the most global person my age.

I won't go into the many jobs I had when I was young, but I did excel at door-to-door sales of products to help the finances of my swimming team. I will never forget my first job as a 14-year-old tearing down barns west of Calgary in 30-degree Celsius dusty heat with swarms of mosquitoes for \$5 per day. Every job I had the rest of my life seemed like a dream in comparison.

## **The Purple Shirt**

When I was maybe 13 or 14, I went on a date with a girl who came from the small town of Stettler, Alberta. I had bought a very cool Jimi Hendrix-style purple shirt, a sign of what would become a lifelong love of design and fashion. But then when I went to meet her at her house, she looked at the shirt, and my adolescent brain interpreted her facial expression as, "Wow, ugly."

The two of us went to a party at a schoolmate's house, and it didn't get any better. It seemed everyone was making fun of my shirt. That had a profound effect on me – for the rest of my life, I never bought another purple shirt. As I grew, I had more bad experiences with many other shirt colors. Eventually, I would go to buy a shirt and, although there were 10 colours, I would only really have a choice between white and white – which is no choice at all. This process of eliminating possibilities – is done with cars, shoes, business processes, and even spouses.

We all have experiences in our past that prevent us from reaching our future potential. This is something personal development has helped me better understand. Our past experiences subconsciously confine what we believe is possible in life. But this doesn't have to be true. If something didn't work when I was 13, it doesn't mean it won't work at another time in my life.

Imagine if I had been in a car accident at age 30 and suffered complete amnesia. With no memory of my past and \$100 to buy a shirt, I would have free choice of all colours, including purple. The point is, later in life, once I became able to understand how to free myself from past experiences, I gained the ability

to embrace a future of multiple new ideas. My past stopped confining my future. This realization was life changing. This also defined how I wanted to train creative people in my future companies.

### ***First Forays into Mindfulness***

The second instructive event from my youth was my introduction to mindfulness as a discipline.

This initially had more to do with my dad than it did me. I would never say I am like Steve Jobs, but my dad was. Like Jobs, my dad had weird diets, communes, yoga, gestalt psychology and the like down to an art form. He was always looking for the meaning of life but was also determined not to find it, because if he did, he was worried his life would no longer have a purpose.

In the early '70s, my dad went to San Francisco and took an Erhard Seminar Training (EST) course, which was the precursor to Landmark. I remember my dad coming back and telling me he'd discovered the meaning of life. "It's living in the moment," he said.

At the time, I thought my father was a bit of a nutcase.

Just before my dad could legally retire from teaching, he phoned in permanently sick and moved to California to become an assistant gardener at the Esalen Institute. Esalen is a non-profit retreat center founded by a pair of Stanford graduates in the early '60s. Numerous human potential practises – including meditation, yoga, and alternative medicine – have been explored at Esalen since its inception. During his time there, my dad even went into seclusion and did a lot of soul-searching for a while. (Fun fact: Esalen was the setting in the final scene in the series finale of *Mad Men*.)

Imagine me, at age 16, rolling my eyes, wondering why my dad was into all this weird stuff. Of course, I did not yet understand how much mindfulness and Esalen-style teachings would later become a big part of my own life.

Esalen seemed to have a new context for health and the healthcare system. For example, if a person had an illness in the kidneys, a doctor would usually prescribe a solution to fix the kidneys. At Esalen, however, they were asking, "Why did the kidney get sick in the first place?" This context would set me up for the foundation of lululemon's personal development in 1998.

Meanwhile, I reflected on the ridiculous number of lengths I swam each day while looking at nothing but a black line at the bottom of the pool. Using the lessons my dad had taught me, I coped with physical pain by taking my mind away while my body took itself beyond its limit. In retrospect, this was Mindfulness 101. I now understand those twice-daily workouts taught me how to be present.

The runner's high is a sensation that occurs after 35 minutes of a sustained, elevated heart rate. The brain releases hormones that take the athlete into an energized mental and physical space. The sensation usually lasts for about four hours. The amazing thing about experiencing an athlete's high is that your past disappears and is irrelevant as you focus on the present.

During that high, as the past becomes blank, so too does the future. We can only think of the future based on what we know from our past. When we eliminate the past, then the future is eliminated, and all that is left is the present. The present is where all life really occurs. This was the origin of "The meaning of life may be living in the moment," which became a key part of lululemon's Manifesto (more on that later). I have my eccentric father to thank for introducing me to it.

## CHAPTER 2

# THE '70S

### *Thank God for Swimming*

I graduated from high school in 1972 at age 16, because I had skipped the second grade. Even after skipping a grade, I was always the biggest kid in my class. But I also became a mediocre student. People seemed to expect more out of me socially than I could deliver. I remember a group of guys coming up behind me and saying, “Big like bull, dumb as a refrigerator.” I now know that every child has their insecure moments, but it didn’t feel like that then. I felt alone in that experience. My insecurity manifested as my inability to be social at school.

Before the '90s, almost all cartoons, TV comedy, and parodies focused around the dumb blonde girl and the oversized, unintelligent male jock. Both these scenarios created a lens through which the general population saw the blonde and the big football player. Eventually, I learned to use this bias to my advantage. People assumed I was unable to comprehend complex ideas. I played dumb until I was 30 as a tactic to learn what I otherwise wouldn’t have been exposed to.

Thankfully, my social life at the swimming pool was thriving. Fifty percent of the swimmers were girls who became my absolute best friends – I even considered them to be surrogate family members. Through competition, we lived and traveled with each other for years. Some of the girls I swam with went on to become Olympic athletes. Our coach, Ted Thomas, became Canada’s Olympic swimming coach and my other coach Les Cosman became a surrogate father of sorts.

What I learned of female drive and competitiveness came from these friendships. One thing that struck me was the girls’ constant complaints of strap location and rashes developing under their armpits from thousands of stroke rotations. The girls were always coming up with new ideas for strap designs, but there was never anyone at Speedo to whom they could share these ideas.

When the time came to move to university, I had a couple of swimming scholarships to consider. These were critical as my parents had no money to offer me. By that point, I’d reached a turning point in my time as a swimmer. I was six foot three and about 220 pounds – 150 percent the size of an average swimmer at that time. This meant that I had the body of a sprinter. Competitive swimming had for a long time been mainly 50 and 100-metre events, but was then changing to consist mostly of 200-metre and 400-metre events, especially in the lead up to the 1976 Olympics. Without enough events for a sprinter being offered, I knew my competitive swimming career was ending.

There was also a big part of me that didn't want to be told what to do anymore, having spent much of my life in a highly-structured training routine. I decided not to take the scholarships.

### ***University of Alberta***

I went to the University of Alberta in Edmonton, 200 miles away – far enough away from my parents for independence, but not so far away that I couldn't get my laundry done and have a home-cooked meal every now and again.

Once I started at the University, I played football. I still swam, although the swimming was on my own terms now. At the varsity level, swimming and football were an unusual combination of sports. I'd go into the football season in August weighing 240 pounds, then football ended in November. By February, I would have to be trimmed down to 190 to be ready for the swimming nationals. Once the nationals had finished, I'd have to lift weights and eat like crazy to get back up to my football weight. But that's what you can do with your body when you're 18 years old.

My major in university started off in science electives because I loved biology. For a time, I thought I might pursue a career as an ocean marine biologist at Scripps in San Diego. Unfortunately, it didn't take me long to realize there was no way I could afford to study at Scripps.

### ***The Pipeline in Alaska***

I was close to the end of my second year at the University of Alberta when I realized I had no passion for anything outside of athletics. I didn't know what I would do with the rest of my life. Then one day I was at the Edmonton Airport, coming back from Calgary, and I ran into the mother of a friend. We struck up a conversation.

"I'm going up to Alaska," she told me. "My husband is a project manager on one of the five sections of the Alaska oil pipeline. Too bad you're not American," she added, "or you could go up and work there if you were interested."

The Alaska pipeline was an 800-mile steel pipe through the heart of America's last untouched wilderness. It was one of the biggest and most expensive private enterprises in global history. It was also something I'd never thought of before, and, unbeknownst to my friend's mother, I was American, as I had dual citizenship.

The day after my second year of university ended, I found myself on a plane headed for Alaska. I got to US Customs in Fairbanks, thought about it, and decided to tell the US border agent I was Canadian. The agent went through my bag, and it was all construction workwear, safety boots, and the like.

"I think you're coming here to work and to take an American's job, so I won't let you in," he said to me.

This was a problem. I had no money to fly back. All I had was my dual citizenship. So, I tried again, this time telling the agent I was coming into Alaska as an American.

"Great," the agent said. "Step across." I did as I was told and stepped over the line into American territory. "Report to your draft board first thing tomorrow morning," he added.

Oh God, I thought. This is precisely what I had been trying to avoid when I told the border agent I was Canadian. This was the mid-'70s, just after the end of the Vietnam War, and I did not understand where I might end up if I reported to the draft board. So, I never reported to the draft board.

A couple of weeks later, I was working on the pipeline. Much of it was hard labour in deep cold. The camp, consisting of about 200 to 800 men, was in the middle of nowhere, several hours east of Fairbanks. I often worked as a high-rigger, which meant climbing to the top of a crane to connect it to another crane in minus 30 degrees Celsius temperatures.



For my last year, I worked way out at a junction in the pipeline, monitoring a fan to make sure it didn't run out of gas. This task led to long, long days, with nothing much to do but read – I'll come back to that.

Life in the base camp was good, almost too good. Alaska, like Calgary, was going through an oil boom. That meant we had steak and snow crab nearly every night, movies to watch, and many other distractions – not all of them healthy. I worked with men mostly from the deep south; even today, if under the influence of a couple of beers, I have a decent Okie accent.

There was also a man in his 50s named Billy O'Callaghan, an unrepentant Irish alcoholic whose only goal was to eventually die in the arms of a young woman at the Mustang Ranch in Las Vegas (this was an era when there was no political correctness). Billy kind of took me under his wing, and whenever I did something correctly – some task, repair, work, or whatever – Billy would say, "Fine as wine, partner, fine as wine."

Billy's motto, fine as wine, stuck with me after that and became something I mentally connected with quality craftsmanship.

I didn't plan on being there for two years. At first, I thought it would just be for the summer, then I'd go back to school come the fall. On the other hand, I'd only made \$3.50 an hour in Calgary doing various odd jobs, while on the pipeline I was making \$13.50. I was also pulling 18-hour days, seven days a week, since there wasn't much else to do. Anything over eight hours was double-time, triple-time on holidays and Sundays. My first three days I made \$600 working a holiday weekend – which was more money than I would've made all summer back in Calgary.

Besides the money, there was another experience that would shape me in later life. In the base camp, I was surrounded by a lot of drugs and alcohol, and a lot of men going through hard phases in their lives.

### **The Top 100 Novels**

Around that same time, my mom sent me an article from the New York Times. (I believe the author was named Art Buchwald.) The article drew connections between the human body and athletics and how the brain worked. There was research showing the brain improved from mental gymnastics in the same way the body improved from athletic conditioning – say, from swimming drills, for example.

You had to train the brain, Buchwald suggested, as you would your muscles, for it to work at full capacity. Even as a 19-year-old, I understood this clearly. For 1975, this was radical thinking.

I could use my time in Alaska to not only earn money but to train my brain as well. So, I stopped smoking marijuana and brought my teenage drinking to an end. I set myself a goal of reading a novel a day. There was more than enough time in which to do it.

I started off with a list of the top 100 books of all time that I had seen in a newspaper. This undertaking made me likely one of the best-read 19-year-olds in the world. Two books in particular, stood out: *Catch-22* by Joseph Heller, a comedy about living in the moment, and *Atlas Shrugged*, by Ayn Rand.

(Full disclosure: I could not get through James Joyce's *Ulysses*. Also, as I hope becomes clear throughout this book, I wish I'd had a chance to read Sun Tzu's *Art of War* and Machiavelli's *The Prince* while in Alaska.)

*Atlas Shrugged* is about a lot of things, but to put it most simply, it tells the story of a few visionary innovators on a quest to be great people and to produce a great product. There's Dagny Taggart, the professional woman in her early 30s who keeps her family's railroad empire running (despite her brother's incompetence). There's Dagny's love interest, industrialist Hank Rearden, who invents a new metal alloy stronger than steel and who must overcome the schemes of politicians and relatives who, unable to create greatness of their own, suck the life out of Hank.

Then there's John Galt, the mysterious engineer and philosopher who remains mostly unidentified through much of the story. The question, "Who is John Galt?" is a major recurring theme in *Atlas Shrugged*

and is a phrase that has since become a cultural touchstone of its own.

*Atlas Shrugged* was my first major introduction to the idea of elevating the world from mediocrity to greatness through individual creativity, dedication, and vision. I did not understand then what kind of a theme this would be for me in the years to come.

*Atlas Shrugged* also brought into focus the many inefficiencies of the unionized labour system. I had a union job on the pipeline – which was exactly why I had so much time to read. But there were times in Alaska when I saw a simple task being performed by three people because the union required one guy to drive a machine, a different guy to flip a switch, and a third guy to make sure the machine didn't run out of gas.

There was no room for innovation or individuality. I saw socialism at its worst. I saw union bosses ensuring work was mediocre, so the company could hire more people, so the union could collect more dues. I saw an underside to people who would rather strike than work – people who wanted others to create, invent, and risk and still pay the union workers untold amounts for mediocre work.

This was a valuable lesson as a young man because finding out what I wanted in life was sometimes distinguished by finding out what I *didn't* want – another concept I wouldn't fully understand for several more years.

At any rate, I was saving money, and I was focused on training and developing my brain. Knowing I would not stay in Alaska forever, it occurred to me to start laying out some goals for the years to come. For one thing, I recognized that my work on the pipeline was me trading my life for money.

Swimming had given me a decade of goal-setting experience. For each age group, there was a definable record time I had to beat, and I felt I had to beat it by my birthday before moving into the next age group.

Looking further into the future, I set the goal of owning my own house by 20, running my own business by 30 and being retired by 40 (meaning I would be 100 percent in control of my whole life). Running my own business was in my blood because I had so many ideas and I wanted to find out if the world wanted what I wanted. At the very least, it would mean I wasn't trading my life for money on someone else's terms.

This might seem like the daydreams of a 19-year-old working in the middle of nowhere, making good money for the first time in his life – but to me, my goals were a serious, authentic way of envisioning the years to come.

### **Back to Civilization**

I left the pipeline almost 18 months after I'd arrived, and by then I'd made about \$150,000 (over \$700,000 in today's money).<sup>1</sup> With the opportunity to earn that kind of money, it's natural to wonder why I didn't stay in Alaska longer.

The reality is, I was grinding my teeth. Plus, the longer I stayed on the pipeline, the longer it would take me to reintegrate into society. I had to learn not to swear with every second word, and I didn't know how to have a conversation without bringing up some pipeline story.

I recognized it took many – if not most – people to work until they were 40 to earn a nest egg like the one I had. If I could start off at 19 or 20 with that kind of money, what could my life be like? I found that question fascinating back then and still do now. If everybody in this world was given what I had and didn't have to work until they were 40 to get it, would they later have the same successes I did?

I wondered if other people had the drive and desire and the willingness to suffer in the moment for long-term gain. I wondered if my drive was genetic or if swimming had taught me the rewards of working

<sup>1</sup> "Value of \$150,000 in 1976." Inflation Calculator, Saving.org, accessed February 19, 2021, <https://www.saving.org/inflation/?page=home>

hard in the present to fulfill a long-term goal. Was I really anyone special in this whole thing, or was I just lucky to have met that woman at the airport who'd turned me onto the job on the pipeline?

Meanwhile, I'd achieved one of my goals – I'd bought a house before the age of 20, sight unseen.

The house had three suites. Even though I had money in the bank, I took out a mortgage at 19 per cent, not yet understanding how I should have paid that mortgage off with my money in the bank that was collecting 3 percent interest. My first lesson in cash flow. I was a landlord, and I was only 19.

Leaving the pipeline base camp was as big a day as I could imagine – it was like driving home from the hospital with your first child. I drove to Fairbanks and got on a plane to fly home. Most of the other men there would work eight weeks and then take two weeks off and go home for a visit, but I'd worked for 18 months, often 18-hour days, with only a few days off. The only way I could keep myself motivated was knowing every hour I worked would mean I could stay two days in a bed-and-breakfast on Accra Beach in Barbados.

Back in Calgary, the first thing I did was inspect my new house. I soon found myself looking at one of the ugliest, oldest buildings I'd ever seen – an original farmhouse now in the middle of the city. The house was on a hill and had great views of the surrounding city, but the views and a small stand of fruit trees (some of the only fruit trees in the city) were the only things the house had going for it.

I've always been a very non-materialistic person, but I also love quality. In 1976, it was not American quality that impressed me, but German or Japanese. On my return to Calgary, as soon as I'd recognized the house I'd purchased was anything but quality, I bought a Mercedes Benz as a present to myself. At the time, there were very few Mercedes in Canada, but those vehicles were the epitome of the quality with which I wanted to surround myself.

Now I found myself with these two possessions. My house was basically falling over, costing me massive amounts in cash flow just to keep it standing. And then, I had this beautiful car. Despite the high-quality nature of the car, any time one little thing went wrong with it, the dealership would have to fly in a piece from Germany, costing me hundreds upon hundreds of dollars for some routine repair.

Owning these possessions was a lesson in business. From then on, I only wanted to buy cars I knew were reliable, would seldom break down, and wouldn't cost much to run – a Honda Civic, for example. I also promised myself I would only buy houses I knew were built with solid craftsmanship. I would always make sure the windows were double-paned to keep winter heating expenses down.

A short-term tenant at my house was Frank Troughton, a new friend I'd made on my return to the University football team. Frank was 21 and newly divorced.

"Chip didn't really have a penchant for football," says Frank, "because as big and as strong as he was, he just wasn't mean enough to be a football player. He was stubborn but also incredibly easy going. He was a tall, blonde surfer who walked around Calgary in shorts, flip-flops and no shirt once the temperature got above freezing. I always knew Chip was a little bit different. He was the entrepreneurial type, and I was sure he'd find his way in life."

Frank also has one especially funny recollection that sums up our life in that place. "I was actually living at the house Chip had bought with the money he'd earned up on the pipeline. I was working security at a bar downtown during Stampede Rodeo Week. Well, I was a bit of a wild man back then, and I ended up getting into a confrontation with a couple of biker guys. I must have pissed them off good because they followed me back to Chip's place and let me know that they'd be back with a bunch of guys from their gang.

"The bikers took off, and I ran upstairs to wake Chip up – it was around 3 o'clock in the morning by this point. I said: 'Hey, we have to get prepared. We're going to have a situation on our hands here.' I grabbed my shotgun and went downstairs to the porch. There was Chip walking around the house, stark naked, brandishing a golf club. This is how he would greet a motorcycle gang that was ready to unleash hell.

“The situation was serious enough that a SWAT team was dispatched to the scene and, as luck would have it, those guys arrived at around the same time as the bikers. And there’s Chip, still naked, a golf club in his hands, ready to go down swinging.”

When I look back on my early life, I feel like the luckiest guy in the world. As things turned out, I lived in that house until 1985. Still, these events were just preparing me for the next phase of my life.

## CHAPTER 3

# FINE AS WINE

### *Finishing University*

As I moved through 1976 and finished my second year in business school, the faculty politely suggested that, perhaps, business school was not for me. I couldn't pass accounting.

By then, I was so tired of school I took the easiest courses I could just to finish quickly. Despite my struggles with accounting, I majored in economics and got near perfect marks without very much effort. I was a creative business student, and economics is an art. It is a subject in which there is never a right answer, so I succeeded. Economics seemed a relatively easy way to bullshit my way through. I concluded that everyone should take the easiest courses they could because what comes easiest will ultimately be the most fulfilling in life.

Having transferred to the University of Calgary, I played football (a sport in which I was mediocre), wrestled (quite poorly), and swam (only on relay teams). In 1979, after a two-week stint with the local pro football team, I quit to learn how to distance run and to get my 250 pounds down to 210.

I graduated in 1979, seven years after I'd started university, with a degree in Economics. I hadn't blown all my Alaska money just yet. There was one more thing I would spend a lot of money on.

### *Chip Wilson, Global Person*

I still had five free airline tickets anywhere in the world each year. I took full advantage of the opportunity. Although the tickets were free, I spent a lot of money on the trips outside of airfare.

I was very fortunate to have travelled the world by my early 20s. On one trip, I had a four-hour lay-over in Rio while on my way to Cape Town, South Africa. I got off the plane, walked around, and within an hour I had decided Cape Town could wait, maybe indefinitely. At that moment, Rio seemed like the most fantastic place in the world.

It helped, I suppose, that it was New Year's Eve. I knew nothing about places with names like Copacabana or Ipanema, but everywhere I looked the Brazilians were dressed up in their best. I loved the Latin flair of the culture and how everybody was so expressive, especially when I contrasted Rio against the conservatism of North America.

On another trip, I went to Barbados. I finished my last exam and got on a plane the next day. I told no

one I was going. In all these travels, I learned how small the world was. Imagine getting on a plane and going anywhere.

It was 3:00 a.m. on my fourth day in Barbados, and I was at a disco called Alexandria's. After a few drinks, I turned around and saw someone that looked like my dad. I went up to the man, thinking that perhaps every person really did have a doppelganger, and asked, "Are you my dad?"

He replied, rather matter-of-factly, "Yes," then asked me if I wanted to go surfing the next day.

I laughed and politely declined. The last place that I had ever wanted to meet my dad was in a disco in the Caribbean, so we went our separate ways. That moment was surreal.

Towards the end of 1979, my university days were finished, and my free travel perks had come to an end. I had about \$85,000 left in the bank and was thinking about what was next.

### **California Wrap Shorts**

As with many other things in my life, the answer turned out to be in California.

In the fall of 1979, on a trip to visit my grandmother in San Diego, I noticed Ocean Pacific (OP) making men's street style corduroy surf shorts and hoodies for men to wear when not surfing. At the same time, I saw girls wearing wrap shorts that were tied on one side, then brought up underneath and tied again in the back. They came in bright, bold colors and patterns, often safari- or Hawaiian-printed fabrics.

From what I knew about sewing and tailoring – from watching my mother over the years – I noticed how simple, comfortable, and functional these shorts were.

Since I visited California annually, I knew this was a new style. I knew the critical mass of people and trends in California had a way of eventually influencing what people would wear everywhere else. I brought a pair of the shorts back to Calgary as a present to my then-girlfriend, Cindy Wilson (no relation).

I showed her the wrap shorts from California, and she loved them. So did her friends. This was the first positive sign of the demand for the shorts.

My initial thought was for us to make them ourselves. The pattern seemed simple enough, and Cindy and I had learned a thing or two about sewing from our mothers, such as making the first pattern from newsprint. It turned out I'd overestimated my abilities somewhat, and even though I sewed a few pairs after I'd cut the pattern, I don't think anyone would have wanted to wear them.

I reflected on my mom's skill. I believed there had to be other great seamstresses like her that would love to make extra money. I put an ad in the newspaper and quickly got replies from perhaps a dozen women. This was an encouraging response, but I wanted to narrow the field further, so I could ensure high-quality work.

To do this, we cut bolts of fabric – all of it 100 percent cotton and brightly-flowered or otherwise boldly-patterned – and delivered the fabric to each seamstress who'd answered the ads. I asked them to make 10 of the wrap shorts. From there, I narrowed it down to the five who did good work.

Of those five, one woman produced significantly more than the other four. Her name was Josephine Terratiano. Josephine, a wonderful Italian woman, was sharing the work with her relatives, who, like her, were all highly-skilled couture tailors. They became my own Italian connection.

By this time, my mother, her husband, and my sister and brother had moved back to the States, and my dad was spending more and more time at the Esalen Institute in Big Sur. The Terratianos became like a second family to me.

"My mom was a seamstress, and my sisters were seamstresses," Josephine recalls, "but my only profession is sewing. I did all my sewing with all my heart. And Chip, he was lucky to find me!"

Josephine and her sisters made about 300 pairs of the shorts, and I branded them *Fine as Wine* as a nod to Billy O'Callaghan, my old mentor on the pipeline. After Cindy and I sold the shorts to her friends,

I took them to the major department stores in Calgary to see if they might be interested in selling them.

Nobody seemed to believe these shorts were viable or sellable on any level.

This was my first inventory problem – lots of product and nowhere to sell. But I was confident if I could get past the store buyers, people would want the product. The idea was to get people living at least a kilometre above sea level and under a 12-hour drive from the West Coast who were excited about Southern California-inspired surf wear. I couldn't do it by selling wholesale to big department stores. That meant I would have to figure out how to get out of this inventory mess myself.

The more I considered the problem, the more I came back to one of the most basic sales concepts I could imagine – a lemonade stand!

The plan was simple – a nice-looking wooden booth and a three-month summertime lease in downtown Calgary. That was my plan to sell my stock of shorts and the genesis of a sophisticated vertical retail business. Cindy would work the booth all week. We would both work on weekends.

### ***Assessing Career Options***

A few months after making 300 pairs of shorts and graduating from University, I'd received a letter from London Life Insurance, one of the biggest insurance companies in Canada. It was a wonderful letter, full of compliments. Apparently, these people knew who I was from my varsity sports.

"We have been following you and your esteemed athletic career at University, and we feel you'd be a great employee at London Life," they told me. Here was one option.

I called London Life, and they invited me for an interview. When I arrived, I noticed how everyone was very prim and proper, wearing the Calgary formal look: a Prada suit with alligator cowboy boots. But anyone who knew me back then knew all I ever wore were shorts and sandals, even through the winter. That was how I dressed for the interview. I'd been so enamored by their letter, I thought they knew me on some personal, intimate level – enough to know how I liked to dress.

In reality, London Life's initial correspondence with me was more of a form letter, made to sound intimate and personal. They didn't know me at all. I did not get the job at London Life.

I then applied for a job at Dome Petroleum, a Calgary-based oil and gas company. I wore a suit. With my economics degree in hand, Dome hired me on as a landman. I remember getting dressed in a suit in front of the mirror and saying to myself, "Halloween, every day."

Working as a landman meant negotiating mineral rights, exploration rights, and various business agreements. I worked on the 30th floor of the Dome Tower in downtown Calgary, and my salary was about \$30,000 a year – good money for a young man of 25. I was terrible at my job, and I apologize to anyone with whom I had to work.

My manager was one of the first female managers in the oil business. She was great, but I wasn't the right putty out of which to make a decent employee. I was sent to many courses, but I couldn't pay attention because my own mind was too busy. My mind was muddled with fundamental questions of life. Would I ever get married? Could I get a date for Friday night? Would I have enough money to retire? Would I ever have children? Could I pay for a family? What would happen if I got sick? Etc.

There were no courses that would develop my maturity. I couldn't pile on work development courses until I had myself figured out.

Shortly after I started at Dome, I met a guy named Scott Sibley, who had just come to Dome through a merger. We'd both been at the University of Alberta at the same time. Some of Scott's closest friends had been on the football team with me. We figured we must have been at dozens of house parties together (as I recall, Scott would have a cocktail in his hand and a girl on his arm, while I would have a litre of milk in mine and no girl), but we'd never formally met.

As much as I knew my job at Dome was a good one, I knew I was looking at the same trap I'd experienced on the pipeline in Alaska – trading my life for money. The goal of working for myself by age 30 gave me a tangible sense of something to work toward, particularly with *Fine as Wine* (now renamed Westbeach) just getting off the ground.

The name, *Westbeach*, was derived from my subconscious need to get back to the West Coast. My childhood on Ocean Beach in San Diego had imprinted a feeling in me that I was trying to recreate in the prairie city of Calgary.

### ***The Triathlon***

Throughout the same period, in the spring and summer of 1980, I had become interested in triathlons.

There were a few ways I'd come across the idea of doing a triathlon. As a competitive swimmer, the 2.4-mile swim was easy, since that was the distance swimmers swam to warm up for a workout. I'd also recently taken up cycling, as I found the act of pulling up with foot cages on the pedals had fixed the back injuries I'd sustained from playing football. So, I was already regularly doing two of the three main exercises that compose a triathlon.

I was also looking for a new physical challenge. Through swimming I'd come to believe my mind had ultimate power over my body – but what about something I hadn't tried? Something like the Ironman? The first Ironman was held in Hawaii in 1978. Since so few people had done it, there was really no context, no collective understanding of what it demanded. I may as well have said I wanted to run across the Gobi Desert.

However, I believed if I could do an Ironman 50 pounds heavier than average, I could train my brain that anything was possible. Knowing you can achieve what seems impossible is one of the most significant things someone can derive from athletic activity.

No one had figured out how to make clothing for triathletes. The average time to complete a short triathlon was a couple of hours. For the Ironman, it was about 9 to 10 hours, or 13 in my case. Either way, it was a lot of time. Transitioning out of saltwater, if the seams inside an athlete's apparel were off a little bit, or if there was any rubbing or chafing, it would be a pain more painful than the race itself.

I spent a little time and money designing a Lycra garment with the seams moved away from the inner thighs and from under the arms. The result was a pair of cycling shorts with a look, feel, and function that had never existed before. I was excited by the technical achievement of these shorts. This design appealed to me in a far more creative way than the wrap shorts we'd made for Westbeach, since those wrap shorts weren't solving a functional problem of any kind.

Unfortunately, I was eight years ahead of the mainstream popularity of the triathlon movement. There just weren't enough people participating in the sport to make the demand worthwhile – not yet, anyway. I sold the shorts wholesale to a few cycling shops, but the experiment went no further.

Still, I couldn't ignore that deep-seated, creative satisfaction I'd felt from designing and producing a high-quality technical garment. This was a passion that would stay with me during the Westbeach years when we moved away from surfing to skateboarding and then to snowboarding gear, and this same passion would move to the forefront of my thinking with lululemon, still two decades away.

### ***The First Season in Business***

At last, Cindy and I opened our booth when spring arrived. It didn't take long to see how high the demand was. The incredible thing about the first season at the booth was seeing how many people actually wanted to buy our product. It excited them.



Fortunately, the Dome Oil Tower was across the street from our booth. At the end of the day, I would collect the cash, go buy fabric, and take it to the other end of the city to the seamstresses and tailors. I would then go for a 90-minute swim, eat all I could, and go to bed. In the morning, I would wake up early and go for a two-hour bike ride, then go to the other side of the city to pick up finished goods from Josephine and deliver them to the store. I would then skateboard into work in my suit and run a 10k at lunch.

Those days of starting a business and training for a triathlon were wonderful and energizing. I loved it all.

## CHAPTER 4

# LESSONS LEARNED

### *Discovering Vertical Retail*

Before our first season, many people told me I was making a huge mistake by opening my own lemonade-stand style booth – as modest as it was – in the outdoor 8th Avenue Mall. I kept hearing that the clothing business was tough. But, to me, it seemed simple. I bought the fabric, I oversaw the production of the garments, I brought them to the booth, and when Cindy wasn't available, I did the selling myself.

What I didn't realize at the time was that I was inventing vertical retailing.

Because I had my own stores, my margins (something about which I was just learning) must have been huge, but there was no vertical model with which to compare it. The whole process seemed so simple. I got paid every day instead of waiting for wholesale payments to come 60 days after shipping.

However, I still had a wide variety of costs to deal with on my own. The booth and the labour, for starters, but also the production.

My economics degree finally came to good use. I knew a profitable business would need critical mass and economy-of-scale production. Unless I could make a minimum of 500 to 2,000 units of a style at a time, I couldn't get the production price low enough to resell and make a profit. It didn't matter if I made any money because I knew I was in it for the long run. I needed to learn everything about business I didn't yet know. In life, there's no performance without action.

### *The Bank is in a Lot of Trouble*

In 1980, at the end of our first summer, Cindy went off to university (she was studying architecture at the University of British Columbia), and I closed the booth for winter and planned for the next season. We'd made a little money (about \$5,500) that season.

I needed to buy about \$20,000 of fabric for next season's production. I was continuing to loan money from my oil job to Westbeach, and I knew that if I spent all my money on fabric, it would leave me unable to pay our sewing costs – one of Westbeach's first production challenges.

In search of a solution, I went to Josephine Terratiano and asked her to do the sewing over the winter, with a promise to pay her the following summer once that inventory sold. This was a big thing to ask. It hinged on authenticity, trust, and the sense of family I'd developed with Josephine – the personal

aspects of a business relationship that can't always be captured through formal agreements.

However, it was also advantageous for Josephine because I could purchase double the fabric and she got to sew twice as much as I otherwise would've been able to buy, which meant she was due twice as much money when the time came to pay her. Ultimately, it was beneficial for both parties.

Meanwhile, as we moved through fall into winter, I continued at Dome. Here I was sitting up in the Dome Tower on the 30th floor, working on multi-million-dollar contracts, with the little Westbeach booth closed for the winter. Dome was a good job, but I stayed mindful of my goal to leave the company and be working for myself by age 30, with the longer-range goal of retiring by 40.

Suddenly, in a flash, I saw my future life if I stayed at Dome. I would become a VP, I would be married, move to the suburbs, have a couple of kids, retire at 60, become a serious cyclist, and then die. I said to myself, "Great, Chip, that's one life, and there is no point in living it again. Let's live a new life." I believed in that moment that I had just gained 15,000 days of life.

My mother, having been a child of the Depression, was anxious. "When Chip went into business for himself, I was scared," she says. "I mean, I was scared for him because I didn't know where it would lead, but it taught him a lot of things. Going from the petroleum industry into the clothing business is a huge hurdle."

My dad puts it more bluntly: "I think Chip was kind of bored at Dome. I think he knew it wasn't the direction he wanted to go."

With Westbeach, I was always learning and challenged because I was encountering a brand-new situation every day of my life. I never knew what would happen next or what I would learn. Whereas, when you're in business for someone else – in my case, Dome – there is always that fixed progression through the ranks, through the years, until you reach a prescribed end.

Dome Petroleum ended up as the largest bankruptcy in Canadian history. It was a company built on a deck of cards. I was a fortunate beneficiary as I spent two-and-a-half years with Dome when the company was in exponential growth and two-and-a-half years when the company was in bankruptcy, working under bank protection.

I promised myself I never wanted to owe banks money and be under their control. However, I loved a quote that came from the circumstances: "If you owe the bank \$2 million and you can't pay up, you are in a lot of trouble. If you owe the bank \$20 billion and you can't pay up, the bank is in a lot of trouble."

### ***The Second Season in Business***

As we moved into the spring of 1981, Westbeach underwent a small expansion. I added another lemonade-stand booth in Calgary and an outlet in Edmonton. The Edmonton location was a ski shop (this was the advent of the pop-up store concept we would later perfect at lululemon). The ski shop closed during the summertime, which made it ideal for a seasonal retail venture like Westbeach.

That summer, having a booth only allowed customers to buy our products, not try them on. If we were going to continue to grow, we would need a store with change rooms. The demand was there. Westbeach was growing. We hadn't yet reached our critical production mass, but I had no doubt we had created something that didn't otherwise exist.

My partner, however, did not share this belief.

As the summer of 1981 ended, I said goodbye to Cindy as she headed back to school. We were about to embark on another year of a long-distance relationship. In those days, there was no email or internet to keep us connected. Long-distance phone calls were expensive, which made you constantly consider how much time you could afford to talk, and snail mail, even then, seemed slow and archaic.

The conditions were there for Cindy and I to grow in different directions, so we ended both our personal and business relationship. Separating the business part was messy; Cindy had not been involved

in the accounting and hadn't been aware that Westbeach was worth negative \$20,000 due to a personal loan I had provided.

### ***The Third Season in Business***

Despite the painful breakup with Cindy, my faith in the demand for Westbeach remained steadfast. I still believed I could be the best in the world at something. I was seeing a West Coast way of life manifesting itself into an athletic style far different from that of Europe or the East Coast. This style could be described as the "hoodie" look and is the genesis of the apparel worn by Silicon Valley techies today. Still, the term "lifestyle clothing" had not yet been coined. Neither had the word "extreme" in the context of describing extreme sports.

Then, in the summer of 1982, I finally moved Westbeach into an actual storefront. The shop was formerly a '70s upscale hippie store called The Strawberry Experiment, a well-known downtown Calgary retail location 40 feet from where my booth had been. The previous store owner had poured a lot of money into the place, adding a glass floor over a fish tank, strobe lights, and shag carpeting – the works. I worked hard to enhance the unique, retro vibe of the place, to give customers a feeling they wouldn't get in other clothing stores.

On a trip to Mexico City, I had gone into a discount store that sold beautiful clothing. I bought \$5,000 worth of clothing, brought it back to Calgary, and it sold out immediately. I went back again and bought \$15,000 worth and turned it around with the same results. When I went back a third time, the store had shut down. Little did I know at the time, but I was buying Guess clothing when the brand was near its genesis and had huge brand pull. Guess was unavailable in Canada or the US, and female shoppers knew something I didn't. The brand was a great driver of people to our fledgling store.

I also hired two women, Kathy and Cathy, to cover the sales and management of the store. I'd met Kathy and Cathy when they were working at Calgary's first cappuccino café, a place called Bagels & Buns. It was on 17th Avenue, right below the spot where my dad's family had lived in the '40s.

I would go to this café every Saturday and Sunday to read newspapers and get the only cappuccino in town. As I watched Kathy and Cathy' efficiency behind the counter, they struck me as some of the most amazing workers I'd ever seen – highly responsible, smart, motivated, and great with customers.

Kathy and Cathy were exactly the people I wanted in Westbeach's new store. As a learning experience, hiring them gave me my first brush with interviewing, training, and developing employees. I had no training myself, and I could only pass on the little I knew of my business philosophy. There were no books I could read that would have taught me how to do vertical retailing. Wholesale was a much "safer" option to address overhead and many other operating costs.

One of these wholesale deals was with Scott Sibley, the guy I'd become friends with during my first few months at Dome. A year or so earlier, Scott had left Dome to start a business in Vancouver with a man named Richard Mellon.

"I followed my passion and headed out to the West Coast to get into the sailboat business," Scott explains.

Unfortunately for Scott and Richard, the small sailboat business was going through a downturn at the time. The market for parts was drying up. "To get some cash rolling through the company," says Scott, "we looked at adding soft goods. That was where Chip came in. We arranged it so he would send us a bunch of inventory – shorts and T-shirts – on consignment. With this new focus on soft goods, we changed the name of the store to California BC."

There was a huge demand for Westbeach apparel in Vancouver, and soon, California BC became my biggest wholesale customer.

## ***The Shift in Men's Apparel***

In 1982, there was about to be a major shift in men's apparel. This would take Westbeach to the next level. Standard men's shorts were tight, with a short inseam – no more than three inches. If you had a dime in the pocket of those shorts, someone could read the date through the fabric.

Meanwhile, I'd been making baggy shorts for myself, with a 9 or 10-inch inseam. For a man of my size, I preferred semi-loose, longer shorts, of the kind I'd seen on businessmen in Bermuda during my global travel. I'd also seen how Australian surf-inspired shorts and hoodies were emerging as casual clothing in California.

Then, by the early '80s, Quiksilver (which was making surf wear for actual surfers), made shorts with a small waist and a large bum-to-thigh ratio, which mirrored the physical build surfers have from all their squatting. This was functional apparel, built for an athletic requirement.

As I became involved with many Vancouver athletic companies, I would call this design concept the "Vancouver Fit" as the pattern shape was the opposite used by streetwear companies who use the average unathletic North American body measurements as their proxy.

Because shorts designed specifically for an athletic body looked so good, girls everywhere wanted their boyfriends to wear the same shorts. As with other trends, I sensed what was happening on the West Coast would make its way to the rest of the world. There was an opportunity here for me if I could figure out how to take advantage of it.

My first opportunity came when I visited the Quiksilver warehouse in California. The general manager showed me some unsellable inventory of men's pants they'd brought in from Australia. The pants were made with wild-patterned fabric that was popular in Australia, but was too loud for conservative Americans.

I offered to buy 1,000 pants for \$1 dollar apiece. The Quiksilver GM accepted this offer, happy enough just to get rid of the pants. I shipped the pants back to Canada and had them cut into long shorts, then priced them at \$45 each. They had the look of the surf shorts I thought would soon take over. Sure enough, the shorts sold out in a week.

## ***Reversible Shorts***

The fast-selling Quiksilver pants-turned-short shorts proved that a market existed for long, colorful surf-inspired street shorts. I created a new design by adopting Quiksilver's fit, which included a very low rise in the front and a high rise in the back. The low front rise meant the fabric wouldn't double over when crouching and the high back meant no plumber's crack. It was a massive innovation in athletic apparel. These modifications worked perfectly, but the next hurdle was finding Hawaiian-patterned fabric to offset the old look of solid colors. I couldn't afford to buy the right fabric, not in the 2,000 or 3,000-metre volumes I needed to make money. If I couldn't buy the fabric, I had to think of an alternative.

As I considered the problem, I thought about my mother. Along with all the other sewing she did, she'd also always been good at quilting. This, I realized, was the solution. I went around to all the discount fabric stores, bought up all the discounted, brightly colored end rolls of fabric I could find, cut them into squares, and had the seamstress quilt them together.

"When Chip was a kid, he used to help me put my quilts together in the sewing room, but I never thought those moments we had would turn into a career," my mother remembers.

The quilted fabrics gave me the crazy, bright look I wanted – but the shorts lacked stability since they were put together using multiple small pieces of material. The solution to this problem was to create a black cotton underlay.

As an unexpected side effect, the black underlay not only solved the stability problem – it also made

the shorts reversible. You could have the wild patterns on one side, or you could turn them inside out and have a pair of plain black shorts, all in one garment. This thinking was the genesis of how I looked at all future designs. I discovered that when a consumer understood a garment was reversible, they subconsciously recognized them as two-for-one and halved the price in their mind.

Finally, I designed the shorts to be big enough to fit me. From a functional, technical standpoint, I hated the skin-tightness of the men's shorts in style at the time. I wanted something in which I could move much more freely. I wanted to create an anti-ball-crushing garment (I perfected this with lululemon's menswear).

As Josephine Terratiano says, "Every time Chip came here, he had so many crazy ideas. He kept saying, 'Josephine, I have to have something different because young people, they go crazy and they spend money.' We used to make reversible shorts, \$100 each. He said, 'Maybe some people they cannot buy these shorts 'cause they can't spend money but the young people, they go crazy.'"

Still, I knew that few men in Calgary, as conservative as they were, would buy wild-colored *surf shorts*, so I rebranded them as *barbeque shorts*. I felt confident the regular guy just needed the right excuse to buy something that was usually out of his comfort zone. From this lesson, I learned that the naming of a product is a critical piece of sales success.

And that summer of 1982, people *did* go crazy for this new line of barbecue shorts.

These long, loose, anti-ball-crushing shorts gave men a clothing option they'd never had before. People were buying the shorts as quickly as I could make them, often four or five pairs at a time. They were, I realized, purchasing the shorts not just for themselves, but to send to friends and relatives all over the world, who couldn't get them anywhere else.

At last, I was the best in the world at something.

## CHAPTER 5

# THE SHIFT

### *Skateboarding*

Westbeach's original customers had been women interested in the wrap shorts. I'd expanded the women's styles, but my female customers had been overtaken by 25 to 40-year-old men demanding the reversible barbecue shorts.

There was about to be another shift.

I had begun to experience how the Westbeach store was virtually empty during the day. Lunch hour would be busy when businesspeople came, but otherwise, little happened...until 3:30 p.m. every afternoon, when the store filled up with kids – young boys, mostly between 12 and 16. They weren't just coming in to look. They were buying.

Barbecue shorts had turned into skateboard shorts.

Back in the mid-'70s, skateboarding had experienced an explosion in popularity. As with surfing, the skateboarding boom traced its roots to southern California. Some of this history is portrayed in the 2005 film *Lords of Dogtown*, based on real-life skateboard figures Stacy Peralta, Jay Adams, and Tony Alva.

By the mid-'80s, public skateparks had appeared all over North America. This coincided with skaters building their own ramps in their backyards, and using whatever public spaces (steps, railings, and numerous other things) they could find. At the time, smaller skateboard companies, owned by skaters themselves, were cropping up – these companies were on the leading edge of this dynamic new trend.

As with surfing, the unique physical demands and range of motion in skateboarding required baggy, loose-fitting garments – better yet if they hung long enough to cover and protect the knees. Of course, the low front rise and high back rise worked the same for skate as it did for surf. It was bringing those boys into my store.

It did not take me long to realize that this was my new customer base. I adjusted the store to match. I bought a piranha named Jake, put him in the fish tank, and fed him every afternoon at 3:30 p.m. Jake was aggressive and grew quickly. I also bought a Commodore 64. You couldn't do much with it – input an address (which was useful as a mailing database for me) and execute a few simple commands – but it was something the kids loved and gravitated towards as soon as they came in the store.

As Westbeach was the only surf and skate store operating in Canada, to supplement my own inventory, I became the distributor (or licensee) of surf and skate brands from the US. This included apparel

made by Gordon & Smith, Santa Cruz, Stüssy, and Billabong, among others.

Outside the store, I took measures to ensure I had a close connection with the skateboarding scene. There were not yet any public skateparks in Calgary, so I invited the local skateboarders to build a ramp in the backyard of my ramshackle house.

The ramp went up quickly, and just as quickly got lots of use. It got so much use – at all hours, no less – that I finally chained it at night so I could sleep and sent out mailers with its hours of operation (this is where the address database in the Commodore 64 came in handy).

All these efforts to position Westbeach and myself at the front of the skateboarding scene were working. Westbeach made around \$90,000 in 1983, exponentially more revenue than it made in its first few seasons.

Still, of that \$90,000, perhaps \$30,000 went into labour and production, and another \$30,000 went into wages and leases. Financially, the brand was not yet at a critical mass, especially since I was mainly just selling in my own stores. To maintain its position at the front of the market, Westbeach would need to grow and evolve further and faster – at some point, competitors and imitators were bound to appear.

### ***On Integrity***

The year 1983 was also marked by two important lessons in integrity. The first had to do with a car. As a young entrepreneur, I was trying to make ends meet wherever I could. I got rid of my Mercedes and replaced it with a used Volkswagen station wagon.

The station wagon would've been the perfect vehicle for what I needed, but it soon became apparent I had been sold a lemon. Exhaust fumes were coming up into the car. I either had to always drive with the windows down – not ideal in Calgary winters – or suffer a terrible headache. I realized I had to get rid of the car. So, I sold it. And I said nothing about the exhaust fumes to the man who bought it.

A week or two later the man called me. He said I'd known about the problem when I sold him the car, but I hadn't told him and had let him buy it anyway. He said I wasn't a very good person. It hurt me, but he was right. I didn't take the car back or refund him his money.

Part of this was because I was in survival mode with my business. But, part of it was because I justified my actions – somebody had done it to me (the person from whom I'd originally bought the car), so I turned around and did it to somebody else. After the man on the phone told me I wasn't a very good person, I decided I never again wanted to be in a position where someone could say that about me or call my integrity into question.

This leads me to the second lesson. Not long after that incident with the car, I was in the Westbeach store, and I saw \$200 in \$20 bills on the ground. I picked it up, put it in my pocket, and looked around. There was nobody in my store just then, and \$200 was a lot of money.

A little while later, I was sitting with the owner of an outdoor restaurant next door to Westbeach. During our conversation, a young woman came up to us, in semi-panic mode, and told us she'd lost \$200 somewhere around here. I asked her what denominations the money was in. She told me it was in 20-dollar bills. So, I pulled the \$200 out of my pocket and gave it back to her.

She was relieved to have her money back. Maybe that was her month's rent. Then she went on her way. It felt good to help her out, but what was important to me at that moment was looking in the restaurant owner's eyes and knowing he saw me as a person of integrity – a person he could trust.

Those were two of the greatest teachings of my life.



## **Smoking in the Store**

Another lesson I learned in the early days of Westbeach was in brand-building. I decided I would let no one into the store who was smoking. You must understand how radical this was in the early '80s. For most people, it was like telling them not to breathe oxygen. Shoppers would scream and yell and swear and promise they would never bring their business to me.

But I was determined to stand my ground. Even with the little evidence we had then, I felt sure smoking was making people sick. It seemed filthy and was not something I wanted to have associated with the youth and athleticism of my brand.

I could tell that making enemies of the people I *didn't* want to wear my product created a stronger group of loyalists who wanted to back a brand that stood for their health. The idea of outwardly targeting who the customer is not (highly non-inclusive) would become a cornerstone of the lululemon brand.

## **The Ironman**

As Westbeach transitioned into a skating brand, I was still training intensively. My training was of a deeply personal nature. I'd always been a one-girl guy, and when Cindy broke off our relationship (and cleaned out half of our joint Westbeach account), I was devastated. My focused athletic activity and daily runner's high gave me an escape from all those feelings of heartbreak. To suppress my misery, I decided to do the Ironman.

My training also confirmed for me something I'd learned a couple of years earlier – my true passion was athletic clothing and technical apparel. Our clothing at Westbeach was flying off the shelves, which was terrific, but I still felt somewhat unfulfilled. I felt the Westbeach clothing was more about fashion than performing a specific function.

The 1983 Ironman was held on October 22 in Kailua-Kona. There was no requirement to prequalify for the Ironman in 1983. For most people, it was their first time at an event of this length.

I was a bulldog in a race of greyhounds that year (a few years later, I would win the Clydesdale division of the Vancouver Triathlon). Later, I would joke about having had the opportunity to meet everyone in the Ironman – during the swim I'd been one of the first out of the water, then everyone said hello as they passed me through the bike ride. I met many of those who had passed me while I was on the run because I ate ferociously on the bike ride. Many runners fell over from lack of nutrition.

After I crossed the finish line, I got a milkshake then went for a massage. At that moment, I swore I'd never do something like the Ironman again. I would participate in 10k runs, and I would take up squash and mountain biking, but I knew my body wasn't meant for long distance.

## CHAPTER 6

# THE NEXT LEVEL

### *Farewell to Dome*

On April 25, 1985 – my 30th birthday – I accomplished a goal I'd set for myself several years earlier: I quit my job at Dome Petroleum. From there on out, I intended to only work for myself. That left one more goal to achieve: retirement by age 40.

If retirement by 40 was going to happen, I would need to take Westbeach to the next level. Over the last year, the evolution from surf to skateboard had only become more pronounced. It was obvious to me that skateboarding, like surfing, would be a billion-dollar industry over the next five years. What was less clear was what I needed to do to capitalize on that evolution.

One of my main challenges was still producing 500 to 2,000 items of each style to bring my costs down to make a profit. I was doing small wholesale consignments at various locations across North America, including Hamill's Surf Shop in San Diego, and Scott Sibley and Richard Mellon's store in Vancouver, but I still couldn't achieve the right volume for anything bigger.

An example of this scaling challenge came at a trade show I attended in Singapore in 1986. Buyers from a big Japanese department store came by my booth and knew my reversible, long, quilted shorts were a product differentiator. But, from talking to me, these buyers knew I couldn't deliver what they wanted – namely product volume in the millions. We could not work out a deal, so instead, those same buyers went back to Japan and immediately trademarked the name Westbeach. The ramifications of not controlling my trade name would show up again soon.

### *Partnering with Scott and Richard*

I began to consider partnering. If I didn't partner, once the skateboarding trend broke into the mainstream, someone with more money and more expertise would run me over. As it happened, Scott and Richard had been placing increasingly large orders of clothing to put in their store. By the summer of 1985, the three of us talked about joining forces.

In a partnership, an aspiring entrepreneur can learn how a combination of different skill sets needs to come together to make the business work. You need a designer/creative and visionary, you need someone with a good sense of structure and accounting; and you need someone who's a people person -

a genuine lover of people - to handle sales. It's almost impossible to find all of these skills in one person.

This blend of expertise was something I saw in a potential partnership with Scott and Richard. Scott was gifted at sales and people. Richard was creative at heart, but he was also much older than our target demographic, which by default saw him handle the books and the business end of things. I would be the manufacturer, product developer, and designer.

As we got the partnership discussions underway, I quickly learned how many aspects of expanding a business were beyond my experience. Richard knew about payables, receivables, and how to invoice properly. I didn't understand payment terms and financing. Previously, if someone sent me an invoice, I'd pay them in five days, even though I had 30 days before it was due. Had I been doing things the way Richard did, I could have used the money in the 25 days between the date I paid the invoice and the date it was due. Richard also knew a lot about setting up warehouses and shipping channels. I would never have known how to do this on my own. (I ended up discovering that paying invoices in five days was the key to vertical retailing. Unbeknownst to me, the suppliers loved me so much for being a great invoice payer - I got superior service and access to all the new products and technology.)

My future partners recognized the clothing I supplied had more momentum and better profit than sailing equipment. They carried Westbeach clothing, and the other labels I distributed. By partnering, they could profit by sharing in my markup. Together, we thought we could position ourselves to be the leaders of the coming surfing and skateboarding trend.

In September 1985, I sold 66 percent of my business to Richard and Scott, making our merger official. Westbeach was now truly a West Coast company. Initially, our company grew quickly, which included changes in the way it was modeled.

"It started growing from a vertical retail model to a wholesale model," Scott remembers. "Whereas Chip's focus was on going to California to fill his own stores full of stuff, our new focus became importing and wholesaling into Canadian stores. Surf wear was growing like crazy there."

Later that fall, we attended our first apparel industry trade show together in Montreal. During the '80s, booths at East Coast sporting goods conventions were weird. Company booths were run and staffed by male sales reps in suits and ties, smoking cigarettes. All the clothes they were selling would smell like smoke. This was the common culture of East Coast business, and it was not how I wanted to operate. I detested unhealthy people in suits selling athletic products. It all seemed so fake.

We showed up at our first trade show in a Volkswagen convertible with surfboards, skateboards, shorts, T-shirts, and flip-flops. We played speed metal and had fun while we talked business. We had a brand, as well as a culture and a way of marketing that nobody else had. Right away, the sporting goods industry sat up and took notice.

For the next several years, trade shows a few times a year – not just in Montreal but in places like Japan, Las Vegas, and Munich – would be a fact of life. The purpose of attending these trade shows was to keep securing wholesale deals for our brand.

This was well before I understood the power of vertical retail. Since I was still trying to reach effective economy-of-scale production, even after the partnership was formalized, wholesale deals seemed the best way to increase production quantities quickly because wholesale provided an exponential number of customers.

Although that first tradeshow was fun and felt good – a positive sign for the beginning of our partnership – I did not understand how financially constrained we were about to find ourselves. For starters, Westbeach was already in debt.

## ***Debt and Credit***

When I'd entered the partnership, it was critically important to me to be debt-free. I didn't want a

bank telling me how to run my business. I took the last of my nest egg and paid off everything I owed before I entered the partnership with Richard and Scott.

I didn't realize my two new partners were coming to the table with debts from their earlier business, Windlift Design. That debt came with them. Right off the bat, the company owed money, with interest, to my new partner Richard.

The trouble wasn't just the payments and the lack of capital for growing the business – it was the drain on mental energy caused by the debt. I felt like 40 to 50 percent of our conversations revolved around money, where we could get it, and how we could operate without it. I wondered how much more creative we could have been if we'd been able to take our focus away from these soul-crushing conversations.

Westbeach would continue to struggle with being in the red for the next several years. One way to address our money concerns was to secure a line of credit. Credit would play a significant role in how we operated, particularly with the California companies whose wares we were licensed to sell in Canada.

Unfortunately, this debt would define much of our time at Westbeach for the next 10 years. We were always fighting the clock and nearing the end of our line of credit.

### **Testing Toronto**

Meanwhile, we were also attempting to build a broader geographical presence. The Westbeach flagship store was in Vancouver, but I relocated to Toronto from Calgary. We thought we'd need a solid foothold out east, since that's where 70 percent of the population of Canada lived.

To cover my own costs, I kept my house in Calgary, using it entirely as an income property. Meanwhile, I lived in *the dungeon of doom* – the unfinished dank basement of the Toronto store – to save money. The Beach was a highly tight-knit neighbourhood, but the community took me under its wing, and I loved everyone I met.

Quickly, it became apparent that the vast majority of sales at our Toronto store were to the neighbourhood's emerging beach volleyball scene. With our struggles to find financing, we couldn't pursue the growth we'd intended for our East Coast presence.

We felt continuous pressure to adopt a wholesale model. As Scott says, "In the early days, it was recognized that if you wanted your company to get bigger, you've got to go wholesale. You can't go to the bank and finance retail. The banks hated retail because there was no proof of vertical retailing." I imagine early e-commerce companies had the same issue.

"With unlimited money, you could open up a bunch of retail stores," Scott adds, "but even then, it's riskier to do so. It worked well for lululemon, which is why it went the way it did. He grew it like that and was accepted by banks because lululemon proved the vertical model could make more money with less risk. But in the Westbeach days, we wouldn't commit to diverting wholesale expenses to make building the vertical retail model possible."

By 1987, we knew it didn't make sense for me to stay in Toronto. My being there wasn't working for Westbeach, kind of like a strained long-distance relationship. We sold the Westbeach retail location to a Toronto beach volley designer named Fred Koops, who would go on to found Overkill.

### **Discovering Vancouver**

From Toronto, I moved to Vancouver to live with Scott and Richard. They were living in a run-down five-suite mansion on Point Grey Road. The street runs along the beaches on the south side of English Bay and has since become one of the most expensive housing markets in the world.

While living there, I would wake up every morning to see a blue sky, freighters moving on the ocean,

and snow-capped mountains I could almost touch. You could surf, ski, and sail, all in the same day. It was – and continues to be – a spectacular place to live. One morning, while waking up to that view, I made a goal to own a house on the beach in Vancouver by the age of 50.

Despite the Westbeach partnership's many early challenges, I was in love with Vancouver already – relocating there was one of the best moves I ever made, both professionally and personally.

We had stores in Calgary, Seattle, and Innsbruck, and a location in Whistler would follow a few years later. Each store had three or four employees and made a little over \$1 million dollars a year. This was good revenue, but never enough to lift us out of debt created by the cash-flow-poor wholesaling model.

### ***A Married Life***

Most of my friends had been married for almost 10 years. The '70s were a different era – most people got married before age 24 and most of my married friends had all had kids shortly after tying the knot. There I was, in my early 30s, still single, and living a different lifestyle. I'd started to subconsciously feel like I was missing out on the family aspect of life.

Finally, at 33, I met and married a wonderful woman with whom I had two beautiful boys.

### ***The New Flagship Store***

Around that same time, a much bigger retail location became available just across the street from Westbeach's first Vancouver store on West 4th Avenue. It was a financial stretch for Scott, Richard, and I to make the move, but with the extra space came a lot of opportunity.

Thinking back to the big skateboard ramp at my house in Calgary, I realized we could install the same in our store. It would only strengthen our position at the forefront of skateboarding culture in Canada. Almost right away, the ramp became an integral part of the culture of the store.

Having the ramp at the bigger West 4th store helped Westbeach become the biggest distributor of skateboards in Canada. This was not something I'd ever foreseen when I'd sold wrap shorts from a booth on the 8th Avenue Mall, but I'd paid attention to the trends, to what was coming a few years down the line, and as a result, this was how we'd evolved.

West 4th was a perfect location for selling skateboards because Kitsilano had a surfing community. Skateboarding gave surfers a way to surf on land, so to speak, all year round. It was easy for Westbeach then, because for the most part, skate was the same customer as surf.

Our position at the front of Canada's skateboard scene stayed unchallenged until Powell Peralta – a company founded by George Powell and Stacy Peralta of *Lords of Dogtown* fame – came in with their enormously successful Bones Brigade branding. The Bones Brigade was a professional skateboarding team, formed in 1978, featuring the likes of Tony Hawk. After their popularity hit its peak in 1988, if there wasn't a skull-and-crossbones on your skateboards, you just couldn't sell them.

We quickly lost our hard-good skateboard business to Powell Peralta, as did other competitors, but it was good while it lasted.

### ***Taking Vertical Further***

Having the bigger location on West 4th also allowed us to bring Westbeach's production fully in-house. This was all part of an even larger vertical retail model I had imagined. I questioned why we shouldn't take vertical top to bottom.

There was no roadmap and no one from whom to learn. Intuitively, I'd come to understand how big an economic advantage we could have if we could make vertical retail and in-house production work. We would miss all the middleman markups and supply a better-quality product at a better price. This thought became my mantra as my business acumen developed.

I knew we had to achieve economy-of-scale production. Instead of making 400 units of a particular item, we had to increase production to 2,000 or more. That required buying all our own fabric, trim, zippers, snaps (sometimes not covering these costs upfront, and learning from those mistakes), learning how to inventory it all, and bringing in payroll and labour to make it all happen.

This was learning by doing, and it gave me a deep – if not formal – sense of how manufacturing and production work for a brand. To this day, that unique experience has given me the ability to walk into a retail store and within about 15 seconds, sense what kind of sales, volume, and turnover the store is doing, and how happy the employees are. It's almost second nature for me, but the insight was hard-earned over my years at Westbeach.

Even after we'd centred Westbeach in Vancouver, I kept using Josephine Terratiano as a producer, but ultimately, we had to reconsider production. Vancouver had a large Asian immigrant community, which meant access to a high number of skilled, low-cost seamstresses and tailors, plus better connections with factories overseas.

Breaking the production relationship with Josephine was hard. She'd become like a mother to me. I've never been very good at keeping up relationships, and I'm not the best communicator, but I never forget people either.

Years later, after my personal fortunes had changed, I sent Josephine a shoebox with \$10,000 cash in it and two first-class tickets to Italy. I didn't say who it was from – and apparently, I didn't need to. Not long after I'd sent her the shoebox, I "anonymously" received a tin of the same homemade biscotti I'd loved eating at Josephine's house many years before.

## CHAPTER 7

# THE RISE OF SNOWBOARDING

### ***Becoming a Father***

After I'd sold my house in Calgary, my wife and I used the money from that sale to buy a large three-suite house in Kitsilano with a partner.

Our first child, John James (JJ) Wilson, was born in 1988 at St Paul's Hospital in downtown Vancouver. I can't imagine the experience of becoming a parent is much different for anyone else than it was for me. It was completely life-altering, but some of it came naturally. Despite their financial challenges, my parents had been very good to my sister, brother and I. They'd set examples that had prepared me to love this moment.

Having JJ also made me realize I couldn't take the same risks for myself anymore. I had to think about my family, provide for and take care of them. It was on me to make sure there was food in the fridge and clothes on everyone's back, and that the mortgage was paid.

It might seem like this meant I'd be around my family *more*, but, in practice, I was around *less*. I poured myself into my business, knowing this was the means of securing my family's future. Then, just a few months after JJ was born, we received the great news that we had a second son, Brett, on the way.

There was room for improvement in many areas of my life, but this wasn't a bad time. I was very happy to be a father. Real estate was on the rise in Vancouver, so the house we'd bought was gaining value, which took off some of the financial pressure.

Westbeach was at least breaking even. The three partners – Scott, Richard, and I – had agreed to increase the salaries we got from the company, from about \$30,000 each to \$60,000, mainly so Scott and Richard could prove enough income to pay mortgages and buy houses.

### ***Continued Struggles***

The partnership dynamic between Scott, Richard, and I was okay, but we were three partners with no CEO. That meant three, often separate, visions and three leadership styles. Westbeach was a *good* company, but not a *great* company, and for the moment, the three of us had no concept of what great was. For a long time, we'd believed our business would "get better next year," and that we'd finally surpass that break-even point.

At the same time, I'd realized we were at a crossroads. Although still popular and widespread, I felt skateboarding as a consumer trend would peak and decline, just like surfing had.

We knew our four vertical stores made a profit, and our wholesale was a losing proposition, but we were stuck. We needed the wholesale orders to have economy-of-scale production, but wholesale sucked up so much free cash while we were waiting for payments, that we couldn't shift over to opening more stores. And we couldn't lower our prices in our stores because we had to support the pricing we gave our wholesalers. This foreshadowed the dilemma of future wholesalers who would fail because vertical businesses could perform so much better without middlemen.

We brought in a man named Marco Allinott as a minor partner to assist with retail operations. Marco was a great guy. He was extremely diligent and very smart. His job was to run our stores, and, as such, he was closely involved with our customers and saw what they saw at the retail level. Quickly after coming aboard, Marco proposed tripling the store inventory, so customers would buy six times more. We discovered that customers would return more often because they could almost always find a new or different item. It was a stretch, but we made it work, and sure enough, sales began to pop.

I would use this same strategy later when I was setting up lululemon stores.

### ***Dropping American Brands***

We decided to drop the American brands we'd been carrying since the formation of our partnership.

This idea was Richard's, and it was a great one. American brands were sucking up cash flow, and Westbeach clothing had better profit than they did. American brands had super marketing power behind them, and for a long time, they helped to get kids into our stores so we could sell them Westbeach-branded clothing.

Carrying these brands had given Westbeach a certain amount of validity. But the import costs, high to begin with, had become even more prohibitive, especially with the American dollar 30 percent more valuable than our Canadian dollar.

At the same time, we'd become better and better at our own manufacturing. We were making our products in Canada. Since we didn't have to pay import duty on our stuff, we invested that money in quality. We had something special – a very distinct product, at a better price, and of higher quality than the better-known American brands.

I also had an idea that changed the way we approached the athletic market. I knew hard goods, like surfboards and skateboards, gave us validity, but it was obvious all the profit was in clothing. I could see the "extreme" athletic market was 95 percent men, and the owners of sporting goods stores were 100 percent men.

Men who owned sports stores owned them because they tended to love hard goods. Clothing was an add-on they did not understand, and so, it was a small percentage of what they carried. I understood it in the opposite way. We carried just enough hard goods to be authentic, but we rearranged our store to be 10 percent hard goods and 90 percent apparel.

Still, dropping American brands and focusing on our own improved in-house production wasn't enough. If we were going to survive, we needed to evolve. We needed to get ahead of the next trend. And that next trend, I believed, was snowboarding.

### ***The Rise of Snowboarding***

My ability to predict the rise of snowboarding came from a few different sources.

One source was a man named Ken Achenbach, described by TransWorld as "the father of Canadian



snowboarding.”<sup>1</sup> Back in the early '80s, Ken had founded The Snowboard Shop in Calgary, where he acted as the Canadian distributor for Burton and Sims snowboards. He also experimented with selling skateboard decks, which made him a competitor in Westbeach's early days.

I'd been intrigued by the snowboarding scene, but the market was tiny. Through my failures with triathlon clothing in 1980 and beach volleyball in 1986, I'd learned there was no point doing anything until there were enough customers to make it worthwhile, and in 1983 and 1984, snowboarding wasn't yet at that point.

It didn't help that snowboarding was banned in most ski resorts back then. In Canada, the only place you could snowboard was at Sunshine Village in Banff, Alberta. Snowboarding was scary for older skiers.

Skiers couldn't understand this obscure sport. It looked dangerous to them, sort of the way an older person looked at skateboarders coasting down the sidewalk. Many people skiing the mountains in the '80s were people who could afford it – gray-haired, conservative-minded, 50-somethings. They did not want to see something new take over their mountains.

Personally, I'd been snowboarding since 1983, and I loved it. Every Christmas, a group of friends and I would charter a helicopter to take us up to the peak in Canmore, Alberta, then we would snowboard down the powder-rich slopes. I understood the attraction of the sport.

My brother Brett also inspired me to give snowboarding more serious consideration. After moving to Colorado several years before, Brett had pursued an entrepreneurial career of his own. As I'd founded Westbeach, Brett had founded the original snowboard clothing company, called Wave Rave, in Boulder, Colorado in 1986. Brett immediately connected himself with the Red Hot Chili Peppers at an early snowboard event. (I would go on to have the Chili Peppers perform at my wife's 40th birthday party in our backyard in 2013 – an unbelievable experience!)

“Chip and I intersected at a lot of trade shows,” says Brett. “We'd typically meet up in Europe and in Japan. We were essentially competitors, but I don't think either of us felt like we were stomping on each other's territory because the market was so big.”

Brett had come up for my wedding in August 1988, and, as he recalls, “I brought my snowboard and gear because you could go up to the glacier at Whistler and snowboard in the summer. That's when I told Chip, ‘Look, this snowboarding thing is going to take off. You guys should definitely start making outerwear.’”

Meanwhile, more skiing locations were opening to snowboarding, as resorts realized it was time to think seriously about the additional revenue snowboarding could generate. As I'd seen with surf wear and skateboarding, trends that could move into the *street* – a.k.a. the mainstream – were where I wanted to put my efforts.

A trend's move to the street presented the opportunity to do a lot of business. For instance, if I'd just sold surf shorts to the world's 4,000 or so surfers (or slightly larger number of hard-core skateboarders), there would have been no business in that – not on any profitable scale. But I'd been able to sell sport-inspired streetwear to people who wanted to emulate the sports they admired, if not actually participate in them.

These fringe customers who wanted to look the part were called “posers.” The posers' purchasing power allowed core companies to produce enough quantity to bring prices down and quickly increase production volume.

There wasn't a lot of technology in surf or skate apparel. After my earlier experiments with triathlon gear, the idea of technical, functional apparel was still evolving in my brain. As snowboarding took hold, I saw how essential it was for people to have the right gear. Variable conditions on a big mountain can kill you if you're not dressed correctly.

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<sup>1</sup> Hondo, “Fathers of Snowboarding: Ken Achenbach,” *Transworld Snowboarding*, June 17, 2013, <https://snowboarding.transworld.net/photos/fathers-of-snowboarding-ken-achenbach/>.

By 1988, I believed it was the right time to get into snowboarding. My brother's Wave Rave snowboard clothing was amazing, and I could sense snowboarding would hit its critical mass in five years.

I went to my partners and the rest of the staff at Westbeach and told them my idea. Westbeach would refocus as a snowboard apparel company. There was little interest as most people hate change. (I would later have the same thing happen at lululemon when I proposed mindfulness, technical streetwear, and owning our own manufacturing).

"Around 1988, there was a big change in Westbeach," Scott Sibley remembers. "This change was something I have to give Chip credit for. He got us out of surfing before its decline and into skateboarding on its upswing, and back out, and into snowboarding right at its beginning.

"We were all partially resistant to make the jump into snowboarding. Sometimes Chip seemed to abandon ideas that still had legs, but I trusted his instincts. There were many people in the company – newer, younger people – that didn't trust him at all. I think this was frustrating for him. It's difficult not calling your own shots and having to work with the opinions of the 20 or so people that worked for Westbeach at that time."

Despite the resistance, I stuck to my instincts and pushed hard to bring the rest of the company around. I saw snowboarding as a winter sport, something, that unlike surfing or skateboarding, we didn't have to become California posers to do. With the summer Whistler glacier as the global hub for snowboarders, I knew that Vancouver was the perfect location to be the best in the world in snowboarding. In addition, we would be solidly authentic. That was very important.

Skateboarding now had four hundred competitors and was becoming a commodity product. My instincts told me it was a market that would soon be in decline, which meant we had to do something. Because I had the power to do so, I renamed the company from Westbeach Surf to Westbeach Snowboard. I knew this would, in effect, force naysayers in the company to get on board (no pun intended) or leave.

To prepare for the upcoming winter season, we designed a line of loose-fitting outerwear. We made perhaps 400 pairs of overall-style pants, 800 non-overall pants, 1,000 pullover tops (pullovers were massively popular in the '80s), and other assorted items, including branded T-shirts.

The garments had no stretch, and there was nothing initially technical about them, but the anti-ski looseness of our garments allowed layering and breathability.

We didn't have the means to make this apparel in-house, so we outsourced it to garment manufacturers in Vancouver. We made the first line as cheaply as we could, which made it affordable to the 14-year-olds who made up the biggest snowboard demographic.

The immediate effect of rebranding was a tripling of our business. We had surf and skate apparel to sell in the spring/summer, but for the first time, we also had a line of products to sell through the eight months of fall/winter. Westbeach was one of three companies in the world specifically making snowboard apparel.

"We kind of went all-in on snowboarding," says Scott, "and, of course, that made our *company explode*." We went over to ISPO, the largest sporting goods trade show in the world, held in Germany. We were the first to introduce this new sport – snowboarding – and because they were in a three-year snow-drought there, we seemed crazy. But the success this brought us was that we had established ourselves as the very early players in the snowboard industry.

"As snowboarding grew," Scott adds, "we rode that growth."

## CHAPTER 8

# HARD TIMES

### ***Near Bankruptcy***

We'd recently visited bankruptcy lawyers to understand how the process worked because we felt Westbeach was on the verge of collapse. We had been in snowboarding for only a short time, but like surf and skate before it, product supply was overtaking demand and prices were dropping.

I wanted to get out before snowboarding became a commodity business. Sports stores now had negotiating power and were making the brands pay more of their shipping, warehousing and marketing costs. We couldn't continue to fund the wholesale model, and financial pressure was closing in on all sides. How much I had learned to hate wholesaling!

My partner Richard also wanted to settle down, focus on a home, and build a family. He wanted to work shorter days, maybe six or eight hours, whereas I wanted to work double that, at least. Richard and I were not working well together. A huge part of that was our inability to communicate effectively. In survival mode, I defaulted to a command-and-control, "Team of One" style of operating, while Richard reverted to deception, and Scott reverted to being non-committal.

We all had our "Acts" in full bloom.

### ***A Landmark Moment***

For as long as I'd known him, Richard had been taking classes and courses in transformational development. My perception was that the lessons he learned were mostly fleeting, but in early 1990, he came into work super excited about a weekend workshop he'd taken called the Landmark Forum. I found out this was a business that had evolved massively since its original inception as Erhard Seminars Training (EST).

Over the next couple of weeks, both Scott and I noticed a massive improvement in Richard's state of mind and integrity. Richard attributed it all to his experience at Landmark and asked us to take the course ourselves. We all wanted to improve things at Westbeach, that much was clear, so Scott and I signed up to do the course together.

To illustrate more about Landmark, I'll give you an example from when I took the course. There was a woman who was about 40 years old and had been raised in a union family. She told us how her father

came home every day and complained about the union bosses, how the workers like him did all the work while the bosses got all the money.

This had formed the story and the context for how this woman had viewed her life since her childhood. She told us how she'd gone to university, entered the workplace, got a good job, and a promotion. She'd reached a point where she was making \$100,000 a year in a leadership position, but she was still haunted by her father's attitude.

Her father had hated management, leaders, bosses – anyone making \$100,000 a year who he'd call a corporate bum. So, subconsciously this woman found she was constantly undermining herself. She would succeed, get a raise to \$100,000 a year, then quit because she just couldn't handle being the person her father had always hated.

At Landmark, this woman was introduced to the possibility of imagining amnesia. What if she had no memory of her past, of anything her father had said about bosses and management? If that was the case, this woman, with all her knowledge, ability, and education, could and would feel powerful to go beyond her father's barrier.

The only person who'd been undermining her happiness was her, and she was doing so based on a disempowering story she'd told herself. If free from her story of her father, there was nothing she couldn't do.

Landmark helped me understand how my past had been exerting control over my present. I realized that I constantly constructed stories based on past experiences to make sense of my interpretation of other people's actions and behaviours. What I had failed to recognize was the fictional nature of the stories themselves. Even as I write this book, I often consider what stories I have created and what is fact.

I got to understand that what were just my best guesses had become facts in my mind. I based the course of my life on these guesses, believing them to be absolute truths. As stories accumulated over the years, they constrained me more and more.

The Landmark Forum was a huge awakening. I thought of all the things my dad had said, based on his visits to EST and the Esalen Institute in the '70s, that I had dismissed without even considering. I heard for the first time what he'd been trying to tell me.

The course was transformational because it opened up 70 percent of my brain that was clogged with unnecessary thoughts. The Landmark course was really no different than shutting down a slow hard drive to clean viruses and rearrange information.

I also got clear that I was going to die someday, and I was tired of *fine* life. I wanted an *extraordinary* life.

The "viruses" in my brain were:

1. managing lies I have told, so I don't get caught
2. repetitive complaining
3. not taking responsibility for my actions (e.g., selling a lemon of a car)
4. acting inauthentic so I "looked good" to others (e.g., pretending to be what I was not)
5. spending brain power doing what parents, friends, or society think I "should" do

6. consistently using the words “wish,” “should,” or “try,” and skirting responsibility instead of taking action
7. creating excuses for not doing what I say I will do (e.g., showing up on time)
8. letting my past experiences limit my future choices (e.g., my purple shirt experience)
9. not forgiving people for what I think they have done to me

In my observation of thousands of people who have taken the Landmark Forum, the number one issue inhibiting people from living an extraordinary life is their inability to forgive their parents for the lousy job they did raising them. I mostly observed that people’s interpretation of what occurred in their childhood and what actually happened was not the same. I have an odd theory that nature creates this weird human condition in order to cause enough friction to get adult children out of the house.

The course opened my life to a bigger purpose. In the words of Werner Erhard – the man who founded EST – I learned what “making a difference in the world” meant. Landmark helped me understand my life could be less about me and more about inspiring people to know their own magnificence. As you might imagine, my context for living in the world changed dramatically.

Since we’d all taken the course, Richard, Scott, and I suddenly had a powerful new language to help us communicate. The Landmark concepts gave us a common language and understanding of what we wanted for our lives and our business.

I became committed to doing and completing everything that came out of my mouth. I wanted people to count on me. If I said I would do something, I had to do it, do it on time, and do it in a quality manner. If something went wrong, either I could blame other people for the problem, or I could take responsibility for it. Only when I took responsibility would I have the means to fix the problem.

Looking at the past, I saw that my youth was a regimented life of eight swimming practices a week for 17 years. When I quit swimming, I remember saying to myself, “I am never showing up on time, anywhere, for the rest of my life.” For instance, I would tell people I would come to dinner at 7:00 p.m. or meet someone at 10:00 a.m., but I had no internal commitment to do what I had agreed to. I was always late. About three years later, I noticed no one was calling me, and my friends had all but disappeared.

I had learned that I was out of integrity, no one could count on me, and consequently, people stopped asking me to make plans. When I got clear that I was responsible, I also knew I could take action. I talked to all my former friends, apologized, and said I understood I had messed up and upset them. I then asked what I could do to put myself back in integrity. The answers were mostly muted, so I just committed to showing up on time. It took me three years to re-establish my reputation as someone who could be counted on.

“To this very day, I will say Landmark saved Westbeach,” says Scott. “Suddenly, regardless of whether you like somebody or not, you recognize you’re on the same team, and you start working together. Landmark helped us to communicate and to redirect our focus from our problems to solutions.”

We asked other people at Westbeach to attend the Landmark Forum. This was a hard thing to ask, because Westbeach, by this point, was a *mature* company, meaning it was difficult to alter the culture and sense of identity that had formed. Employees who’d been around for a while weren’t interested in improving themselves. We found our employees were more interested in spending \$500 on a jacket than exponentially developing their brains.

To an outsider, Landmark wasn’t tangible. It wasn’t something they could touch, and, in fairness, it seemed a little cultish to people who hadn’t taken the course. We couldn’t afford to send our employees,

either, so if they attended the Forum, they would have had to pay out-of-pocket. In the 2000s, Oprah had a Vancouver man called Eckhart Tolle on her show to discuss his book *The Power of Now*. I have often theorized that Mr. Tolle attended the Landmark Forum and then wrote a book about the course.

Still, it gave me the idea of working the Forum into the very beginning stages of a company, before closed-minded maturity could set in, and before employees would be happy with mediocre lives and a mediocre company that was just “fine.” And this was exactly what I would do with lululemon. Ultimately, Landmark helped us work together to set Westbeach up to be sold.

If we hadn’t done the course, we would have self-destructed, and I would never have had the money I used to start lululemon.

## **Divorce**

All my working and business travel led my wife and I to divorce. Sadly, for almost four years afterwards, it seemed like I saw my children very little; however, it’s possible that I actually saw my boys more than most other working fathers because I had to schedule and prioritize my time to be with my sons. However, out of necessity, I had to travel for the business I was in – I had to make money to afford alimony payments and keep both households afloat.

The boys were too young to understand what was going on. Within a few years, they had figured out their family was different. It seemed to cause a lot of confusion. JJ especially had difficulty with the transition as he always wanted our family to be together.

I don’t think there’s any such thing as an easy separation or divorce – some go slightly better than others perhaps. After my ex-wife and I did the Landmark course, we had the communication tools to put the past behind us and to make our boys our number one priority.

## CHAPTER 9

# THE BUSINESS OF SNOWBOARDING

### *Snowboarding Success*

“The period between 1990 and 1995 was when the real fun started,” says Scott Sibley. “We were major players. We built a distribution team and produced our own apparel. We had major lines of production. We had distribution networks in Europe and in Japan.”

As our brand grew, so did the requirements on our in-house production (we could never produce snowboard apparel in-house, but we still produced our surf and skate wear). To help with this growth, I put an ad in the paper for a production manager.

One person who responded to the ad was a young guy named Frankie Hon, who had just arrived in Canada from Hong Kong. Frankie’s experience was in distribution, not production management, but from the moment I met him, I could tell how smart and committed he was. I gave Frankie the job.

“My family immigrated to Canada in 1990, and I started looking for a job,” Frankie remembers. “Chip interviewed me and offered me a job with Westbeach. The position had no title, but the intent of it was to coordinate with the existing production team. I was very impressed that he offered a job to a newcomer like me who had no Canadian experience.”

Frankie was with Westbeach for two years. Then, Frankie met and married a woman named Elky, a fellow Chinese immigrant living in Vancouver. The two set up their own Vancouver-based garment factory. Frankie and Elky took much of our production team with them – but that was okay because our relationship was very strong.

“With Chip’s encouragement, I started my own business in Canada,” says Frankie.

A few years later, Frankie and Elky would start a larger manufacturing business, Charter Link Ltd., in Hong Kong. They would be a vital partner for me in the early days of lululemon, and it all started with the personal relationship we’d established at Westbeach.

Growing our in-house production, then eventually taking it externally, were just two aspects of the growth Westbeach was experiencing through the crazy early-’90s. Even though financing was an ongoing challenge, the demand was massive, and the market was forgiving. My partners and I had to put into practice everything we’d developed over the previous five years – including our commitment to integrity and communication.

## ***Advertising to Distributors***

There were a few things we did differently or did for the first time to put ourselves at the forefront of the snowboarding movement. One idea I'd had was to put ads in TransWorld skate and snowboard magazine. TransWorld, established in 1983, was the worldwide go-to bible for surf, skate, and snowboard news. But there was an important distinction that should be pointed out – the ad I put in TransWorld was not targeted toward customers; it was targeted to international distributors in order to exponentially grow sales and manufacturing quantities.

Previously, when our focus had been surf and skateboard, we'd never advertised. We hadn't needed to. I was first in the surf and skate business in Canada, and throughout the early '80s, I'd received a lot of newspaper attention and editorials because I was the only adult who understood the youth market. This meant I had never had to spend money on advertising.

It had actually helped us *not* to advertise, as there was an underground authenticity to surfing and skateboarding. Traditional advertising would have only taken away from that.

## ***Building on Letters of Credit***

We continued to operate on letters of credit, as we still didn't have enough money to afford upfront costs. Under this system, a distributor in Japan (or multiple distributors in Europe) would receive a sample line of Westbeach products. The distributors could show the sample line to potential customers.

Once orders were placed, the distributors would give us the orders with an accompanying letter of credit. We would then transfer that letter of credit over to our manufacturers in Asia. The manufacturers would ship the product orders directly to the distributors in Europe or Japan. From that profit, we could make the clothing for Canadian stores to pay 60 days after delivery.

That was how Westbeach, once it rebranded as a snowboard apparel company, was built on virtually no money.

The key to this whole process was reaching the right distributors, and that was to whom the TransWorld ads were targeted - not consumers. I wanted to let the skateboard world know we were the first and most original of companies in the new snowboarding industry.

If prospective distributors in Japan and Europe were looking for an authentic brand to sell in their markets, the TransWorld ad would point them to Westbeach. This advertisement was an investment, a plan to make us look bigger than we were. And it worked.

## ***Big Air Contest***

I'd also considered other ways to promote the Westbeach brand, with the specific goal of break-even marketing. I thought a lot about what kind of event would attract people from around the world to snowboarding, and what occurred to me was a *big air contest*.

At the same time, Whistler Blackcomb had been trying to figure out how to make their season longer – how to make April as strong as other months. They'd planned a big ski festival (with a small snowboard component) to happen during one of the last weeks in April. I incorporated my idea with Whistler Blackcomb's festival plan. Westbeach, as always, was short on money, but we had to put \$50,000 into the event to make it happen.

The first Westbeach Big Air contest, held in April 1991, was a total extravaganza. Over the next few years, it developed into a nighttime event at the base of Whistler Mountain. There were amazing snowboarders performing tricks and stunts, jumping over huge gaps, and going through hula-hoops of



fire. Down at the bottom of the hill, we had cheerleaders under the big air jump and hot tubs if the riders wanted to jump in. The crowd was huge, 10,000 people, and the vibe was crazy.

At one point, I had \$5,000 cash which I rolled in toilet paper and fired out of a slingshot into the crowd. The wind hit at just that moment and blew all the money back at me. That didn't stop a mob of people from overwhelming my position to get at it. On-site security didn't stand a chance. That Westbeach Classic Big Air was a gigantic success and strongly contributed to Westbeach's unique brand identity.

After we ran Big Air for two years, Kokanee Brewing paid us to rename the event. From then on, Kokanee ran the event and covered all the expenses and paid us \$50,000, and the event was called the Kokanee Westbeach Big Air. I've always loved developing marketing ideas that generated revenue.

### **Sponsoring Snowboarders**

The majority of other snowboarding companies were only marketing by sponsoring athletes. Many of these athletes were kids, really, between 14 and 18 years old, at the top of their game in a sport that hadn't existed before. Big board manufacturers would pay a top snowboarder up to \$1 million a year to use their branded boards at high-publicity events.

The board manufacturers of the world, such as Morrow, Sims, Burton, and Ride, could pay that kind of sponsorship through the sheer volume they made, mostly selling in Japan. Westbeach couldn't afford that, so we had to think of other innovative ways to market.

Rather than having two or three top snowboarders at \$1 million dollars each, I went to the individual mountains and found the half-dozen talented snowboarders just under the sponsorship level. These snowboarders were typically a little bit younger and friendlier than their more famous counterparts. They were also heroes of their community. They hadn't developed big attitudes or egos.

Our first team consisted of Kevin Young, Devun Walsh, Emanuel Krebs, Paul Culling, and Randy Friesen, all snowboarders who would become household names in the sport. Another one of our first team riders was a guy named Ross Rebagliati, who would win the first ever gold medal in snowboarding at the 1998 Olympics in Nagano. Famously – or infamously – Rebagliati tested positive for THC, had his win disqualified, then had that decision overturned by the IOC and his medal reinstated after they deemed marijuana not to be a banned substance.

As the relationship with our team evolved into a less formal, more economical kind of sponsorship, we gave our riders free clothes and arranged their travel. We would also arrange photography of our snowboarders at various events and locations, then put the pictures in TransWorld to promote our riders' images for their big-paying board sponsors.

This *community branding* system worked out to be cheaper by millions of dollars – plus far more effective – than the marketing hoops our competitors were jumping through with sponsorship.

I didn't want to "buy" the snowboarders on the Westbeach team. A strictly financial relationship felt inauthentic. Whenever I saw a sponsored athlete from Nike, my mind screamed "fraud" as I thought they were bought to promote the Nike brand without an authentic belief in the product.

For amateur athletes, the money was a godsend. I wanted to make technical clothing for the sport and have these young guys test it. This gave me an early taste of focus groups composed of my ideal customers, an important methodology I would use with lululemon.

### **The First Focus Group**

The first design group I put together consisted of our snowboard team, who were all 14- to 16-year-old boys. In all honesty, back then, my ego was looking for their stamp of approval. I knew that at 32 I

probably looked like a grandpa to them – they might automatically reject whatever I showed them just because it was designed by an old man. I wanted them to test the products, tell me the clothing was awesome, then talk it up amongst their friends. I imagined these young guys acting as ambassadors and helping sell the line they'd tested. I was an inauthentic manipulator.

But, as the first focus group went forward, something happened that I didn't anticipate.

When I presented our riders with the clothes, they were not excited. They took one look at the line and, instead of telling me how impressed they were, their eyes told me they had different ideas. It was a hard thing to hear, but I knew it was crucial for me to understand this demographic, so I set about listening to what they genuinely wanted.

The snowboarders told me to make the apparel "fat," or oversized. Hip-hop-inspired, gun-hiding clothing was developing as an underground trend. These riders knew what they wanted, and they were clear in their advice. I was skeptical, but I took them at their word. I was astute enough to know I wasn't listening to teen music and I wanted to see the world through their eyes. I made the changes and re-designed everything to be "super fat."

Westbeach recreated snowboard clothing; the designs were the polar opposite to our competitors and definitely as different from tight ski gear as possible. I learned my lesson about the power of listening to my target market, even if their initial feedback wasn't what I'd wanted to hear.

By the following year, however, I seemed to have forgotten that lesson.

Next season, I brought out a similar oversized look and again presented it to the snowboarder focus group. Once again, I went into this expecting their thumbs up. Wrong again. What they were looking for this time around had changed completely. They told me to make the clothes slimmer again, and they asked for solid colours instead of colour blocks.

I thought I knew better. We'd had such success with the oversized look I didn't want to change it up so quickly. I was also convinced that solid colours were a mistake since it looked too plain. I ignored the kids and went with my own designs, unmodified. Once again, they knew best. If we had slimmed the size and offered solid colours, our line would have sold like crazy. I'd ignored our target audience at my own peril.

Another critical thing I learned at the time was a concept I've come to think of as: "If you have to say it, you ain't it." In branding and marketing terms, this concept refers to the inauthenticity that occurs when a company includes what they do or produce in their brand name. For example, Westbeach Snowboard, which was the formal name of our company, rings false. A brand identity should be strong enough, and so in tune with its core customers that it speaks for itself.

Our design team didn't want our apparel to say Westbeach Snowboard. They wanted the word "snowboard" out.

### ***The Japanese Take on Snowboarding***

Snowboarding was our entry point to becoming a truly global company. The Berlin Wall had fallen, and we saw our goods being sold in East Berlin. At the same time, orders were coming in from state-owned stores in the mountains north of Beijing.

But, it's impossible to talk about the rise of snowboard culture without mentioning Japan, as indicated in the prologue of this book. The Japanese snowboard market was fascinating. Japanese customers seemed to have no problem buying a snowboard, mounting it on top of their car, and never using it. Many customers in Japan simply wanted to *look* like they were snowboarders. It should be noted there actually is fantastic snowboarding in the mountains of Japan, but the riders' appearance was as important as the actual sport.

Soon, Japan became 30 percent of our business, as it was with all other snowboard companies. By

the early '90s, the Japanese Yen had become a powerful currency because of the Japanese economy's incredible growth from the end of the Second World War to the end of the Cold War. Everywhere I looked, Japanese people seemed to be buying up as much western culture as they could, from the Pebble Beach Golf Course to buildings in New York, to the snowboard scene.

Keeping Japan going was the trick. Part of this was finding the money to match the growth and demand, but another part was meeting the high Japanese quality standards. After Westbeach had been distributing in Japan for a year or two, I sat down with our Japanese partner and said, "How are things going, what do I need to know?"

"Oh, very good," he told me, "but we're burning 20 percent of everything that you give us."

This was obviously shocking for me to hear. "What do you mean you're burning 20 percent of everything we're giving you?" I asked.

"We meticulously go through all the inventory you send," he explained. "If there's even a little thread out of place, we burn the item. We don't want to wreck the brand."

That was when I first understood the Japanese demand for quality and how it was exponentially greater than anything we look for in North America. When a Japanese person goes to buy a car, they'll spend two hours looking for the tiniest scratch on the body. The importance of the visual effect of the purchase is truly remarkable.

For me, this was really an insight into what quality is and how a particular culture evaluates it. This insight gave context to what it was to be committed to quality. If we could meet Japanese quality standards, we could meet quality standards anywhere.

### ***The Ski Association***

In 1991, I was invited to speak at a meeting of the Canadian Ski Association in Banff, an organization that consisted of ski and equipment reps, as well as resort owners and operators. These people were the old guard of skiing. They were still scared of snowboarding and did not understand what to make of it. In their view, skiing, as a sport, was on the verge of dying – and with it, their livelihoods.

While in the car on my way to the Rocky Mountains to give my talk, I heard a story on CBC Radio. It was a profile of the time Sherlock Holmes creator Sir Arthur Conan Doyle moved from London to Switzerland. Doyle made this move because his wife had respiratory disease and needed the cleaner air of the Alps.

While Doyle was in Switzerland, he filed a few articles for The London Times. One article he wrote was about how appalled the Swiss were by the new sport of downhill skiing because they thought their national sport of tobogganing was at risk.

I referred to the Doyle profile when I gave my talk in Canmore. "Look, winter sports are always evolving," I told them. "We have skiing, but, now, we also have snowboarding."

Knowing what I knew about the cyclical nature of trends, I also predicted skiing would make a comeback, perhaps in 15 or 20-years' time. I said my own boys would look at me as old-fashioned, still using my snowboard while they hit the slopes on their skis. Sure enough, starting around 2010, skis began to mimic snowboard designs, and skiing was revitalized. These days, all of my five boys exclusively ski.

Some of this perspective had come from our rebranding as a snowboard company. I thought back to how difficult it had been to enroll my partners – and the company itself – in snowboarding, even though it had turned out to be the right move. Whatever the next trend might be, it was reasonable to assume there would be just as much difficulty enrolling everyone in that new vision. Making bold moves with no provable outcome is a scary plan for security-driven finance people.

The communication between Scott, Richard and myself had improved exponentially, and this improved communication led us to align on the idea of selling Westbeach - sooner rather than later.

The rest, as the saying goes, is history – from the sale of Westbeach that I mentioned in the prologue, to the inception and beginning stages of lululemon. I had put in the 10,000 hours at *least*, (the amount of time author Malcolm Gladwell posits is needed to master a discipline).

As my new venture got underway, would my lessons with Westbeach in partnership, vertical retail, wholesale, and integrity be enough to prepare me for what was to come?

## CHAPTER 10

# THE GENESIS OF LULULEMON

### *The Poster on the Pole*

Following the end of my time at Westbeach, I returned to Vancouver. It was 1998. I was enjoying more time with my sons, JJ and Brett, reconnecting with friends, and living by the beach in the most beautiful city in the world.

I'd sacrificed a lot of time for my business at the expense of time with my children. When we sold Westbeach to Morrow, my position within the company was relocated to Salem, Oregon. This put a six-hour drive between my sons and I, which I did most weekends. "Our dad wasn't around very much, but he knows that," my son JJ recalls. "He tried to tell us, 'I'm doing this for the family. I'm not here today, but I will be tomorrow,' and just try to make something work for us. When you're five, six, seven, eight, nine, ten, you don't understand what that means."

As a lifelong entrepreneur, I knew that finding a mid to high-level position in another company would be tricky, if not impossible. In my mind, an entrepreneur is too incompetent to work for anybody else. At 42, the money I'd made from the sale of Westbeach was too little to retire on, but it gave me some time to think about my next move.

I decided to take the Landmark Advanced course (a follow-up to the Landmark Forum I'd taken several years earlier) so I could review my life from an outside perspective. During the three-day course, I came to understand what I considered success in my life. The theme for any future venture would be "giving without the expectation of return." If I were ever to build a new company, my priority would be developing people to be great.

I knew the only big job I wanted was to be the CEO of Nike. I was perfect for that role. No one understood athletics, shoes, sports psychology, sponsorship, and technical apparel like I did. Although at that point, the big future I saw for global athletics was mostly an unwritten script in my mind.

With the money I'd made on the sale, I bought a reliable car and a house in Vancouver's beach neighbourhood of Kitsilano. I also made sure my sons were in the schools that would best suit their learning preferences.

Meanwhile, with an unknown future ahead of me, I had my physical health to think about. From competitive swimming to football, from wrestling to triathlons, and from skateboarding and snowboarding to squash, I'd beat myself up. My back was a constant source of intense discomfort.

I was looking for a panacea for my pain when I saw a poster on a telephone pole, advertising a form of exercise called yoga. A short time later, I found myself in Fiona Stang's yoga class, feeling an undeniable creative impulse once again.

### ***The Yoga Class***

Besides the instructor and me, there were five other people in the class – all females between the ages of 18 and 28. I was 42 and trying yoga for the first time. The class was taking place not in a dedicated studio, but at one end of a chilly, air-conditioned gym. Fitness machines were whirring just a few feet away as we rolled out our mats.

This was Kitsilano in 1998. "Kits" was Canada's version of San Francisco's Haight-Ashbury during the '70s – it was a mecca for the post-university, not-yet-married, athletic crowd. There were expansive views of the snow-capped North Shore mountains, multiple yacht clubs, long beaches, and hundreds of offshore islands. It had more athletic supply stores than any other place in the world. It was the origin of Greenpeace, organic foods, and an athletic lifestyle that was second to none.

At that time, yoga was a hippie concept in the same vein as meditation and the wellness communes that sprinkled the greater Vancouver area.

I was fortunate that the instructor, Fiona Stang, was very good. Fiona was poised, confident, smart, and approachable. She told me that she'd just moved to Vancouver from New York City, where she had been working in convertible bonds on Wall Street.

"I wanted the ocean and the mountains," Fiona told me. "My husband and I chose Vancouver, and here I am in this beautiful city teaching yoga. It's perfect."

I quickly learned that yoga required applying a level of concentration and awareness that left me with the same endorphin rush as the athletics of my past. It didn't come naturally to me; I'm a big guy and not blessed with an innate sense of balance, but I like to push myself in areas I haven't explored before.

I loved yoga from the first time I tried it.

### ***New Creative Impulses***

As I watched the class grow from 6 to 30 students in one month, I anticipated that yoga would be as strong a social-athletic movement as the surf-skate-snowboard business before it. I understood technical apparel, and I knew there was a much better solution than the sweaty, baggy, binding cotton the other students were wearing. In 1998, gym fashion was simply your worst throwaway clothes.

I knew a lot about sweating. For most of my life, I had three workouts a day and my body was so conditioned to keep my temperature in check it would start sweating 15 minutes prior to a run and 60 minutes after. I have always believed deodorant to be one of the most toxic causes of cancer so I took a lot of showers but was naturally sweaty most of the time. What I wore had to handle that. I wondered, "why shouldn't my clothing be unrestrictive and luxurious and save me time with cleaning and caring?" I knew that if I had to think about my clothing while I was competing, then the clothing was wrong. I was always considering the solve for terrible athletic apparel. I wanted clothing that allowed my mind to ease gracefully into the moment.

After my exposure to yoga, there was a brief period where I tried to ignore my creative impulses. I tried to ignore the urge to take a chance. If I stuck with the idea of being a barista, I could avoid years of uncertainty, stress, hard work, mounting responsibilities, and fiscal pressure. I could run from the way of life I'd been so glad to leave behind when we sold Westbeach.

No matter what I told myself, my creative urges intensified. I knew that I could spot athletic trends

five to seven years before they emerged, and I knew that this was what was occurring for me now. I was also 42 and mindful of the fact that my goal had been to retire at 40. I let my mind wander, and, rather than coming up with reasons not to start another business, I simply chose that if I started a new venture, I would approach it differently.

I'd started Westbeach with little capital and little experience. Now that I had a good amount of both, I could begin with a blank slate and create something in-line with my beliefs. Many of these beliefs were formed by the many audiobooks I'd listened to on the six-hour return car rides from Vancouver to the Morrow offices in Salem. I'd listened to just about every audiobook I could find on business success, self-development, and the realization of human potential.

At my next yoga class, I talked to Fiona – my only expert on the subject at the time – about the clothing she and other yoga instructors and practitioners wore. Fiona told me instructors mostly wore the brand, Danskin. This line, however, only worked on the very fittest of bodies, as the fabric was thin and pattern pieces were cut skinny to save money. When someone wearing the dancewear line bent over, the Lycra would stretch too far and become shiny – almost like a lightbulb. The thinness of the fabric resulted in transparency.

Transparency was the first issue that I wanted to solve. I believed that if I could solve the transparency problem, address camel-toe, and thicken the fabric to mask any imperfections, I could create a perfect athletic garment for women. If I could get a technical fabric that felt like cotton instead of plastic, then add properties to make it moisture-wicking and anti-stink, I could create the perfect pant. Nothing like this existed in the world.

With Westbeach, I had worked for two decades with teenage boys as a customer base. I would need a woman's input to develop properly the apparel I had in mind. I asked Fiona if she would be interested in a superior product at triple the price of the line she'd been wearing. She said yes. I explained to her that I was thinking about starting a yoga apparel brand and that I wanted her to share her thoughts and feedback with me. She said yes again, and I took a big step toward putting my plans into action.

"Chip wanted to climb into my brain," says Fiona. "He wanted to know everything I could tell him about yoga. When he started talking about this company he was going to start, you should have seen the excitement in his face. That's how I feel about yoga."

Fiona's interest was inspiring, but there were still two other reasons to think carefully about embarking on another business venture – my sons JJ and Brett. I wanted to inspire my boys to find their own passions someday – what they could be the best in the world at – and to figure out how they could earn a good living while doing something they loved. I knew that retiring at 42 and just sitting on an ever-diminishing pile of cash wouldn't convey these possibilities to my boys, especially as they approached adolescence.

I wondered if it would be possible to balance being a great dad while also devoting my time and energy to getting a business off the ground. The answer, I realized, was that it was up to me. I made a choice to be engaged on both fronts, fatherhood and business. I felt it was imperative for JJ and Brett to be integrated into my new venture. After all the travelling I'd done with Westbeach, I was determined to never get on a plane again without having my family with me.

In JJ's words: "My memories of dad's new venture started with Brett and me being brought into it. We were on a plane flying from Vancouver to San Diego to visit our grandma. Dad would always sit in the middle, sort of against his will because he was so big. Brett and I were little kids, but we were both drawing logos for lululemon. I'm not sure if any of those got adopted, but I think if you went through dad's book of creativity you would see these squiggly lines, coming together to make a lululemon logo in some way. I think he's always tried to get us involved. His way of being a dad was to always educate us in what he was doing and how he was doing it."

The pieces were in place. All I needed now was to determine what my new venture would look like

day to day.



## CHAPTER 11

# THE WORLD IN 1998

### ***No Athletic Clothing for Women***

As of 1996, teenage girls had just broken into extreme sports, an area which had long been dominated by men. For decades before this, athletics and sweating were not known as feminine virtues. Many “cool” girls were smokers who skipped Phys Ed classes altogether. Of course, girls competed in Olympic events, although at much lower numbers than men. I was raised in the world of competitive swimming where girls made up 50 percent of the participants, but where there was also a high dropout rate when girls became women – curves made hydrodynamics challenging.

The first girls in non-Olympic sports entered through surfing, but most girls entered through snowboarding, as snowboarding was so much more accessible than surfing. The '90s era of athletic girls coincided with the very Portland, Oregon male grunge look, which went well with snowboarding fashion. As girls became women, the timing was right for them to express their sense of femininity through yoga.

Meanwhile, the internet was just coming into existence (e-commerce was still a non-entity). Boys were being coddled by their single divorced mothers and girls were dominating education. Coke and Pepsi were marketed as the “American Dream,” fast food was becoming a staple, and Americans’ BMIs were rising – but no one was acknowledging it.

In the world of apparel, most clothing shrunk after only a few wash-dry cycles as everyone used hot water and hot dryer settings. In this context, there was no athletic clothing for women, except for shrunk-en men’s styles.

As I embarked on a new venture, I knew I was the only person in the world thinking of non-mountain technical apparel.

My ability to predict athletic trends was both a gift and a curse. I was designing items five years before public acceptance, so, naming the next trend, and getting it to stick, proved challenging. Back in 1995, I had coined the word *stretch* (street-tech) to describe the intersection between streetwear and technical apparel, but the phonetics didn’t work, and the term was never adopted. In 1996, I started calling the movement from office wear to street athletic clothing *streetnic* (street technical).

In 2014, the New York fashion media would eventually describe this intersection as *athleisure*, which is a term I don’t like, even if I must acknowledge that it’s here to stay. To me, athleisure denotes a non-athletic, smoking, Diet Coke-drinking people in a New Jersey shopping mall wearing velour tracksuits – too

much leisure, too little athletics.

### ***The Hedgehog Concept***

A year earlier, during the six-hour drives to and from Oregon, while working for Morrow, I had listened to perhaps 100 audiobooks. I loved the histories of the retail growth of Starbucks, Walmart, and General Electric. I listened to everything by Jim Collins.

From this listening, I concluded that four audiobooks summed up the other 96. These four comprised the philosophical, cultural, and people development ideas I wanted to use to form the basis of my new company. These audiobooks were:

1. *The Goal* by Eliyahu Goldratt<sup>1</sup> – a fun, fictional novel describing manufacturing bottlenecks, opportunities, and overall theory of constraints.
2. *The 7 Habits of Highly Effective People* by Stephen Covey<sup>2</sup>.
3. *The Psychology of Achievement* by Brian Tracy<sup>3</sup> – how to be a great citizen, parent, and goal-setter.
4. *Good to Great*, Jim Collins<sup>4</sup> – about how “good” is the enemy of “great,” and a “Level 5 leader” is defined as someone who has trained a replacement better than themselves.
5. The fifth addition to this list is not an audiobook, but a course, The Landmark Forum. Particularly influential for me was learning the Hedgehog Concept<sup>5</sup>, from the book *Good to Great* by Jim Collins. In this three-circle diagram, Collins contends that the area where all three circles overlap is where a person or company is most powerful. The intersection is where founders and their companies are intertwined and the greater the overlap, the better the business. For my own life, and in considering my new venture, I drew the following:

Circle 1: What was I “passionate” about? Athletics.

Circle 2: What could I be the “best in the world” at? Black stretchy pants.

Circle 3: What would be my “economic engine”? Vertical retail (or skipping the middlemen).

The idea of designing technical clothing to suit athletic activity drove me. My brain worked full-time on athletic solves. Design sketches littered my day and my notebooks. Throwing myself into solving the apparel issues of yoga was exciting, and I was ultra-passionate about maximizing the athletic experience that produced an endorphin rush.

<sup>1</sup> Eliyahu Goldratt, *The Goal* (North River Press, 1984.)

<sup>2</sup> Stephen Covey, *The 7 Habits of Highly Effective People* (Free Press, 1989).

<sup>3</sup> Brian Tracy, *The Psychology of Achievement* (Simon & Schuster, 1989).

<sup>4</sup> Jim Collins, *Good to Great: Why Some Companies Make the Leap...and Others Don't* (Random House Business, 2001)

<sup>5</sup> *Ibid.*,

As I further considered the way the Hedgehog Concept applied to me, I realized the convergence of my three circles was not yoga apparel – it was people development. I knew people development was the key to my specific business philosophy.

### ***Linguistic Abstraction (previously known as “Values”)***

Culture is a way of operating such that people act consistently, inside and outside the company. Consistency arises from the adoption of a company’s vision and linguistic abstraction (a common set of terms and definitions that all employees understand). Lululemon’s linguistic abstraction was composed of a series of 20 to 30 terms and definitions that arose from the previously listed books, audiobooks, and participation in the Landmark programs.

Our linguistic abstraction allowed the company to communicate with speed and efficiency across all departments and geographies. A person in Vancouver had to be able to communicate effectively with a supplier in Beijing. Just as the Gutenberg press, the fax machine, or email facilitated exponential communication, as does the linguistic abstractions. A company of developed employees who understand the same business terms also grew exponentially.

My updated linguistic abstractions developed while at lululemon are as follows:

- **Purpose:** a declaration of why we exist and what we bring to the world.
- **Linguistic Abstraction:** the framework of terms for decision-making and a singular culture.
- **Being Present:** The most powerful way of being; simply choosing to eliminate past experiences as though one had amnesia. By pretending there is no past, then we have no foundation to think about the future and all that is left is the present. The present is where we are free from social, parental, or self-imposed conditions.
- **Clearing the Past:** when an office drawer is full, nothing more can be stuffed in. Likewise, a person’s past experiences can pre-occupy and fill their consciousness. The only way of having a meaningful conversation with a person with a full drawer is to let them first empty it. Once empty then there is room for the person to listen to what the speaker wants to say. To empty the drawer, the listener must listen as though their life depends on it, as fake listening will not work.
- **Power in Communication:** There is no point communicating to someone whose mind is focused on something else, therefore, power in communication always lies with the listener.
- **Creating the Present from the Future:** this is the opposite of creating a future life from past experiences. Example: A President in 1960 states that “in 10 years we will land a person on the moon”. This creates a way of operating that is informed by a past, not constrained by it.
- **Choice:** a decision made free of influence from past experiences, and social, parental, or self-imposed restrictions.

- **Committed Listening:** listening without obligation to act, paying attention to both verbal and non-verbal communication. A committed listener is cognizant of any filter they listen through (gender, age, ethnicity, world view, profession etc.).
- **Talking into the Listening:** Within a conversation, each person's position is based primarily on how they were raised and their life's experiences. For a conversation to be effective, the person speaking must consider the filter through which the listener hears. (gender, age, ethnicity, world view, profession etc.).
- **Committed Speaking:** communication that includes by-when dates and conditions of satisfaction.
- **By-When Date:** The date on which a project or task is promised to be completed.
- **Condition of Satisfaction:** A measurable action or criteria against which completion can be measured.
- **Time is Precious:** our every action or communication respects another person's limited time on the Earth.
- **Act:** a way of being that was shaped in early childhood. There is a moment in childhood of perceived of "survival" during which a child's parents are unavailable to "rescue" them. The child survives through a particular way of being (funny, dominant, competitive, quiet, etc.), and lacking awareness and Choice, they continue to default to their "Act" as adults.
- **Looking Good:** a protective way of being that is inconsistent with how we declare ourselves to be.
- **Winning Formula:** a declaration of who we are that was created in a moment when we decided who we could never be, that limits our lives and turn us away from other paths and possibilities. (ex: I will never be an industrial designer)
- **Being Authentic About Being Inauthentic:** being open and not defensive about who I am and how I protect myself, so I can be coached in moments when I revert to my Act.
- **Complaint:** a way of speaking in which the speaker has an underlying, unidentified commitment to their position without intent to take action.
- **Racket:** a reoccurring complaint in which the speaker is unwilling to take responsibility and unwilling to take action to resolve the situation.

- **Being Cause in the Matter:** choosing to play on the court rather than complaining in the stands.
- **Law of Attraction:** we attract people into our lives like ourselves: like attracts like. We only have to look to our friends to see who we are, and how we show up for others.
- **Giving without Expectation of Return:** we believe that the highest form of being is giving to others with no strings attached. Our lives will be great because through the law of attraction, we will attract others who “give without expectation” into our lives.
- **Tribe:** a group of people who, when exposed to a brand, take it on as their own. By nature, tribe members communicate, blog and live life on a level playing field. There is a shared excitement and deep understanding of the other person. A tribe is small at the start and is not mainstream.
- **Code:** a collection of thoughts that comprise the soul of the brand.
- **Hedgehog:** an intersection of three circles: Passion, Best in the World, and Economic Engine.
- **Tipping Point:** the moment in which a tribe’s brand conviction is so strong, it emanates a desire to belong to the entire population.
- **B.A.T.N.A:** Best Alternative to a Negotiated Agreement. We go into every negotiation knowing our BATNA, as well as the BATNA of the other party. Strong alternatives ensure that we are never negotiating from a place of desperation and that any agreement that we enter into will be great.
- **Differentiator:** The “thing” that sets us apart from the competition.
- **D.A.I:** We expedite the decision-making process by first identifying the Decision Maker, the Advice Giver and the Informed Stakeholders in any major decision.
- **Push It Down:** Every decision represents a certain level of risk to the organization. If a decision is of low risk to the organization, push it down. Empower someone more junior and delegate that decision!
- **The Devil’s Advocate:** When making key decisions, we first stress test our positions by assigning someone to play “Devil’s Advocate”. We rely on that person to express a view opposite to ours and to poke holes in our beliefs as a means of encouraging debate and coming to a more considered conclusion.

- **Private Collection:** A means of data collection by which a question is posed, and everyone is asked to silently compile their considered reply in writing. This ensures that everyone is “heard”, and that those who are quiet or introverted are not left out of the conversation. The loudest voice isn’t always the most valuable.
- **Quality:** the customer wants to buy the product again.
- **Design:** make it perform first; then make it beautiful.
- **Integrity:** we do what we say we will do, when we say we will do it, in the expected way. And when we fail, we clean up the mess we made.

### **The Fabric**

From my first yoga class, I knew exactly the fabric I wanted to use to make my yoga apparel. I had used a version of my dream fabric as a first layer under snowboard clothing for the emerging 14- to 18-year-old female snowboard market. At the time, it was thick and shrunk too much, but the cottony feel of this particular synthetic fabric was amazing. It was unique because I could apply technical properties to a synthetic fabric to manage sweat and stink. As a bonus, it was matte black. With Westbeach, I sold 57 pairs of those pants wholesale globally. All 57 women who purchased them wrote to me pleading for more.

I realized that a lighter version would be ideal for yoga clothing. My key invention was to cut the pattern extra wide – effectively using twice the fabric of existing dancewear pants – so that when the fabric stretched, it would not be see-through or shine. I worked with a fabric mill to improve on the shrinkage, weight, and technical capabilities. The fabric still shrunk too much. It was good but not great.

The next thing to consider was the stitching and seaming of the apparel. From my time as an athlete designing triathlon clothing in 1979, I knew damp, snug clothing combined with repetitive movement and an open seam line, always resulted in chafing.

I couldn’t believe anyone at Nike had ever run 10 kilometres in a pair of Nike shorts without developing a rash on their inner thigh. They left their inner leg seams wide open. The result was very painful for anyone with prominent muscles. I guessed Nike runners were too skinny or were paid too much in sponsorship money to complain.

Athletic designers didn’t exist in 1998. I was it. One hundred percent of designers coming out of schools focused on runway fashion and I sensed a void. I wondered if this would become a major point of differentiation as time carried on. Designers were first and foremost aesthetically driven. Apparel function was uninteresting to high fashion designers because valuable hidden technology could not be displayed on fashion runways.

Over the previous year or two, I’d been reading about a new type of garment construction in which two pieces of material abutted one another in something called a *flat seam* – meaning there’d be no raised seam inside the garment and, therefore, less chafing with movement.

I immediately understood that flat seaming was vital to solving the athletic problem of rashing. But the prohibitive cost of the sewing machines combined with the challenges of training inexperienced and unsophisticated retail staff to educate the customer on this hidden technology meant that the consumer would probably not understand the value.

Refining the fabric took over six months. During this time, I also made a major purchase – two Japanese flat-lock sewing machines for a total price of \$80,000.

By the time I'd imported these machines and developed the fabric, I'd spent more than 10 percent of the money I'd made from the sale of Westbeach. It felt like a huge outlay of cash, especially given that I was still a long way from having a final product.

With the flat-lock machines, I could cut labour time down to about six minutes per pant. It was almost like using a robot. I had expensive fabric, expensive machines but low labour costs. With robot-type machines, I could match the price of Asian manufacturing in Canada.

Before flat seaming, all seams were ugly, so fashion designers hid them. With beautiful flat seam technology, I could pull the seams outside as a functional solution and prevent rashing. By making seams visible on the outside of the garment, I inadvertently discovered that these seam lines accentuated the female body.

I believe this seam idea changed fashion design for the next 20 years. As a side note, flat seaming would not have been possible until someone had invented seaming threads that would stretch at the same rate as the fabric.

### ***A New Generation of Women***

A few years earlier, I'd dated a top-level track athlete. She was incredibly fashionable, passionate about the environment, and had a great mind for business. She was younger than I was, and she gave me a new context for the next generation. Our relationship didn't work out, but she'd given me the experience of observing a new market of women that had never before existed.

As fashionable as she was, her athletic clothing never fit well, and it wasn't flattering. I'd long wondered why.

The answer lay with the mantras of Adidas and Nike. At that time, both companies were all about men, shoes, competition, and winning at all costs. Their idea of women's athletic clothing was to take men's apparel and "shrink it and pink it." It didn't perform well for women, but there were absolutely no alternatives.

### ***Shrinkage***

While vacationing in Mexico in the '70s, I remember seeing a homeless man wearing a 20-year-old Aca Joe sweatshirt. It struck me at the time that, despite its age, the sweatshirt still looked solid.

Aca Joe colour-dyed their fully sewn garments in a hot dye process resulting in zero post-purchase shrinkage and a velvety hand feel.

Considering that Aca Joe technique in the context of my new venture, I knew I wanted my company to be known for goods that would not shrink when a customer got them home. I wanted everything I sold to look, feel, and perform as well as it did when it was purchased five years earlier.

At that time, women often had only one set of athletic apparel and would reuse the same outfit day after day. A hot wash eliminated stink but ensuring the garments wouldn't shrink was key. The only way to achieve this was to put every garment through a hot water wash and in a hot dryer before selling it to the customer.

### ***Devising the Business Philosophy***

From Westbeach, I'd gained a superior understanding of Canadian and Asian manufacturing. I'd also

acquired the business skills to manage a small-to-mid-sized company. I had 18 years of vertical retail experience, which was about 18 years more than any other person on earth.

I also loved to interact with people. I believe this made me unique because people in the apparel business tended to be either manufacturers who did not gravitate towards people or retailers who enjoyed interacting with people but had little understanding of manufacturing. I straddled both. I was not an expert in anything other than knowing how the vertical retail puzzle worked.

I had a healthy chunk of money for start-up costs. I was starting from scratch, but I already knew what I wanted the company to look like in five years. All I had to do was work back from that five-year vision to create a plan.

Choosing to be unconstrained by my past experiences, I knew I could create this new company any way I wanted. All the little things that hadn't worked for me at Westbeach could be easily solved in my new business philosophy. The model I was formulating was so counterintuitive to "normal" apparel methodologies that I wanted to think fresh. Each piece of the puzzle had to work with the others. A change in accounting procedures could easily impact the speed in logistics. A change in the design of a garment could mess up the layout of a store.

I also knew I wanted to call my salespeople "Educators," and that much of our success would rest on our ability to educate customers on the technical solves that they could not see (like the silver threads to kill bacteria for anti-stink). I believed that with education, the customer would understand why our product was three times the price of that to which they were accustomed.

I knew this model would only work if the Educators were phenomenal. It occurred to me that I could potentially transform a defined group of post-university women into Educators, using a catalyzed self-development program. Again, people development was the convergence of my Hedgehog Principle, as developed by Jim Collins.

Finally, I wanted to maintain 100 percent control over my brand without any dilution from middlemen. This meant staying as far away from wholesale as I could and totally embracing vertical retail.

To explain vertical retailing, I need first to describe the wholesale business model: manufacturers (known as wholesalers) make a product and sell it to a retail store which then sells to the customer. The wholesale model has a middleman.

With the wholesale model, great technology is impossible. As a wholesaler, when I made a stretchy, black, first layer snowboard pant for women in 1996, it cost \$40 to make, and we sold it to snowboard shops for \$80. The shops would sell it to the customers for \$160. I knew if I changed to a vertical model, I could bring the cost of the pant to \$30 and sell it inside my own retail stores for \$90. At \$90, I was sure I could sell thousands!

With wholesaling, I couldn't get the customer to pay for technology they couldn't see. Retail stores like Dick's Sporting Goods didn't have trained salespeople who could enhance the value of the product by educating customers on what was hidden. Further, retailers rarely paid on schedule – or sometimes went bankrupt – which meant the manufacturer had difficulty planning their budget (as was the case for Nike, Under Armour, and Adidas with the Sports Authority bankruptcy of 2017).

When a company's primary revenue comes from wholesale, the store buyers call the shots. Typically, buyers review data on what has sold in the last quarter and extrapolate from that to decide what they will buy in the future. In effect, wholesale buyers just want more of the same as last year. Therefore, successful but outdated designs are rewarded. Buyers are given bonuses for achieving annual budget metrics and are dis-incentivized to risk.

Another danger of wholesaling is the loss of control over markdowns. Too many discounts on products can cheapen the value of full-priced items. Deep discounts can also damage the overall image of a brand.

I wanted to design apparel from "amnesia" – as though I'd just woken up in the hospital with no



memory of my past or any apparel I'd ever known. I wanted lululemon to be design-driven, not buyer-driven, which would mean that all final decisions would be made by designers and not buyers.

One benefit of vertical retail is the complete ownership of branding and the customer experience. I wanted complete control of the store display and staff hiring. Every single detail the customer saw in my ideal store would go through a specific creative experience.

Vertical retail comes with its own challenges, however. There are more moving parts in a vertical retail operation. Because people are involved, a great retail company must love people. Hiring, paying, and maintaining staff can be arduous. The overhead expense of operating retail stores must be added to the price of the goods sold. Paying rent, storing inventory, making tenant improvements, and store infrastructure all represent major capital expenditures – and unfortunately, so does theft.

My new business philosophy would skip the sporting goods stores. I would own my own stores and take both the manufacturer and the retail store revenue. I would make enough money to be able to develop and pay highly educated people. I would make women's technical athletic apparel beautiful, and then sell it at a premium. I would do what had never been done before.

Yet again, the time had come for me to risk everything.

### ***Defining the Target Market***

My experience taught me that if I saw something three times within a short period of time, it would show up in the mainstream public five to seven years later. In 1998, I read an article about yoga, heard a random person mention yoga in conversation, and saw a poster on a telephone post promoting one of the very first yoga classes in Vancouver.

But those three things were not the only trigger points for me. That year, I also read a statistic that said 60 percent of the graduates from North American universities were women. I was stunned. When I'd attended University in the '70s, it seemed like our graduating class was only about 20 percent female.

Before 1998, a common misconception was that most women in North America would get married, then pregnant, and leave the job market before the age of 24 – that had been the case with many of my friends. But, because I'd read articles about eliminating poverty in Africa through educating women to affect lower birth rates, I saw a different future. I believed that a new demographic of highly educated women would have fewer children and wait much longer to have them.

I believed this would be the new North American order – a specific market segment that had never before existed. This market segment was the 24- to 35-year-old woman who was single or engaged, had no children, was highly educated, media-savvy, athletic, and professional. These women travelled, owned their own condos, earned \$80,000 a year, and were very stylish.

The more I considered them, the more of an identity, context, and social history unfolded in my mind. I believed this entire pool of women would be untapped by other businesses because the prevailing thought was still “why risk investing in a female employee if she could just leave our business at age 24 to start a family?”

### ***Power Women and Super Girls***

I often develop a sort of “thesis” as a means of truly identifying and understanding various market segments. It's a branding exercise that provides a historical context for me and enables me to design into the future of that specific target market. I have also found that there is power in giving market segments a name as other social scientists have done (e.g., Generation-X, Millennials, and so forth).

As I considered this particular group of women, I looked first at their family history and who their

parents might have been. It occurred to me that in the '60s and early '70s, the birth control pill had come into widespread usage.

The pill immediately transformed the sex lives of anyone under the age of 40, sparking what is commonly known as the Sexual Revolution. Women suddenly had significant control over conception. If they did want children, they could decide when, and how many. There was a newfound sense of independence in this ability to delay childbirth. There was also the opportunity to pursue careers that had, to date, been dominated by men.

Meanwhile, men's lives remaining mostly unchanged by the pill, and they had no idea how to relate to this newly independent woman. This new shift in power ushered in the era of divorce, with divorce rates peaking in the late '70s and early '80s (rates that have since undergone a steady decline).<sup>6</sup>

With all the publicity around divorce and equality, a new female market segment was created in the '70s and '80s. I came to think of this segment as *Power Women*. These women put in long workdays, kept a clean and orderly home, and gave their children all the love they'd had pre-divorce. What I observed is that they gave up their social life, exercise, balance, and sleep.

I had read that the hormone dosage in the original birth control pill had been too high. That dosage, combined with the Power Women's lack of sleep, work-related stress, and poor eating habits worked together to possibly cause the increased breast cancer rates in the '90s<sup>7</sup>. Too many Power Women had looked to their fathers to define business success, emulating both their drive and their toxic lifestyles. Regretfully, for many Power Women, this would ultimately cost them their health and, in some cases, their lives.

With the rise of the Power Women came a societal shift. These women wanted to be invested in, to rise to the top, and be treated the same as their male counterparts. The misconception that all women would leave their careers at 24 to have children had become a thing of the past.

The '80s also produced new fashion trends and Power Women were seen in the boardroom wearing power suits with big shoulder pads (as a companion to the male suit and tie), a look that spoke to their confidence and their newfound place in the business world.

The daughters raised by these Power Women subconsciously knew that education was essential for their financial independence. They knew that education and a substantial income were critical to managing both a household and a career simultaneously.

Many of these daughters spent weekends with a newly divorced father who had no manual for how to be a single dad. These fathers did their best to encourage their daughters to pursue sports and activities and became their coaches and mentors.

As youngsters, I suspect these girls were influenced by Saturday morning cartoons, which traditionally featured men wearing capes and stretch fabric outfits, running around and saving the world. By the '80s, most of these cartoons now included a female superhero – also wearing tight, stylish, form-fitting suits and capes.

I felt these powerful cartoon women became iconic to these girls, who were doing what most adolescents and teenagers do: dressing in a manner opposite to their mothers. They did not need to look like boys or men to compete with them; cartoon superheroes were depicted as equal. I coined this market segment the *Super Girls*.

In my mind, Super Girls didn't have any context for gender inequality. It hadn't existed for them in the same way it had for their mothers. They knew they were just as well-educated as men and had been brought up in an era that, if anything, favoured girls in education. The Super Girls that I knew had no use for Women's Events or Women's Achievement Awards. They were playing in a bigger pool and were the

<sup>6</sup> Miller, Claire Cain. "The Divorce Surge Is Over, but the Myth Lives On." *The New York Times*, *The New York Times*, 2 Dec. 2014, <https://www.nytimes.com/2014/12/02/upshot/the-divorce-surge-is-over-but-the-myth-lives-on.html>.

<sup>7</sup> Roni Caryn Rabin, "Birth Control Pills Still Linked to Breast Cancer, Study Finds." *The New York Times*, *The New York Times*, 6 December 2017, <https://www.nytimes.com/2017/12/06/health/birth-control-breast-cancer-hormones.html> (Accessed on August 16, 2018).

“best of the best,” not the “best of the women.”

The thesis I created for these Super Girls worked for design and branding purposes, which meant brand and design had only one person on which they needed to focus. I defined a single Super Girl to be 32 years old and born on the 28th of September. I called her *Ocean*. Each year, since 1998, Ocean never got a day older or a day younger. Every “Ocean” in the world would be our sponsored athlete, just as Nike chose specific pro sports men to sponsor. If Nike or lululemon couldn’t make athletes excited about their product, then the rest of the market wouldn’t be excited either.

For 22-year-old female university graduates, I posited that their utopia was to be a fit 32-year-old with an amazing career and spectacular health. She was travelling for business and pleasure, owned her own condo, and had a cat. She was fashionable and could afford quality. At 32, she was positioned to get married and have children if she chose to, and to work full-time, part-time, or not at all. Anything was possible.

For 42-year-old women with two to three children, her former 32-year-old self represented an era when time seemed so available – a time without the pressures of motherhood and when keeping fit was easier.

As my ideal customer and demographic, the 32-year-old in 1998 did not yet exist. In 1998, she was 24. Essentially, I imagined who she would be eight years before her 32-year-old self existed. I then designed for who I knew she would become in eight years’ time. Because Super Girls were iconic to women of all ages, I felt they would best represent the perfect way to dress for a busy life.

### ***The Church of Athletics***

The stage was set for yoga wear in 1998. The Super Girls had just graduated from university. They averaged 24-years-old but would soon become the 32-year-old urban professionals I’d envisioned. Super Girls were determined stay fit and healthy.

Yoga was a great way to maintain balance, and because it was non-competitive, timesaving (nearby at a local studio), and mentally calming, it appealed to the core of what women wanted. I’d experienced the endorphin rush of yoga for myself – I knew it would be on par with other great endorphin producers of our age: sex, drugs, espresso, surf, skate, snowboard . . . and the soon-to-be-developed “ding” of a smartphone.

### ***Why Women Would Pay Three Times More***

Even though my product would be three times the price of Danskin dance pants, I could deliver a superior quality product the customer would buy in volume only with a vertical retail model. Starbucks was doing the same thing with coffee.

At first glance, no one could believe a person would pay three times the average price for better quality, but I knew the Super Girls would have the professional jobs that would pay them well. I knew they would *invest* in their wardrobe. I knew that after owning a lululemon piece for five years, women would know it was the best clothing investment they’d ever made.

They would have disposable income, devotion to health, organic food, and athletics. They were fit and were waiting on average four to eight years longer than previous generations of women to have babies, so they could invest longer term in their wardrobes without any concern of how their bodies might change with pregnancy. There was a propensity for Super Girls to buy fewer, better-quality wardrobe staples that would stay in style longer. They were willing to pay for quality material and fastidious construction.

The clothing was also designed so that it could be worn outside the gym. Workout clothes could now be worn to drop the children at school, go shopping and then go for coffee. Before lululemon, people

had never felt comfortable walking around all day in athletic clothing.

I had met my ideal customer, at least theoretically. To take this to the next level, we had to speak with the Super Girls themselves and ask them to help us create a new future for athletic apparel.

While I believed women would respond positively to the designs taking shape in my mind, my experience told me it was imperative to contact my target market and listen to what they had to say. My tried and tested way of connecting was to host design meetings and find out exactly what women wanted.

I could sense the decline of the East Coast American fashion houses because in the long run, it made no sense to buy a fast fashion brand built on a manufactured fake image and mediocre quality over a brand built on authenticity with enduring quality. Of course, I also knew if the product didn't cosmetically enhance a woman's image of herself, she wouldn't care about quality or technology.

### ***Initial Design and Formation of lululemon***

Female athletic fashion seemed to die after the short run of Reebok's step classes and Jane Fonda workouts in the early '90s. In the '90s, athletic companies made most of their apparel money from T-shirts with big logos on the front. There was no such thing as an athletic, technical apparel designer. Finding a designer who was 99.99 percent focused on technical solves was impossible. Most designers went to design school to showcase their individual creativity and design flair on the runway. Design was all about *the look*. There was no glamour in technical function. If it was great, technical function was virtually invisible to the naked eye. Lastly, yoga was rare in big cities. I was entering uncharted territory.

Amanda Dunsmoor was a designer I had hired at Westbeach to design outerwear jackets. She was athletic and had the perfect style of a fresh, healthy Vancouver athlete. From my kitchen table in a decrepit one-bedroom Kitsilano apartment, we developed samples in anticipation of conducting focus groups.

In Amanda's words: "There was Nike, there was Adidas, there was Reebok, but there was really nothing that catered to women who wanted workout clothes that actually fit and felt good. Chip was really keen on finding the perfect technical fabric."

I would sketch something on paper and give it to Amanda to expand into a design. Even though my sketches were usually rough, I made sure I was very specific about certain aspects. I would tell Amanda: "I want reflective here; I think it's important that the seams are flat and away from underneath the arms and inner thighs so that there's no chafing; I think it's important the pants have a diamond crotch gusset to solve for camel-toe and make pants approachable for women to walk to the studio in public."

Even in the beginning, the most important item was the pants. Most of the pants in the marketplace at that time were high-waisted, non-gusseted, and shiny with open seams in the worst places. They were simply dance tights women only wore when other women were around. Women were not yet wearing running tights. I wanted something with a bit of a flare at the ankles so that it was more flattering to women with rounder hips.

I was adamant that the rise of the pants would mimic that of men's surf shorts. I knew athletes had a bigger butt and a higher thigh-to-waist ratio. That meant the back rise had to be significantly higher than the low-rise front. Then athletes could bend over or squat without exposing their butt cracks and without having to put up with the doubling up of fabric in the front. I wanted crop tops to vent body heat as many yoga classes had moved to dedicated heated rooms. This was a radical departure from the high-rise front and back of the mid-'90s and of styles after 2014. Pants with high-rise fronts in 2018 were made in response to women wanting their pants to shape their waists. In 1998, fit women did not want a high-rise front – they wanted a low rise to expose more skin to the air to control sweat while doing hot yoga.

The first line was simple. We had two pants, a pair of shorts, and three tops. There were six designs and around four or five sizes of each style. As the fabric was so expensive and a dye-lot was about 2,000 metres, we could only buy one colour – and that colour was black.

Even with those constraints, I developed an idea to make the pants with black thread or multiple coloured threads, and then multiple colours of fabric trim taping around the neck and armholes of the tops. From one black fabric, we created various colour-ways to give the customer options.

The more we reworked the styles for fit, the more confident I was we had a great product, but I still needed a name for my new company. The Westbeach name had been vital to the success of my surf, skate, and snowboard brand. I needed something for the new line that would have the same iconic and memorable feeling.

## **The Name**

I came up with about 20 possibilities for the name and logo, including *Athletically Hip*. Another name, *lululemon athletica*, had a history attached to it.

At Westbeach, we purchased a skateboard brand called *Homless Skateboards*. We produced Homless for two or three years, and it was becoming very popular in Japan, so I proceeded to trademark the name. But through the trademarking process, I found there were already countless variations on the name – mainly since *hom* (or *homme*) means man in French. Trademarking the name was not a viable option.

Skateboarding had crested, and snowboarding was blowing up, so I told all our distributors and salespeople that Homless Skateboards was done. It didn't make sense, I thought, to put any more resources into the brand or skateboarding.

To understand Japanese psyche, it's important to know that when you deliver something they love for two years and then you stop, it becomes doubly valuable – like rare art. That year – 1990 – as I brought Westbeach's new snowboard apparel to our Japanese buyers, they said, "Mr. Chip-san, where is Homless?"

"We're not doing Homless anymore," I told them.

The next year, even as snowboarding apparel exploded in popularity in Japan, the Japanese buyers asked me the same thing. "Mr. Chip-san, where is Homless?"

Again, I had to tell them we weren't doing it anymore. At that time, the yen was at its very pinnacle, and the Japanese were buying up hotels, property, and brands in North America as fast as the Chinese did in 2018. We got a call from my Japanese buyers.

This time, it was an offer to buy the Homless brand name. This surprised me, especially since I couldn't trademark "Homless" and Westbeach didn't own it. So, when I gave the Japanese a price I thought was ridiculous and they came back after mere seconds to say "okay," I was astounded. This felt like the easiest money I'd ever made.

After that, I often thought about why my Japanese buyers liked the name Homless so much. I could see how the big Japanese trading companies were coming up with North American/Western-sounding names because the Japanese consumer at the time wanted "authentic" Americana.

On further consideration, it seemed the Japanese liked the name Homless because it had the letter L in it, and the Japanese language doesn't have that sound. Brand names with Ls in them sounded even more exotically North American/Western to Japanese consumers, especially the 20-year-olds.

This felt like a neat idea, so over the next few years, I played with alliterative names with Ls in them, la la la, jotting down variations in my notebook. This continued until the time came to develop a brand name for my new yoga apparel concept, and during this creative experimentation, lululemon was one possibility I wrote down.

It came out of nothing. Absolutely nothing. And it was risky at the time because the word "lemon" was attached to poor-quality '80s Detroit automobiles. However, the word lemon also represented freshness. Either way, I would have to see how the focus groups responded to it.

I wanted a lower-case L to start the word lululemon because I wanted an athletic name that was less in-your-face than male-focused athletic companies. Meanwhile, I sketched a bunch of logos for the focus groups to discuss, then worked with a graphic artist, Stephen Bennett, who put a circle around a stylized “A” that I had sketched. The “A” was made to match the name Athletically Hip.

To trademark a corporate name, the name has to have a “descriptor” name attached to the marketing name. So, once I had decided on the name lululemon, I needed a descriptor that would help explain what the company was. The obvious descriptor word was “athletic,” but I associated the word “athletic” with men’s smelly, equipment-heavy, unclean sports stores. Because lululemon was to be a cross between West Coast technical and Euro styling, I decided to put an “a” on the end of “athletic” to create a new made-up sophisticated Italianesque word: “athletica.”

### ***The Focus Groups***

As I only intended to be a vertical retail operation, I hired a woman named Amrita Sondhi to assist me in dealing with the hundreds of operational details involved in opening a retail store, including assembling focus groups.

As far as the focus groups went, we invited 10 groups of 10 women. Their ages ranged between 20 and 40. The focus groups took place over a couple of months at an apartment I’d recently moved into, about a block from Kitsilano Beach.

“The focus groups were fun,” Amanda Dunsmoor would later recall. “We would just gather around Chip’s kitchen table. Most of the people he knew from the community, some were yoga instructors. I remember there was an artist there, reworking a logo. The focus groups helped me understand what people were wanting in yoga wear, and that was essential for me because I had never done yoga. I would not have been able to do it if not for their feedback.”

It didn’t take long for us to create an effective way of running our focus groups, despite having no real training. Our questions included asking the participants what they thought of 20 possible names, 20 possible logos, and their favourite running shoe brand.

We also asked about vitamin usage, emerging trends in athletics, and whether our participants had ever visited a massage therapist, homeopath, or chiropractor. We even asked about their favourite music and what could be improved about women’s change rooms and the entire shopping experience.

Most importantly, we asked each person in our focus groups to bring one piece of athletic clothing they loved or wanted improved.

One of our first designers, Shannon Gray, explains, “The focus groups were so important to the evolution of lulu’s product design and became part of the design process for many years. We asked people to bring their favourite pieces of athletic clothing. We were able to learn from all types of athletes what they loved and what they felt was missing in the market. We were able to learn what companies were doing better than us and how we could leapfrog what they were doing.”

We started to see trends. We learned that asking open-ended questions about a wide variety of topics encouraged the participants to engage in conversation with one another, rather than just replying to us. This, we found, was what got us the interesting and useful information.

Usually, during each group, I would have three “aha” moments. But I also found this was the same for the participants. One woman would say something that would cause the rest of them to suddenly get animated and think of the topic or question in a whole new way. When this spontaneous conversation happened, we would sit back, listen carefully, and take notes.

Something I’d learned through personal development was that you can’t create the future without first clearing up the past, so we made a point of having the participants talk about what *didn’t* work for them in the athletic clothing or the retail experiences that were available. Once this clearing was finished,

and the participants got any background issues out of the way, we could move into questions to solve the unknown future.

We wanted to know what our participants thought of the future of athletics and how athletic apparel needed to perform to provide for changes. For instance, snowboarding had gone from hard-boot, ski-racing clothing to free-ride, to pipe-riding, to powder, and each stage in this evolution required different apparel. Likewise, as it grew in popularity, yoga morphed from one version to the next – power, Bikram, flow, sports yoga, meditative yoga, etc.

The most satisfying part of the focus group experience was watching people's reactions as they touched our fabric for the first time. No one had created a technical fabric that felt like cotton before. I already thought this material was special (although it had yet to be perfected), but the feeling of seeing someone's eyes open wide as they touched it demonstrated that we'd made something unlike anything that had come before.

I believed in my gut that this pant innovation would affect people's behaviour and the way they lived their lives. Once our focus group participants felt the fabric with their hands, they could hardly wait to put it on and feel it against their bodies.

The people in these focus groups could see the possibility of performing without all the hang-ups of transparency and fabric turning shiny when it stretched. But it went beyond that: what I really saw was the possibility of customers using our clothing not just for yoga but also to go to the studio, or gym, and back. Solving the camel-toe problem was probably the key invention. Without that solve, the pants couldn't be worn on the street. I knew Super Girls valued time above all else. If they could go through their day without changing between activities, I could save them 45 minutes a day.

Westbeach succeeded in surf, skate, and snowboarding because the athletic look of those sports transferred out onto the street. I failed at street clothing for triathlon, beach volleyball, and mountain biking because they did not make that transition. I knew the real success of lululemon would be in the ability of the apparel to perform 24 hours a day, in several settings, if needed.

## **Voting**

At the end of every focus group, I came away with three or four improvements I'd never even considered. The groups talked about the length of pants and the psychology of sizing. Because we took the time and effort to run these groups, I not only came away with what has since become an iconic name and logo, I also avoided countless mistakes that could have proved costly, or even, disastrous.

To this day, I answer the, "Where did the name come from?" question daily. The answer is that I took 20 names – including Athletically Hip and lululemon – to the focus groups. I was almost certain the participants would go for Athletically Hip, but to my surprise the overwhelming favourite was lululemon.

Also to my surprise, the participants selected the subtle, stylized letter A, intended for Athletically Hip, as the best logo.

## **Long Pants**

In 1996, I was selling snowboard boots at Westbeach, and in the first week, all the size 13 to 15 boots sold out. Further back, in 1973, when I was a six-foot-three teenager, I was five inches taller than almost everyone I knew. By 1997, my height felt normal. The population was getting taller.

I'd never been able to find pants of a decent length for me, especially with shrinkage after a wash. So here was another issue I could solve. As I had spent considerable time in Japan, I noticed most stores had sewing machines for on-site tailoring. The Japanese body is generally long in the torso but short in the arms and legs. For Japanese retail stores to sell American goods, every pant needed to be hemmed

on the spot.

I loved this idea and wanted to incorporate it into the very early stages of lululemon. As I saw it, with our own stores we could build the cost of hemming into the product and provide a pre-shrunk pant that was the perfect length for tall women. I decided I was committed to making perfect pants for tall women.

### ***Styling and Design***

On my trips to Europe in the '70s, something that stood out to me was how people dressed – specifically, how *well* they dressed. The design lines in their clothing created the illusion that their bodies were more fit than they were. I could see how much thought Europeans put into styling. It differed greatly from what I'd seen in New York fashion magazines or non-existent fashion on the West Coast. There was nothing functional about European fashion – it just looked really good.

I would think about how to bring the dichotomies between European style and West Coast function together into something that had never existed before. That was the birth of the idea that eventually became *streetech*, and its inception can be largely credited to my seeing the world at a young age.

Until lululemon, fashion dictated that either the top or the bottom was tight, but not both. Incorporating stretch yarns made fabrics more form-fitting, and for the first time in history, women wore a tight top and a tight, low-rise bottom. Because of hot yoga rooms, a crop top was a functional necessity, and the combination of all three created a look no one in fashion would have ever thought possible.

My success at Westbeach and then at lululemon was due to honing a perfect combination of Euro-style and West Coast function, but always leading with function.

Accentuating the attributes that made people feel confident – wider shoulders, smaller waists, slimmer hips – meant Guests would feel good and look good in our clothing. I realized that the shape of our logo provided a perfect contour to enhance the natural shape of a woman's body. I designed the lululemon logo into the seams of tops and hoodies. This was a critical shift in brand design for us because we could subtly show our logo without it reading as such.

I wanted the same for pants. There was a huge debate about where to set the seam lines on pants. Women told me they preferred side seams because when they looked in the mirror, side seams slimmed their hips. I wanted to move the side seams to the back to frame the bum and make the bum appear smaller. I persisted because I believed that eventually men might disclose to their partners that the pants looked great without their ever really understanding why.

I wanted beauty to be where the visible meets the invisible. More than anything, I wanted lululemon to stand for great quality, and I wanted our Guests to be proud to wear it.

That's how lululemon athletica came to be.



## CHAPTER 12

# LULULEMON TAKES SHAPE

### *An Elevated Location*

It was exhilarating to create something from nothing, to put into place the early blocks of the business, to put together that totally original puzzle. Lululemon athletica was not born to play by the normal rules of retail, because we didn't know the rules in the first place. The time had come to put a lifetime of failures and winning experiences together. To do that, I'd need a concept store.

There was nowhere I wanted to be other than West 4th Avenue in Kitsilano, just up from the beach, not far from where Westbeach's Vancouver store had been located. I wanted the newly-named lululemon to be associated with Kitsilano and the people who lived there. It seemed locating to West 4th would be important, perhaps vital, to our success. Lululemon was inspired largely by university graduates drawn to this unique, athletic, semi-hippie-like part of the city.

I didn't have enough money or product to rent a regular store location, so I found a space behind an inconspicuous door and up a drab-looking flight of stairs, instead of an inviting street-level storefront.

I decided there had to be a way to use this central yet cloistered location to my advantage. This required maximizing large floor space between an open office and, warehousing and strategically displaying products.

The store, I thought, could be made into a sort of interactive design laboratory. We built a sewing lab right there. I felt the visual of observing our design process would be part of the brand experience and would create word-of-mouth excitement about what we were doing.

As Amanda recalls: "We had our office area in one corner and racks of clothing set up on the other side. It created a fantastic design environment because I could interact with customers and find out directly from them what worked and what didn't. I would take their feedback, and I would incorporate it into the next cut or the next design. Even though many people doubted our upstairs location, I loved the vibe we had in that store. It was so barebones that it had this very cool boutique feeling."

As the store got going, we dedicated a third of the space to design and a third to stocking inventory. The remaining third was the clothing display area. It was clear I couldn't fill our display area with lululemon's six to eight styles, so I brought in other brands to plump up the inventory, ensure our customers had a reason to come up the stairs, and to research competitors' pricing. I brought in Champion, Adidas, Fila, Gaia, Calvin Klein Underwear, Cannondale cycling gear, and even some of the existing dancewear

apparel that I'd set out to improve upon. I bought T-shirts from American Apparel and changed the neck labels to say "lululemon" and printed reflective graphics on the front.

Shannon Gray was responsible for ordering and meeting with the sales reps from these other brands. From observing the items to which customers were attracted, she was able to determine if the top-selling products were about fit, function, fabric, or price. She used this background information to assist in designing new lululemon styles.

I knew building word-of-mouth about lululemon quality would take time. Meanwhile, I wanted our space to be as efficient as possible. We painted the space white and put down the cheapest carpeting I could find because the linoleum floor was ugly. Even though it wasn't a storefront at street-level, it was still very memorable. The front windows had an amazing view of the mountains, and the whole space had innately good energy.

One day, my yellow lab, Bagels, tripped and spilled essential oils over a part of the rug. This turned out to be a stroke of good fortune: the amazing smell lasted for 18 months, and customers loved the aroma.

Good energy, the tunes of Al Green, and a view of the mountains meant I didn't have to sink money into too many adornments. Instead of buying racks, I put screws in the ceiling beams from which I hung wood doweling with rope. These were used to display our clothes. Little tricks like this helped me to outfit the first ever lululemon store for less than \$4,000.

### ***A Functional Design***

During our focus groups, women expressed that the cost of their time was critical. I thought this through and calculated how long it took a customer to find a garment in a store. I then compared that to what that customer would have earned at work had they not gone shopping. This information drove the store to be set up for function rather than by colourways or outfits (as is typically done in fashion stores). Our pant wall allowed our busy Guest to visually and expeditiously locate the perfect garment for her athletic function, in her size, and in her desired colour.

The thought of maximizing the working woman's time ultimately drove the functional store design. I was fanatical about creating the right combination of store size, store location, number of Educators on the floor, number of change rooms, number of cash desks, software and the price/quality of the clothing.

It was a worthwhile exercise. Over time, lululemon stores would yield the third highest sales-per-square-foot in the world...behind only Apple and Tiffany.

### ***Logoing***

When I was young, I wanted T-shirts with big logos. I wanted other people to understand who I was, and because I was inarticulate and insecure, the logos talked for me. When I wanted to meet a girl, I hoped the logo on my shirt would tell the girl I was cool. With surf-skate-and-snowboard, the target market was 14- to 18-year-old boys, so the logos were large, necessary, and driven by sponsorship. A company would pay an athlete to wear their branded apparel, which would inspire young boys to buy that brand.

As I grew older, became confident, and stopped growing, I could afford better quality clothing that lasted longer, so I no longer needed the big logo. I didn't want disposable T-shirts, and I didn't want my apparel to be dominated by a logo. I wanted my clothing brand to match the quality of person I aspired to be.

I always believed a well-educated, marketing-savvy consumer could easily see through the purchased loyalty of sponsorship. A more sophisticated athletic consumer was looking for a product that had better quality and a smaller logo. The size of the lululemon logo was one inch in the first year. We shrunk it to half-an-inch the second year and placed it on the backs of garments. We made the logo re-

flective, so it would be functional.

## **Educators**

Back when Westbeach had become popular, competitors had set up around us, making Kitsilano the most concentrated area for sports apparel retail in the world. I knew I did not want customers to enter lululemon and expect to get the same treatment that they would get elsewhere, where a salesperson approaches them, suggests such-and-such would look good on them, that this item is discounted, or that clearance apparel is in the back.

One of lululemon's very earliest Operating Principles was never to tell a customer something looked good on them. We assumed our intelligent customer did not need to be talked down to. Talking fashion used up our customers' time – it was fake and added nothing to the experience.

My next step was developing a staff training system for how best to deliver a technical product. I wanted to rename every component within our unique business philosophy. I didn't want to call staff "salespeople" because I hated the connotation of one person attempting to fool another.

While making snowboard jackets, I had wanted to insert technology not visible to the customer. Salespeople and hang-tags at a wholesale sports store frustrated me because neither could explain the superior hidden value of technology-enhanced apparel. On the other hand, in my Westbeach retail stores, I could describe hidden technology to customers, which, in turn, meant there was no problem getting top price. I had to have my own stores and educate the customer.

Considering how little my father earned as a university-educated teacher, I wanted to create a retail business that could pay Educators top dollar. I believed using my vertical retail model to remove the middleman would allow me to pay our staff – our Educators – 30 percent more than they would earn elsewhere. For a manager, I could pay double the salary of a public-school teacher.

## **The First Store**

Lululemon athletica opened in March of 1999. You had to be in the know because the second-floor location was so obscure – but that made the store even more special. The people who came were the invitees to our design meetings, their friends, and the small number of people who were in the yoga scene at the time.

The first store functioned a bit like a showroom. If we were going to expand to other cities, the idea was to set up in an inexpensive location in a Kitsilano-type neighbourhood. From there, we would softly educate while creating community via design meetings and developing relationships with forward-thinking athletes we would call *Ambassadors*.

Each piece of lululemon clothing had its own name, its own identity. I believed by naming a garment, the customer would better understand the spirit and technology behind the item, which was a part of the educating puzzle. Our first pant, for example, was a black Lycra flare-fit pant that reminded me of the '70s. We named it the Boogie Pant. (In 2017, the MoMA in New York presented the Boogie Pant as a catalyst for social change in a show called "Is Fashion Modern?")

That particular pant evolved to be the Groove Pant with a built-in band as a design feature, inspired by the look of a low-slung hippie-style belt on a woman's hips. As their hips moved, so did the built-in panel. The original did not sell well until it was redesigned to slim out the leg to the knee and bring the flare out wider (the designer of this innovation was the aforementioned Shannon Gray, who – spoiler alert – I would marry a few years later).

Despite the fresh paint, the good energy, and the view of the mountains, our second-floor location on West 4th proved to be as difficult as I'd worried it might be. Being so tucked away from foot traffic was

a real problem. The staff did what they could to get potential customers up the stairs, including setting out a rolling rack of our samples at the bottom of the stairs and talking to passersby about our products. It was heartening to see how much our few employees believed in what we were doing.

From the outset, profit was never the goal. I was driven by providing athletic and health information to our customers, and if they wanted to buy something, then that was a bonus. The way to make this model work was to ensure everyone I worked with was wonderful. My personal desire was to ride my beach cruiser to work every morning and never get on a plane again.

In fact, lululemon's original vision was to provide people with the components to live a longer, healthier, and more fun life. In my mind, it was as simple as that.

I was also confident that once a woman tried on our clothing, learned its functionality, and felt the fabric on her skin, she would become a loyal customer. Generally, we only needed between three to five people coming in per day to break even, but my big problem was selling enough units quickly enough. I had too much money wrapped up in inventory, as I had to make between 500 and 2,000 units to achieve economy-of-scale. I couldn't build more styles until I had more sales. That was the big problem with starting a vertical retail company. Success would take capital and time. I began to understand why few people would even contemplate trying to make this business model work.

I needed to push things along while we waited for word-of-mouth about lululemon to spread.

### ***In-Store Yoga***

Fiona Stang was still teaching yoga at Ron Zalko, which wasn't ideal because the class space couldn't be heated warmly enough to teach a proper power yoga class. I, however, happened to have just the place for such a thing. We had our clothing on rolling racks, and in the mornings and in the evenings, we would move them to the side so Fiona could teach yoga classes. The smell of spilled essential oils and sweat became synonymous with the lululemon brand.

Lucky for us, Fiona taught the only yoga class in town. People who showed an interest in yoga found out about us while they attended class. They realized the yoga class venue also sold clothing and brought their friends back to peruse the merchandise.

I knew once women were exposed to our location and our pants, it would create authentic word-of-mouth. Word-of-mouth was the only way I wanted to expand lululemon. This was going to be a long, arduous branding journey but I knew the effects were exponential and demand would correlate with my ability to expand production.

"Chip had figured out a really organic way to get all these people – more importantly, the right people – into the store," Fiona recalls. "It was a brilliant idea."

### ***Advertising***

Yoga Journal Magazine was a mediocre publication wallowing in the depths of the granola world. I don't even know how they made money. But, I knew the future of yoga was akin to the surf, skate, and snow business, so I thought, if I could be the top advertiser and control the first few pages – much like Burton Snowboards did in the snowboarding business – then I could set lululemon up to be the international leader in yoga.

My approach to marketing with lululemon was just as unconventional as it had been with Westbeach. I didn't want to advertise what the brand was – I wanted to advertise what the brand was not. We wanted to be clear who our nemesis was, who we were fighting. Lululemon was against big pharma pushing unneeded drugs, unhealthy food companies, and anything that would shorten a person's life. We were against false advertising that provided short-term gain and long-term pain.

In the '90s, with the high buying power of the yen, Japanese travellers were coming to Vancouver and spending their money.

Also, at that time, Roots Athletics was marketing their apparel as being athletic. That was maybe true for canoeing on a lake in Canada, but Roots apparel had no use in athletics as I understood it.

Drawing on Roots and Japanese tourists alike, we created our first of three ads – a girl wearing big glasses with the words, *'Trendy Clothing for Rich Japanese Tourists'* with a girl wearing a Roots sweat top.

First, I wanted nothing to do with the word “trend,” despite what the New York fashion and business media said about athletic fashion. Second, I wanted to make fun of tourists that buy inauthentic tourist clothing. Third, I wanted to take a fun stab at Roots for calling themselves athletic.

I knew our targeted Super Girl would look at the ad and understand the nuances and subconsciously want to be part of the lululemon “tribe,” a phenomenon described in Malcolm Gladwell's book *The Tipping Point*<sup>1</sup>.

Our second ad revolved around Vancouver's number one gym – Ron Zalko – where I had attended my first yoga class. Ron had marketed his business around sex. He did an ad in the Georgia Straight in Vancouver showing a woman, her arms draped over his shoulder, saying *“It's bigger than I thought.”* This apparently referred to the size of his workout facility. I found this ad pretty gutsy. Many Super Girls I knew who had seen the ad found it outright creepy.

Creepy, gutsy, or otherwise, the ad was so infamous, I decided to mimic it. I had our designer Amanda wrap her arms around me, and we used the same, “It's bigger than I thought” slogan. Any Super Girl in Vancouver knew exactly how tongue-in-cheek it was. The ad showcased us being egoless, irreverent, and risk-takers. Most importantly, it brought our market together.

A third ad, a few years later, was a tongue-in-cheek response to the media frenzy around Nike and child labour. I felt bad for the slanderous media targeted at Nike because producing a quality product is impossible without having great conditions for factory workers.

In North America, I noticed that there were some kids not made for school, who dropped out with nowhere to go. For some families, it was work or starve. I liked the working alternative.

The Nike accusations were the first time I saw social media “journalism” come to the forefront. I learned of the frenzy one uninformed person could create when they so publicly accused another party of something. Once in digital, always in digital. Everyone wants 15 minutes of fame.

I decided to get in front of any possible wildcard individuals who could have falsely accused lululemon of such practices. We shot an ad for Yoga Journal Magazine with three or four of our employees, including me, dressed in diapers and baby outfits at sewing machines in one of our factories. The caption below said, “We believe in child labour.” This way, were we to ever be accused of child labour, I could just agree.

(As a side note, my own children have worked in the business from the age of five with no pay; working young, under the right conditions, is excellent training for life.)

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<sup>1</sup> Malcolm Gladwell, *The Tipping Point* (Little, Brown and Company, 2000)

## CHAPTER 13

# A RETAIL OPERATION

### *Mounting Expenses*

While I was waiting for lululemon athletica to become profitable, the costs associated with running a retail operation were beginning to mount.

The ratio of revenue to expenses wasn't yet in our favour. I had to weigh out what I could afford. Something that fell by the wayside was theft insurance. Area break-ins were common – especially on weekends – but surveillance cameras were not, so I took a cost-effective approach. Saturday nights became camp-out nights on the second floor with my boys.

“Brett and I did security for my dad when we were 10 and 12 years old,” says JJ. “Of course, Dad made sure it didn't feel that way. We were just having fun and spending quality time together. Other little kids camped in their backyards. We did it amongst Boogie Pants and Y Bras in the store. What we'd have done if someone had broken in, I'm not sure. The sight of my dad barreling out of a tent would probably have made them take off in a hurry.”

We'd move the clothing aside, set up a tent and sleep at the store before going for breakfast the following morning. This wasn't strange for JJ and Brett because they'd been raised in the retail business and had spent considerable time at Westbeach.

I had no choice but to bring them with me on Saturdays and Sundays, but they didn't seem to mind. They'd hang off me as I interacted with customers or make forts out of boxes while I worked in the warehouse. The operations of the business became ingrained in them – from logistics to sales to branding. They took it all in from an early age, and at last, I found myself spending quality time with them.

### *A Pivotal Moment*

Lululemon's lead designer, Shannon, and I were walking down the street and we saw a girl coming towards us wearing what appeared to be a pair of Boogie Pants. As we both knew, the lululemon logo was on the back waistband and so as the girl passed, we both turned around to look. As luck would have it, the girl also turned around to look at us. There was no telling what she must have thought of a couple who turned around seemingly to stare at her behind.

By the summer of 1999, women were wearing lululemon as they shopped, walked their dogs, or sat

in cafés with their friends. Lululemon wasn't just in yoga studios – it was on the street. Somehow, we'd made clothing that women wanted to wear for yoga – and to wear *after* yoga. Any reservations I'd had about making clothes for a new, niche sport suddenly evaporated. Yoga was not only gaining in popularity, but lululemon had also made the leap into streetwear.

Enough signs pointed in the right direction to make me feel I had to hold on and grow organically without the drug of conventional advertising. The question I asked myself, as my cash dwindled, was: how?

### ***Ambassadors & Product Testers***

I had developed a strong relationship with my first instructor, Fiona Stang, and, as lululemon became a hub of yoga culture in Vancouver, a handful of other yoga instructors in the city joined us. This included people like Eoin Finn, a Vancouver-based philosopher who'd been a leading figure in the yoga movement since the late '80s. I kept coming back to the invaluable information and ideas these instructors offered, always asking questions and getting their input on our designs.

It quickly became a synergistic relationship. We supported one another and believed in what we were creating. We not only believed, but our livelihoods also depended on yoga picking up momentum. These yoga instructors had started to act as spokespeople for lululemon. I decided at this point that lululemon would never set up its own yoga studios as it was not our job to compete with our best partners and brand builders.

As Fiona recalls: "People ask me what it was like to be one of the first lululemon testers. I don't really remember it being that official. It was like, my friend Chip is starting a yoga clothing company, and he's asking me to test designs and tell him what I think. I loved the clothing and was happy to share my thoughts about it, but mainly it just seemed very natural and fun."

I decided I would formalize the relationship by asking these leaders to become brand testers, providing them with new designs in return for their invaluable feedback in regularly scheduled design meetings.

As time passed, the testers became known as Ambassadors. They realized how serious we were about perfecting the products. They recognized we were listening to what they said, and they saw the results of their feedback in the designs themselves.

The Ambassador program was also a unique marketing opportunity. We would photograph our ambassadors and put the pictures in the local newspaper with the name of the ambassador's yoga studio . . . and then we'd put a small lululemon logo at the edge of the picture. The first goal was to make the Ambassadors' businesses work. The second goal was to provide just enough financial love to the media publications to facilitate an occasional editorial piece on lululemon.

Old-school marketers would not have understood our desire to build an authentic tribe with community-based yoga, but within a short period of time, people wanted to be part of the Ambassador team. This all contributed to maven yogis vouching for the lululemon brand and creating an underground surge on our way to the tipping point. Slowly we were getting more people up the stairs and into our world.

The reality of the world was that religion was dead - even more so in Canada than in the US. The rise of social interaction from Sunday morning workout classes and coffee became the new way people were coming together over a common vision of health to laugh and exchange ideas with each other. The Athletic high and athletic community were producing the new "Peace of Mind" people had formerly gotten from Sunday service. At this point, I realized "Athletics" was the new "Church" and was creating a fundamental shift in the fabric of society.

## ***Hemming***

I thought about the inconvenience of purchasing pants, washing them, shrinking them, and then taking them to a tailor before they could even be worn. I wanted to eliminate that need entirely. I surmised that Super Girls did not have time to go to another business, try on the pants again and get their pants hemmed. Of course, women are particular about the exact length of pant and need the pant to be 100 percent functional for a yoga class. I wanted someone to buy a lululemon product and wear it beautifully the first time.

If Japan had seamstresses in each store, I wanted hemmers in ours. I took that one level higher and hired not just hemmers, but design graduates fresh out of school. Not only could they sew and hem, but they could also create. Starting with Amanda Dunsmoor, I'd set up a studio where the designers could work but also talk to customers.

If the store got too busy, the designers came into the sales area to help. They'd interact with customers and then create, create, create. This approach replaced traditional buyer statistics. It laid the foundation for lululemon to listen to its Guests and Ambassadors and to create amazing new products that directly reflected their feedback. Neither statistical sales printouts nor algorithms tell buyers what shade of purple a customer would have preferred or what size they would have bought if it had been in stock. The recognition of what big data will not tell buyers is a key differentiator of why lululemon was to rise above its competitors.

Over the years, these early insights became cultural practices that included company-wide design calls, product testing in local communities, and design meetings based on climate, lifestyle, and the popular athletics of that region.

I refused to allow algorithms or past metrics to dominate lululemon's line plan. My fear of becoming an old school American public apparel retailer was palpable.

## ***Design Meetings***

Through our early days, focus groups and design meetings remained a critical part of our growing success. With the second-floor location, these meetings were another way of bringing people in to see where our store was. We'd have sushi, I'd give each participant a \$100 gift certificate, and we would ask a series of questions that prompted an open dialogue.

This customer perspective – whether I agreed with it or not – helped to move lululemon ahead of its competitors, because the information I was listening for was about the future. I designed meetings with Guests and then separate meetings with Ambassadors and then again with store Educators. On the day I left running the design department 12 years later, we were running 150 future driven design meetings a year.

I welcomed negative feedback and made sure we invited people who had made complaints. Design meetings gave us a face-to-face platform to disseminate information to Guests and Ambassadors, who spread it to their clients. I also held meetings with the store Educators, which gave me a third and equally important viewpoint with which to work.

Focus groups and design meetings were some of the very best branding exercises for lululemon because during these interactions, I would be asked very pointed questions about the business. Sometimes I'd have a good explanation for why something was the way it was. Other times the question would flag a need for follow-up or change.

Despite these rapid innovations, business was growing too slowly. I had a lot riding on whether lululemon could hang on through those first few months. The wholesale prospect crossed my mind more frequently as lululemon struggled to remain profitable.



## ***A New Approach to Wholesale***

I was always thinking about how to get the product on more people more quickly. I knew anyone who wore our product would be an instant convert and would tell six other people within a week. I visited the venerable Glencoe Sports Club in oil-rich Calgary with a new branding idea.

I proposed they sell eight of our main pieces in their shop. It was a wholesale agreement in which I would make no profit. I would move through styles at break-even and build up my production base to get to economy-of-scale and get my costs down. This was part of my developing break-even marketing mantra.

I suggested I control all buying and fulfill inventory as quickly as they could sell it. I knew how in-demand our clothing would be at a place like the Glencoe and also how profitable it would be for the club. Lululemon would get in front of the perfect high-end customer, and the Glencoe could make millions of dollars.

Unfortunately, this meant butting heads with the merchant system the Glencoe (and all other retail stores) already had in place. The buyers, whose job it was to curate clothing (and other wholesale items), wanted the product, but they weren't willing to give up the ego of their job or look at a new model. They didn't understand lululemon was a design-led company because they had never dealt with one before.

Once a brand matures, the Midwestern North American consumer buys in heavy and deep. The natural evolution of styles moving from the coast to the inner continent warps sale metrics, and merchant-led buyers, wrongly direct the designers to make more of what is selling. While overbuying for these Midwestern North American consumers, companies lose their focus to deliver market-leading styles for the trendsetters of the next year.

(As a 2019 example, the lululemon men's line created too many nine-inch inseam shorts that cater only to golfers and Midwest Americans. If you looked at world's trendiest beaches – Tulum, Jose Ignacio, Kits Beach, St. Tropez, Ibiza – you'd see that no one had been wearing nine-inch inseams for the past three years. Five to seven-inch inseams were the standard on these beaches).

To us, design would always trump every other system – even old-school merchants and buyers.

## ***Selling a Stake to Employees***

Another attempt to enhance cash flow was to get employees to work the same hours, or produce the same services, for less money upfront. In exchange, I'd offer them a small piece of equity in the company. I viewed a one percent stake in lululemon as a way to motivate my staff by giving them a sense of ownership while reducing my wage expenses.

I made this offer to five people. Of the five, only the sole male in the group, Anthony Redpath, took my offer. Anthony was a friend and a photographer who had been shooting a lot of promotional material for us.

"There was a point when Chip was starting to have cash flow concerns," says Anthony. "He was on his own, and he was stretching himself to make it work. His idea was to offer one percent of the company if I agreed to work for cost. He thought he would keep the company for 10 years and eventually sell it for \$10 million. It was only me who bought in. Nobody ever dreamed lululemon would actually get to where it is now."

Every little bit helped but deferring Anthony's payment would not make a precarious situation better. I needed to think of other ways to avoid a financial meltdown, but I felt like I was running low on options.

While disheartened that I was running up against the same old issues that had exhausted me at Westbeach, I had enough reasons to be optimistic about lululemon to make me feel that I needed to find a solution. If I could just make it through the next few months, I was sure we would reach critical mass.

## ***Running out of Money***

I don't think I've ever been driven by money or profit. I've been driven by the beauty of a process, and that's what I was perfecting with lululemon. My worst fear, at the time, was seeing the little money I had left disintegrate while waiting for lululemon to turn cash positive. I had taken another loan and maximized the equity of my house with nowhere else to go.

One option I considered was taking on a partner. I was happy to have the autonomy of going it alone with lululemon after some of the partnership issues I'd had with Westbeach. I liked the clarity that a single vision, core values, and quality control provided my new brand.

On the other hand, having a partner on board had huge advantages, including shared risk, an infusion of capital, and expertise in other areas of business.

My friend, Dave Halliwell, had been helping me off and on in an advisory position. I approached Dave with a partnership proposal. Dave believed in lululemon, he told me, but needed to think about it before giving me an answer.

I had reservations about this. Not reservations about Dave – a great guy who would be a strong addition to the company – but about taking on a partner altogether. I didn't know if I was offering a partnership opportunity because it would take off some pressure, or if I was choosing an easy way out by reverting to a familiar formula. Was I losing confidence in what I'd learned, or was I doing what I had to do to give the company the time it needed to grow?

Dave's expertise was wholesale. I was unsure about how to evaluate the importance of a financial infusion from Dave, knowing that with him as a partner, we'd likely go back into a wholesale model. I loathed wholesaling, but time was running short.

Then, in the fall of 1999, six months after lululemon had opened its doors, an unexpected lifeline presented itself. Morrow, the company that had purchased Westbeach from us two years earlier, was forced to sell the company at a loss to Wyndcrest Partners. Wyndcrest was based out of West Palm Beach, Florida, but they brought Westbeach back to Vancouver. They also contacted me to ask if I was interested in taking the CEO position.

I had stumbled on the perfect solution to my issues. The company I had founded, grown, learned from, sold, worked for, and then left, wanted to hire me back to run it. I could then funnel the salary they offered back into lululemon – the company that Westbeach had moulded me to create – and keep it going while being patient and letting word-of-mouth about our quality reach a critical mass.

## ***A New Option***

While returning to Westbeach felt like a step backwards, there was no question in my mind that it was a means to an important end. I took the job, but it would also take me away from day-to-day operations at lululemon. I would have to separate myself from lululemon to be fair to my new employer.

If I left to run Westbeach, I would need people at lululemon I could rely on to execute the vision I had laid out. I wanted people with the same energy, enthusiasm, and belief I had in what we were doing.

I only had a few part-time people and Amanda Dunsmoor as our designer. As I departed lululemon, our little company would live or die by the hands of the few people running the business in my absence.

Amanda was doing great work in her design role, but I asked her to come to Westbeach with me. Part of me knew I'd be walking into a company that needed to recreate itself, and I would benefit from having a talented, dependable ally. Snowboarding and snowboard apparel were Amanda's passions. I felt sure that bringing Amanda back to Westbeach with me was the right decision for Westbeach, even though it meant creating a void at the very heart of lululemon.

I also wanted to help pivot Amanda away from lululemon because she didn't enjoy working the retail part of the store. Loving being an Educator and working on the floor is a big part of what would make lululemon great.

### ***Shannon and Jackie***

Fortunately, I'd recently interviewed a young woman named Shannon Gray. Shannon had two small entrepreneurial ventures of her own. I'd received hundreds of design portfolios, but Shannon's was the first I had ever seen that included work with stretch fabrics. She'd been making stage clothing for body-builders, male and female.

Here I was, a 41-year-old divorced male with two children who had worked with 14- to 18-year-old boys for 20 years, and in walks Shannon – the perfect Super Girl. She was 24, highly educated, a top athlete, and passionate about goals, athletics, and apparel design. Frankly, I was taken aback. I thought to myself, "she is going to make some man a very lucky husband someday; too bad it won't be me."

The designs in her portfolio were great. She had been a competitive swimmer and later competed on the Canadian water polo team, so she understood everything I was thinking about rashing and how stretch fibres functioned and moved from an athlete's viewpoint.

She told me she'd initially gone to get a degree in science. That's what her parents wanted, but she more or less snuck out and got a fine arts degree on her own. From there she went into teaching, hated it, and went back to school for her design degree. What I liked about her was how she knew what she wanted to do; she knew her calling. I wasn't dealing with someone who was just figuring out what they wanted to do.

Shannon was the first person I called when the opportunity to go back to Westbeach presented itself. I contacted her about a week before I left for Westbeach and told her I needed her to start immediately. She could still only commit a limited number of hours, but her strong design eye and unique energy were exactly what we needed. Shannon accepted the offer.

Around that same time, I also hired a woman named Jackie Slater, first as a designer, then to lead our production. In turn, Jackie and Shannon took on some people to help them with weekend shifts. Amanda and I gave them an intensive crash course in what lululemon was all about.

As Shannon says: "Jackie Slater had just been hired when I got an emergency call from Chip on a Sunday night. He met us at the store with the keys and showed us the layout and merchandising and talked us through the sales. There wasn't even a cash register. We just added stuff up on a calculator and wrote out the receipts. It was like starting over, just Jackie and me. We were both brand new when Chip left. I was still substitute teaching high school in Surrey.

"There was so little money," Shannon adds, "that anyone working had to be motivated by pure love and passion, or pure desperation. Most of us in those early days were united in this intense belief in lululemon. Jackie and I did almost everything. She was mostly concerned with production, and I was working on design. I remember doing anything I could, from making patterns on my kitchen table during the night to working the floor selling all day." With Shannon and Jackie at the helm, I felt that lululemon was in good hands.

It was tough for me to step away at such a critical time, but I wanted authentic word-of-mouth growth, and it would take time.

### ***Back to Westbeach***

Returning to my first company was not without its challenges. The new owners recognized that I had a significant history with the company and a lot to offer, but the people working there had their own

inertia and were not interested in change. Westbeach needed change as it had still failed to be profitable. Many employees were new people who had no idea who I was. The experience felt very different than it had when I was an owner.

The snowboarding business was in crisis and needed command-and-control leadership to right a sinking ship. There was no time to enroll employees in a shared vision, but I needed them to align with me if we were going to move forward together powerfully. The company was between a rock and a hard place, and in hindsight, a “bottom-up” leader like me may not have been what this “top-down” company needed at the time.

Despite challenges at Westbeach, I had faith in the way I’d left things at lululemon. Shannon’s and Jackie’s jobs were to fulfill the vision and maintain quality. I believed if I gave them the tools and space to feel creative, motivated, and empowered, good things would happen.

“Chip was out of the picture, and it was really our business to run and make a go of,” says Shannon. “We had a lot of power to make decisions and steer the product line. We chose fabrics and decided how many pieces to make. Chip gave us an incredible amount of freedom. We were so excited that when we hired people, they quickly picked up on our enthusiasm. People saw a future in the company, so it was a great fit for those with an entrepreneurial and business drive. Lululemon was wide open, especially for women with an education who wanted to see where the company could go.”

This is an important point about the founding of lululemon. Except for my own part in it, the company in its earliest days was run *by* smart, independent Super Girls, *for* smart, independent Super Girls. We seemed to be the only people that believed in the possibility and greatness of that demographic.

I stepped back and tried to look at things more critically, to ask questions that needed asking. Was the yoga market strong? It was. I felt the yoga movement was still gaining momentum. We were in the right place at the right time.

Was our product great? Yes. There was no question in my mind that we were the best in the world. Anyone who put on the clothes confirmed that. Jackie and Shannon had built on the foundational concepts and refined the designs beautifully.

We had to get people in the door to make purchases, and it was becoming increasingly apparent to us all that the upstairs location on West 4th was making this a serious challenge. The traffic up the stairs to the store was low, and consequently, so was our sales volume.

I made tough, long-term decisions that were affecting our short-term survival. Not going for the easy money of wholesale, not looking for comfort in a partnership, and not running any conventional advertising campaigns. I could certainly see the downside of my choices. Without wholesale, the exposure of the products was minimal. If a customer didn’t find our store, they would not find the clothes anywhere else.

Before I allowed myself to consider wholesale – to depreciate myself and go against all I knew to be wrong – I made a commitment to think laterally and exhaust all other possible options.

But the more I dwelled on it, the more it seemed there were none.

### ***The Superstar Sports Experiment, Part One***

It seemed I had too much money wrapped up in perfect, unsold inventory, but not enough cash to continually deliver new designs to ensure the customers I already had would return. The bottom line was that there was more cash going out of our bank account than into it.

If we explored wholesale, our product would reach more people. The revenue from wholesaling would create money to outfit a new location and help with the higher rent costs. From Dave Halliwell’s viewpoint, one hand would wash the other.

It didn’t take long to put together a sizable wholesale deal with a company called Superstar Sports and with many other cross-Canada yoga studios. This helped seed the market so that when we did grow,

we had brand awareness. Superstar had 30 stores and stocked a wide variety of sporting goods, but mostly Nike.

Superstar looked good – and that had to count for something. We increased production and stretched our resources to the limit. Everyone put in extra time to fill our first wholesale order. Wholesale was not the option I'd wanted to go with, but we were desperate. With the Superstar deal, it seemed we had a lifeline . . . if only for the time being.

## CHAPTER 14

# MOVING ON

### *The Superstar Sports Experiment, Part Two*

We got word from Superstar that our product was selling well, and we just had to wait for our payments to come in.

Over breakfast, shortly after getting this good news, I read a newspaper article describing bankruptcy proceedings that had started against Superstar Group. The same Superstar Group in possession of lululemon product worth \$30,000. There's no way to describe how this felt – especially finding out in this way. Losing the receivables from Superstar was a devastating blow.

Hoping to salvage something, anything, for lululemon, I attended Superstar Group's bankruptcy meeting. The room was packed with representatives from companies that, like mine, stood to lose money. Everyone there wanted to secure a piece of the bankruptcy pie for themselves. Initially, I held hope that we might be paid out in the proceedings, but it didn't turn out that way. We never saw a single cent from Superstar. For a young start-up like lululemon, it was a huge hit.

A year and a half later, the same owner of Superstar, who'd essentially walked away with everyone's money, formed the corporation that opened Nike retail franchises in British Columbia. I must say it hurt having someone use my money to compete against me.

I was frustrated that I hadn't listened to my gut instinct. I had ignored the learning I'd gained from Westbeach, and the results had been disastrous. I promised myself, this was one mistake I would never make again. If I could somehow pull lululemon out of this mess, I would stick to my guns.

Now that the Superstar money had vaporized, it looked like we would have to defer the cost of moving to a new location until our financial outlook improved. I realized it would be impossible to keep going until the unknown point when we had more cash. Now, more than ever, we needed a new space to generate sales volume that would dig us out of the hole in which we'd landed, but the cost of moving felt prohibitive.

Still, it was move or die. At least housing prices in Vancouver were skyrocketing. This meant I could take out another equity loan on my house – it was the only way we could afford to move the store.

## **2103 West 4th Avenue**

I had been keeping an eye out for any good space on West 4th Avenue. Ultimately, we didn't have to look far. In November 2000, an excellent location opened right across the street. We could see into its front windows from our own.

The new spot was a former electronics store. It was rundown and in bad shape. Wires were hanging everywhere, and the walls were covered in ugly pegboard. We only had \$20,000 available, and we would need to spend every last cent moving in and getting the new store into a somewhat workable condition. We wanted to set up before Christmas, and it was already November.

"Ugly," says Shannon. "The new space was just really ugly. Since we were operating on such a tight budget, we couldn't do that much to fix it up. The plan was to paint it white and put in new carpet. We didn't have enough money to pay professionals to do the work, so we did it ourselves. We closed the store for four days which, for a small start-up business, was a long time to have our doors closed. We pulled all-nighters trying to get it finished. One day, an Australian guy who was backpacking across Canada poked his head in to see if all these people frantically working needed some help. We pulled him inside and gave him a paintbrush."

My day job as the CEO of Westbeach had taken me away from the original lululemon store for the better part of a year. Now, the four-day period we needed to move our little company across the street and renovate our new store coincided with a European business trip. Shannon, Jackie, Dave, and some people they'd hired took on the bulk of the move. I wished I could've been there with them, pitching in on the work.

"We rented a five-ton cube van with a driver and a motorized tailgate," Dave recalls. "There was a big posse of us, store employees and friends. We moved everything over in three trips – fixtures, rolls of fabric, sewing machines, the entire stock of inventory, cash desk, et cetera. The truck and driver cost us \$200, and I remember I tipped him \$40."

When the crew finally moved the inventory over, it was immediately clear the space was too big. We had an empty second floor. I'd chosen to stop selling other brands at our new locale, choosing instead to focus solely on lululemon. I knew it was the right choice, but once we had our products in the new store, it looked distressingly sparse.

After devoting so much to wholesale production, we had little inventory. At a push, we could only fill half of the main floor store. I knew I wanted the store to feel like a busy "kitchen party," so I built a huge moving wall on wheels that expanded the store on weekends and shortened the store during the week. We had moveable change rooms so we could add or subtract those for traffic too.

The familiar elements of today's lululemon stores didn't exist in that first street-level location, but it did solidify a deep faith in being able to create something from nothing. It was teamwork for a higher purpose. We brought over our community boards from the old store and made do with bits and pieces of furniture that I'd found at distress sales. Shannon's design/pattern making table was made from an old door on blocks. To her credit, the fit of the garments was perfect even though she had to keep moving patterns to avoid drawing over holes in the door.

By the time we were ready to open the doors, we'd completed a marathon, bare-bones renovation.

It felt surreal to return from my European business trip and find that the store into which we had poured all our faith, experience, and belief had changed completely.

My one indulgence was commissioning a massive mural for the outside wall of the store's building. It depicted a silhouette of Fiona Stang, my first yoga teacher, in Warrior Two pose. I could see it from blocks away as I approached. Lululemon was now a visible player in Kitsilano. This was a new beginning.

Then, right before Christmas, Westbeach fired me.

## **The Firing**

It had been hard coming back to Westbeach, much harder than I'd thought it would be. I was just starting to understand what it was to be a manager. I was just learning how to align others with a vision effectively.

As CEO of Westbeach, I had only a few options. I could license the Westbeach brand to a company in Europe or move it into direct vertical retail and get out of wholesale altogether. A vertical retail shift of a wholesaler like Westbeach would have meant two tough, unprofitable years shutting down wholesale and opening stores.

I would have lost my economy-of-scale production with the loss of wholesale, without enough sales coming from the retail stores. Opening our own stores would cost money we didn't have. Westbeach needed an entirely different structure – almost a complete reinvention of the company.

Then there was a move at the ownership level. Westbeach merged with Sims Skateboards. Although Sims was a major force in its own scene, skateboarding was also in a period of decline. If it would survive, Sims, like Westbeach, had to consider mergers and acquisitions. The merger was with Westbeach. The two brands now eliminated a lot of redundant warehousing and administrative processes.

They also eliminated one of two \$100,000 CEO positions. That was me. Merry Christmas.

It was a weird position in which to find myself. The Superstar Sports fiasco had set lululemon back tens of thousands of dollars in product. Our move to the new store cost another \$20,000. Westbeach had just let me go. I had borrowed \$200,000 against my house to start lululemon, and I'd borrowed the final \$200,000 to keep it afloat. It suddenly seemed like everything was on the verge of falling apart . . . but it turned out to be the best possible scenario.

First, Westbeach let me go with a healthy severance package – half of my annual salary. That quick infusion of cash couldn't have come at a better time.

Second, I wasn't the right CEO for Westbeach. Lululemon represented exactly the work environment I wanted; Westbeach had no budget to change, and it was the antithesis of the future I had envisioned.

Third – and most importantly – I could now give lululemon my full attention. The \$20,000 store move had paid off immediately, and business was growing by the day, particularly as Christmas drew nearer. I could now turn my focus to marketing and possibly, expansion.

Now that I'd returned, Shannon, who had been the de facto CEO in my absence, was concerned that her days of creative freedom in steering lululemon were over. "I'd been having such a great time," she says, "enjoying an incredible amount of autonomy . . . but now the boss was coming back."

In my absence, Shannon had done a phenomenal job of driving powerful forward momentum in design. The vibe she and Jackie had created and promoted in the store was exactly what I wanted. Plus, I knew it was important for our success that they felt personally invested in the company. Shannon and I made extra money on the side by designing outerwear jackets for another Vancouver company called Aritzia and setting them up with Asian manufacturing.

I could understand how they felt about my return, so I stressed to Shannon and Jackie that they were still in control of day-to-day operations. I wanted to focus my energies on marketing and growth, not looking over their shoulders in the store, micromanaging everything. I was choosing a leadership style of mentoring and training. My job was to develop people in the culture and get out of their way. I adhered to the concepts of Michael E. Gerber's book, *The E Myth: Why Most Businesses Don't Work and What to Do About It*. I developed Operating Principles and processes that would allow employees to operate independently with conceptual self-imposed parameters so I could focus on the future of the business. Because our training and development program was implemented at the beginning, we could grow exponentially faster than other companies. My belief was employees didn't need adult supervision - they wanted intellectual stimulation and the opportunity to be great.



## **Farewell to Dave**

Now that I had the time to flesh out my ideas, I knew one thing I wanted to prove was our business philosophy. I didn't want to take shortcuts, but it was all a big risk.

After our busy Christmas period ended, I wanted to have a serious talk with Dave Halliwell about our partnership. Even though he had done a massive amount for the company in my absence, he had never committed to an official partnership. He'd been "thinking about it" for months.

For both our sakes, I told Dave he had to make his choice by January.

## **Luon**

With Christmas right around the corner, lululemon was appearing in several articles about hot gift-giving options. One article mentioned a bra Shannon had designed from a brand new innovation that recycled pop bottles. The bra hit it big that Christmas.

The bra was a peripheral item in our inventory as our focus was on our Lycra clothing. But, the interest the bra generated was a perfect marketing vehicle for introducing our clothes to new customers. The people who came in the door looking for the fleecy bra inevitably left with one of our signature garments.

Meanwhile, I felt we'd finally perfected our fabric and trademarked it as something called *Luon* – a proprietary blend of nylon and Lycra. We trademarked the name for reasons similar to ones held by those who trademarked Gore-Tex and Velcro. Many competitors may use a similar product or invention, but if you're the first define a category and trademark it, then it builds a moat around the brand, and the name becomes synonymous with the entire industry.

I sensed lululemon was very, very different in the apparel world and I continually considered how to build a wider and deeper moat that would make future competition difficult.

In January, as promised, Dave Halliwell and I sat down for a meeting about his future with lululemon. I could tell right away it was a "no." The decision wasn't easy for Dave. He told me that although he believed deeply in what we were doing and was more optimistic than ever about the direction the company was going, he was saying no to our partnership.

I didn't have to, but I wanted to remunerate Dave for his passion and commitment to our success. In 2001, I paid Dave \$60,000 or \$5,000 per month over a year. This amount was a fortune for lululemon at the time, but Dave's work had been a vital part of our success.

We parted ways on good terms.

## CHAPTER 15

# GOALS, CULTURE, AND PEOPLE DEVELOPMENT

### **Goal Setting**

Many people might now have grown tired of the concept of goal-setting, but in 1998, it was almost non-existent. There are always those who won't try goal-setting because they fear failure if a goal is not attained. In my view, learning to fail might be the most crucial learning of all. Most people don't like goal-setting because it makes them responsible for their lives. Often, people want to dream about their ideal life, and then vote for a government whom they think will give them their ideal life without actually having to work for it.

### **SMART**

As lululemon's early culture developed, we used the SMART template set out by Brian Tracy in his monumentally great work *The Psychology of Achievement*<sup>1</sup>. SMART stands for Specific, Measurable, Attainable, Relevant, and Timely goal-setting.

Our brains are like computers. Garbage in, garbage out. A goal that is measurable, with a by-when date, is something with which our brains can work. A perfectly worded goal contains the right information for our subconscious computer to work on the goal 24/7, even when we're asleep or doing something else.

One fundamental idea is that a goal must be so specific that there can be no grey area as to whether the goal was achieved.

Unfortunately, most goals I see look something like this: *I will spend more time with my family in the next 6 months or I will eat healthier next year*. While a noble idea, as a goal, this cannot be measured and has no date for completion, therefore, it does not adhere to the SMART template.

Conversely, a workable, SMART-oriented goal looks like this: *I will take my family to Europe for 10 days by December 31, 2025 or I will cook 5 gluten free meals a week by April 30, 2023*.

At lululemon, we developed a template for staff to set out a 10-year vision for their lives, their three top personal values, and 18 goals. The goal template was split between family, career, and health

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<sup>1</sup> Brian Tracy, *The Psychology of Achievement* (1984)

goals. The goal-setter set two goals each for family, career and health to be attained within three different periods of time: ten years, five years, and one year.

The goals fed into and were aligned with their vision. In this way, lululemon became a leadership development company disguised as an apparel brand.

Where I differed from Brian Tracy was in my belief that a person should fail at achieving stretch goals 50 percent of the time. Failing is a part of life. It is merely a setback and an opportunity to reset the goal with new conditions of satisfaction and new by-when dates.

I also believed that the teachings of Landmark combined with vision and goal setting produced an even more powerful synergy.

I wanted a way to keep the transformational concepts of Landmark alive well after people had taken the course. By combining vision and goal-setting with insights around integrity, choice, and possibility, it created something very tangible and real that people could action in their own lives.

As I said in my purple shirt story, my past constrained my future. Prior to investing in transformational development, I would set a goal like this: *I will weigh 220 pounds by December 31, 2013*. The problem is that the goal to weigh 220 pounds goal was based on my previous weight of 240 pounds which I had fluctuated around for at least five years. If I didn't know my past weight and I researched the optimum weight for my age and height, I would find my goal would be 208 pounds. Setting goals from a vision-based future, unconstrained by my past made my goals audacious.

Setting goals from my vision-based future also enabled me to create a plan. I set my 10-year goals based on the vision for my future. Then I asked myself, to be there in 10 years, where do I need to be in five years? And if I am there in five years, where would I need to be in one year? This way of goal setting freed me up from the pitfalls of mediocrity; it had me create goals from a future of free choice as opposed to a future that was going to happen anyway.

### ***lululemon's Culture and Training***

In early 2001, I decided we would take advantage of a relative lull in the higher pace of business to codify lululemon's core culture and training, which took its inspiration from *The Psychology of Achievement*<sup>2</sup>. I only wanted to go to work with people I loved to work with. That was the basis for lululemon's culture.

I had listened to *The Psychology of Achievement*, and then as I finished each cassette, I passed them along to Shannon and Jackie. They responded positively and immediately gave us a common understanding. I told them I wanted anyone they hired to hear the same lessons, so Shannon and Jackie provided the audio to all new hires, and this was the very beginning of the lululemon training program.

I assumed each new lululemon person was already great and all we had to do was help catalyze their lives. I believed it was important to train people for their own benefit, not because I was expecting some sort of return. I wanted to develop employees to their full potential and then set them free. They could then choose to work at lululemon or to fulfill other goals. With choice, the ones who stayed were outstanding employees and the ones who left, left happy and always talked well of their time at lululemon.

It was critical for everyone to attend the Landmark Forum. I had experienced such a positive, transformative impact on my own life that I wanted anyone working with me to have the same access to understanding what a great life could look like. I wanted to surround myself with people who were excited to live a long, fun, and fulfilled life.

Dave Halliwell had been involved with Landmark for a long time. "I was an introduction leader for the Forum," he says. "Landmark is an intense transformational experience that allows people to embrace breakthroughs in their lives. It's clear that the relationship between lululemon and Landmark has been

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2 Brian Tracy, *The Psychology of Achievement* (1984).

fundamental to the company's success. Like anything so dramatically effective, there are people who love it and people who fear it, but to my mind, there's no question about its power."

I knew if the people who worked at lululemon could communicate using a common language, and if they had the same context for what greatness was, we would build an amazing launchpad for success. I knew if we could build a solid educational platform that could be absorbed in two weeks, our people could grow faster than the company.

Even with a handful of people, a unique culture was already taking shape. Part of it was the series of audiobooks we shared. These books set the foundation and the context of who we could be. As I look back on everything now, I want to thank the authors of *Why We Buy*<sup>3</sup>, *Tipping Point*<sup>4</sup>, *Pour Your Heart Into It*<sup>5</sup>, *Straight from The Gut*<sup>6</sup>, and *Built to Last*<sup>7</sup>, among others, for offering the wisdom and insights that helped make lululemon what it was.

More than that, our development training showed Jackie, Shannon, and the women they'd hired that we were *investing* in them.

In a sense, I was exceedingly selfish about people development at lululemon. I wanted to go to work with people I loved, so I was willing to invest in their greatness. I believe when a person is transformed, they become leaders to themselves, then to their family, and then to their community.

A transformed person loves themselves and has the mental focus to generate a wonderful life. A fulfilled person has so much evidence of success, they automatically want the people around them to be trained in the same way. The leadership of one person automatically begets the leadership of those around them.

With the development culture, I wanted to be able to send a 23-year-old to another city to run a \$10 million store with 20 employees, knowing that 23-year-old would act with integrity, be responsible, creative, and because of this, well-paid. They would reach their goals, then the company's goals, and be rewarded for being a leader first to themselves and then to others.

As foundational lululemon Trainer Jenna Hills puts it, "Something that gets hidden about lululemon is that the company wants its people to have goals way outside of it – goals that may take them somewhere other than working at lululemon. The way it succeeded was by having people understand they could develop the skills and leadership at lululemon to attain their personal goals outside of the company. Conversely, if this was forgotten, people were consumed by the company and no longer did their best work. Leading by this principle requires strong leadership that is 'all about people' – leaders who love to get out of bed to watch their teams grow and flourish in their work and are not focused on company profit."

We viewed failure as a positive. When someone failed and it cost the company \$100,000, I asked them if they had learned anything. If they did, I assumed that person was now \$100,000 more valuable to the company. We knew we were making mistakes, but we were in daily reinvention mode, and we knew mistakes made us stronger.

### **Educators and Super Girls**

Lululemon had become something truly unique. This started with the Educators working the floor of the store. They were excited because they were part of the future of how businesses could run. The Educators we hired were living, breathing models of the Kitsilano life. Each morning, our Educators chose to bring happiness into their lives, which, in turn, brought happiness to the lives of those around them.

<sup>3</sup> Paco Underhill, *Why We Buy: The Science of Shopping* (Simon & Schuster, 2009).

<sup>4</sup> Malcolm Gladwell, *The Tipping Point*, 2000.

<sup>5</sup> Howard Schultz & Dori Jones Yang, *Pour Your Heart Into It* (Hyperion Books, 1997).

<sup>6</sup> Jack Welch, *Jack: Straight from the Gut* (Grand Central Publishing, 2003)

<sup>7</sup> Jim Collins and Jerry I. Porras, *Built to Last: Successful Habits of Visionary Companies* (HarperCollins, 1994)

I was fascinated by the convergence of the employees' self-interest and our company vision. As much as I believed our employees were interested in the betterment of the world, I knew that they each had their own personal motivators as well. I wanted to create an incentive-based model that prioritized the employee's personal life over the company as a new way of driving a profitable business.

I had engaged a group of dynamic and enthusiastic university-educated women who were contemporaries of the highly educated customers I knew would pay for technology.

I wanted Super Girl employees to interact with Super Girl customers. No company had ever put this puzzle together because wholesale apparel was focused on the lowest common denominator. The lowest common denominator was cheap labour with high turnover.

Everyone in the company created their own vision and goals. Our Educators were so excited about their own lives that they wanted to discuss what it was to live a full life with everyone that entered the store. This Super Girl Educator created a sense of belonging; she listened to the commitments of our Guests and partnered with them on the big things they were up to. The relationship between the Educator and the Guests was based on finding the perfect item for the Guests' specific goal or need.

I also trained our Educators to point the customer to Nike or Adidas if their product provided a better solution for the Guests. I felt that everyone should win; even the competition. Lululemon was to be agnostic and egoless.

Our training worked. I overheard real conversations shared between friends over coffee about the authenticity of our brand. It was exactly the experience we wanted for our customers.

Super Girls were defining lululemon, and I was learning from them.

### ***The 6/13 Rule***

Part of our formula also depended on our customer experience – how we educated our Guests once they were in the store. Using our Kitsilano store as a sort of laboratory, I studied how people interacted with our products and thought about the optimum way for us to engage them. We assumed the number one thing the Super Girl wanted us to solve was her compressed time. She was busy and needed a new way to shop.

We had the best quality, so she would rarely have to return a garment. We supplied free hemming, so she didn't have to go to another location to get the right length of pant. Our store was set up according to function, not colours or outfits, so she could quickly find what she needed. We were fanatical about having the perfect combination of Educators, change rooms and cash desks to make the shopping experience friction-free.

I came up with several new procedures. One was something I called the "6/13 rule" – if a Guest was looking at a product for six seconds, an Educator had a 13-second window to educate them about the item. Barring any follow-up questions, the Educator would then leave them alone until they looked at another item for around six seconds. There wasn't anything scientific about it. I'd come up with those numbers by looking at people and observing their body language to see what they were comfortable with. I wanted our Educators to impress customers with their sheer knowledge of and enthusiasm for the item.

Our Educators were on the front lines and knew more about the customer and the product than most people at the Store Support Centre (the SSC was lululemon's answer to the "HQ" of other companies). When we made big decisions, we made sure the decision was heavily weighted toward the person who works in the store.

## ***Nothing on Hold***

Our success also came from breaking retail rules at the store level. For starters, we put nothing on hold. Some people couldn't believe we wouldn't put products on hold, but we were selling our clothing quickly, and I always felt it was our responsibility to prioritize the Guest who was actually in the store.

If something was on hold behind the shelf and someone who wanted to buy that same garment was out on the floor, it didn't make sense to hold it for the person who wasn't physically present.

This rule wasn't accidental – I'd noticed that a large percentage of people who'd asked for something to be put on hold never returned. The product would sit there in the back of the cash desk for several hours. A store Educator might remember to put it back out at the end of the day or the next morning.

So, I decided I would never put our products on hold. Sometimes people got mad because we were the only retailer to do this, but, in 95 percent of the cases, customers would immediately buy the product.

We broke another retail rule by rarely answering the phones in our store. We would answer the phone if there were no customers on the floor, but our priority was always the Guest who had dedicated their time to come into the store and who was maybe already at the cash desk. I wanted us to be really, really good at being present with in-person customers.

## ***The New Year***

The move to the new store had been expensive, but the location was already bringing excellent returns. Local media had started to take an interest in the company since lululemon was in a unique position at the forefront of the yoga movement. The press was approaching *us* and creating free, authentic editorial for lululemon. Attaining free media was another big piece of the new business model I had created. If we created enough innovation, the media would find us. We just had to wait.

Prior to the advent of e-commerce, every retailer knew the holiday season represented 30 percent of a year's revenues in 40 days. Most retailers go on discount and suffer massively during January and February.

I was feeling great about our sales through December 2000 and January 2001. Lululemon had surged because of New Year's resolutions to get back to the gym or get into yoga.

The biggest sales day we'd ever recorded in the old store was \$2,000. Our slowest day in the new store was multiples of that figure. It was thrilling, but I knew to prepare for the sales dip sure to come in February and March. I scaled back production to ensure we didn't get in over our heads with inventory.

But then, the end of January 2001 came, and our sales volume showed no signs of slowing. Every day I looked at our sales figures for the telltale dip in volume. And every day, I saw our volume increasing instead.

I knew what was happening was abnormal. Experience told me I was observing concrete evidence that lululemon was over the awkward stage of retail infancy. Our patience was paying off. The spring of 2001 arrived, and sales had not slowed down.

It was incredible to watch this happen, but it also meant our little company had to change to keep pace with our newfound popularity.

## ***The Power of Attraction***

The recent change in lululemon's revenues also coincided with the growth of our small staff.

As we hired more Educators, I noticed a higher number of them were older Super Girls (generally aged 28 to 34), with stories similar to Fiona's. They had been working 14-hour days in finance, were not

dating, and could see no prospects for marriage or children. They dropped out, looking for a better balance in life. Lululemon and yoga represented their myopic ideal of achieving that balance. We hired them as Educators, but their Type A Wall Street personalities swung the pendulum in the opposite direction.

The personality type that made type “A’s” work so hard on Wall Street had them also striving to be the best at zenning out, and this was not lululemon. Lululemon was not in the wellness business – we were in the “good to great” business. We soon had to shift our hiring practices.

Balance for lululemon was maximizing every moment in life. It was knowing when the line-ups were short and jumping on that opportunity so as not to waste a second more than was necessary. We had great things to do and waiting in line was not one of them!

Around that time, I got talking to a woman who lived across the back alley from me. Deanne Schweitzer had been on a swimming scholarship when she became pregnant in her final year. Now a mother of two with no steady job, she was highly stylish and the overall perfect candidate to become an Educator.

“I remember thinking Chip may be a little bit crazy,” Deanne laughs. “One day, I was running in the rain, and this car pulls up alongside me. The windows are all steamed up. The window opens, and it’s Chip, naked, except for these tiny little shorts. He says: ‘Hi Deanne, wanna lift?’ I was like, ‘No thanks!’ Later he’d told me he’d just come from hot yoga – which I’d never heard of at the time – which explained why he was driving around with little shorts and steamed windows. Sort of.”

I’d initially asked Deanne to work for me in 1999. I’d wanted her to promote lululemon at the high-end athletic clubs, same as I’d tried to do at the Glencoe. However, Deanne wanted to focus on an accounting course and on taking care of her children, so she said no.

Then, when our sales picked up around Christmas of 2000, I approached Deanne again. This time, she said yes. Deanne first came to work as an Educator, helping with the unprecedented sales volume we were experiencing. Within four weeks, she became our first store manager. Bright and quick, with an ability to hire the right people, Deanne would eventually go on to become lululemon’s Head of Product.

Deanne’s sister Delaney, who was managing a bar in downtown Vancouver and was also a single mother, joined the team in 2001. “I loved what the company stood for and the people it attracted,” Delaney says.

Like her sister, Delaney started as an Educator, but she soon moved into a managerial role. I loved being in Delaney’s presence because she so easily absorbed everything I knew about retail, and in the years to come, Delaney would move on to run all store operations and e-commerce (in fact, Delaney would one day become my pick for CEO). Both Schweitzer sisters were superstars; they were cornerstones to the growth and culture of lululemon.

Eric Petersen, like Deanne, was also a neighbour of mine. When I got to know him, he was director of marketing for EA Sports.

As Eric recalls, “Chip drove by my house one day – with no shirt on, of course – and he reached out the window and said, ‘Hey Eric. Come over here. I want you to listen to these audio tapes.’ He hands me some of these cassette tapes by this guy named Brian Tracy. I think he handed me tapes one, two, five, six, nine, and 11. He said, ‘I want you to listen to these, give them back to me when you’re done.’ I thought ‘Well great, my weird neighbour has handed me a series of cassette tapes with several missing – he’s going to think I pinched them.’”

After I had invited Eric to a lululemon Brian Tracy event of 60 people, he said: “I had no idea what type of business Chip ran up there,” Eric adds. “I knew it was some sort of apparel company, but I was blown away by the energy in the room, these young women who felt that they could change the world. I went home that night and told my wife that in 30 years of team sports, I’d never seen a group of people who were so passionate about achieving something and said, ‘I’ve got to go to work there.’”

Eric would join us as director of marketing and would play a pivotal role in our disruptive plan for the

2010 Olympic Games in Vancouver.

One of the next people to join us was Darrell Kopke. Darrell was another person I'd known through Westbeach – he'd been doing sales for a zipper manufacturer that did business with Westbeach (and then lululemon, in its early stages). Having just finished his MBA at the University of British Columbia, I hired Darrell as general manager in November 2001.

"Chip told me he didn't want to get on another airplane," says Darrell. "He knew what he was good at, but he wanted me to grow the business. We were an unusual group of people that had no business being successful. We didn't come from pedigree. We didn't listen to what anyone else was saying. It was fun. It was exciting. It was us against the industry."

Darrell was the perfect person at the perfect time to grow lululemon. Like Delaney, Deanne, Shannon, and Eric, Darrell became another lululemon philosophical icon, because he understood why our specific development model connected to the value of the brand.

To have had core Kitsilano people understand my vision and trust that the company would become something great was all I ever wanted. There was no traditional recruiting. In my mind, lululemon was built organically through the Power of Attraction. By sharing my love of athletics, fun, and greatness, I attracted people who were all about the same things. I am completely blunt and transparent, and everyone knew where they stood. We had zero internal politics, and immediate direct feedback was the norm.

As lululemon grew, our teams were often assembled using the same technique. We went out into the community and practiced yoga, we joined local run clubs, and attended athletic events. We did the things that we loved doing, and in doing so, we met great people that we wanted to spend time with. Relying on the power of attraction instead of recruitment analytics or traditional channels allowed us to quickly attract people that were interested in what we were up to.

Most of the people I hired from within the community were athletic, educated, and had a healthy West Coast approach to living. They withstood the growing pains as we morphed from entrepreneurial to professional, growing and shining. It was a synergy thing – one plus one equals three. Lululemon would never have achieved what it did without these initial core players.



## CHAPTER 16

# TORONTO

### *Syd*

In the spring of 2001, I was approached with an offer from Syd Beder, a Canadian apparel veteran based in Toronto.

Syd had at least 25 years' experience in the industry. His business partner, Alexandra Bennett Morgan, had happened upon lululemon in Vancouver and liked what she saw. Syd knew the ins and outs of production, so he immediately recognized the quality of construction and materials we used. The two of them believed in yoga and its growth in popularity.

Syd wanted to open a lululemon franchise in Toronto.

The offer was a dilemma for me. A big part of me just wanted to keep my little shop in Kitsilano and preserve lululemon as it was, simple and local. However, sales had taken off so much I was having a hard time thinking small. Back when Westbeach had become successful with snowboard apparel, there was just never enough money to facilitate the growth we'd needed to take us to the next level. I didn't intend to repeat that with lululemon.

I wanted us to reach a larger audience – I just didn't want to start our expansion in Toronto. Saying no would have consequences, however. Syd was experienced, and I got the feeling if I didn't jump at the franchise offer, he would give the concept a try and create a lululemon knock-off of his own. If he copied us, he had enough background to do it well and corner the whole Eastern Canada sales market before I even got there.

It seemed I could ink a contract with Syd and make an ally, or I could say no and create an instant competitor. So, I signed the agreement . . . but did so without legal advice. In those days, even though we were becoming successful, every penny still meant something.

Once the agreement was signed, Syd Beder paid \$25,000 for the right to sell lululemon clothing in Canada's most populous city.

### ***A Declaration***

My first business goal was to have a single store and ride my beach cruiser to work every day. I had achieved that goal. My second business goal was to have five stores to increase units sold and drive

down production costs. My third was to compete against Nike even though Nike was worth a million times more than lululemon.

As Syd and Alexandra got to work on opening in Toronto, I thought a little more about my own expansion plans. I could see long-term success. I knew if we didn't grow, Nike would figure out what we were doing, set up across the street, and put us out of business.

But the real reason to grow was our people. They were just ageing into the stage where they were thinking of marriage. They wanted a bigger possibility in their career and to take on more significant challenges. We all knew if the company grew, we could afford children and mortgages and schools. I felt I had an obligation to give them every opportunity to fulfill their lives.

One day in mid-2001, I gathered our staff together and told them, "Nike is our competitor." Considering we had only \$4 million in yearly sales, it was a crazy thing to say. My handful of staff didn't know whether to laugh or run for the door.

As Delaney Schweitzer recalls, "There were 15 of us in a room – the whole company – and Chip declared we would open 300 stores, that we'd be across North America, and that soon we'd be mentioned in every board meeting at Nike. As crazy as that sounded, every one of us was like: 'I'm in.'"

"A few years later, we hired a production person from Nike," Delaney continues. "He told us that the second he gave his notice and said that he was going to lululemon, they immediately had him escorted out of the building. At that point, Nike had created a small team to dig into the lululemon story and understand our stores. They couldn't figure out the connection we were making with people. When he said, 'You're on the agenda at Nike, they're talking about you, they're trying to figure you out,' it was proof positive that Chip's declaration had come true."

Small as we were, we were united in the opinion that we had a better product and business model than Nike. We were reaching the female market in a way Nike couldn't because their culture was focused on winning and men. We were doing so well that I envisioned if we didn't expand, Nike could replicate our business. This was closely related to what I'd considered when taking Syd Beder's offer. It was sobering to consider the demise of our company while the brand was still in its infancy.

I knew our staff were more than up to the challenge of growing lululemon. By that point, I'd paid for all our people to attend the Landmark Forum, and I'd seen them come back empowered and communicating in a way they'd never known before. They'd become people who were no longer willing to settle for mediocrity in their lives – or in the company to which they'd devoted themselves.

In fact, instead of targeting Nike as competition, it even occurred to me to model lululemon after McDonald's and become a real estate company. Our stores were profitable enough to pay for their own real estate.

The possibilities were endless.

### ***Showrooms Defined in Toronto***

Meanwhile, Syd's plans to open in Toronto were progressing. I liked the way he was building enthusiasm by word-of-mouth. In June of 2001, he invited people to his own loft apartment where he'd set up a few racks of lululemon clothing. Since it was invite-only, Syd's loft had an exclusive, underground feel to it, much like the feel of our original second-floor store. People had to know someone to get in, so it generated a lot of curiosity. It was *pull* instead of *push* marketing.

Syd partnered his exclusive "loft store" concept with a focused campaign targeting Toronto's yoga studios. He took rolling racks of clothes to the studios for people to try on as they were coming in and out of classes. It was precisely the grassroots marketing that had worked for us in Vancouver.

Eight months later, in February 2002, Syd opened the lululemon store on Queen Street West. By then, the customer base was already established, and right away the store started putting up fantastic num-

bers. It felt like a well-executed success.

More than that, the Toronto opening reassured me that if a similar plan was followed – opening inexpensive showrooms, educating the public, networking with yoga studios, and inspiring grassroots word-of-mouth conversations – the lululemon concept could work just as well almost anywhere. We had a successful formula for growth and expansion. We just needed to stick to it.

### ***Our First Quality-Control Problem***

We had fundamental confidence in our products. We didn't even do sales or discounts. Then, in 2002, we experienced a quality control problem and had to recall approximately 2,000 pairs of pants due to the pilling of the fabric.

I knew that authorizing the recall would nearly kill the company but I was prepared to take that risk to maintain product integrity. I fully acknowledged the flaw in that batch of fabric.

With technical knits, a thousand things can go wrong. Most bolts of fabric have one flaw, and that's okay. Some have two, and it might be a problem, but three is a big issue. The problem comes when no one can predict what combination of three things out of a thousand creates a massive error.

From this moment on, I became the "King of Luon." I checked everything we made, and when I couldn't check it, I made sure there was a designated king or queen to check it on my behalf. Our livelihoods were based on the quality of our proprietary Luon.

After we pulled all the affected pants off the shelves, we had our Educators speak to every Guest that walked into our stores. We posted a notice above the cash register. We told our Guests we were responsible, and we knew it was a problem. We wanted them to return the subpar pants they may have already purchased. We would replace them with another pair from a different batch.

Though we did a good job of taking care of our Guests and maintaining our integrity, I was now sitting on thousands of pairs of defective pants. I looked at them and realized that despite not living up to our high standards, they were still really good pants. The question was, what to do with them.

We held a design meeting. At the meeting, it came to my attention that many customers had complained about how they would love to take their dogs walking wearing our Luon pants, but they couldn't because the dogs' hair would stick to the Luon.

Here, I thought, was a unique solution.

We took the pilling pants and built another pair of loose, woven, slick nylon pants over top of them. Dog hair wouldn't stick to the woven nylon. What started off as a pragmatic way to put superficially defective pants to good use became lululemon's winter "dog walking pants" – one of our bestselling items of all time.

Around that same time, a woman entered the West 4th store determined to be refunded for a pair of pants that were pilling. This style of pants was not from the previously mentioned run. An object – I suspected a metal buckle on her hip purse – had repeatedly been slicing into her lululemon pants, as the flaw was specific to one location on the pant. She berated me in the middle of the store, in front of other Guests and Educators, demanding that I reimburse her for a faulty product.

My dedication to selling quality clothing – and honest admittance of past flawed production – gave me the confidence to refuse this woman a refund. I also knew that lululemon was defined not just by who we sold to but who we didn't sell to. We believed in exclusivity. Our brand flourished because we did not want liars, con artists or people who did not love themselves in lululemon apparel.

## CHAPTER 17

# OTHER EXPANSIONS

### *The Trip with Shannon*

In August 2001, I planned to attend the Outdoor Retailer Show in Salt Lake City for our third time. The OR Show specialized in technical fabrics and outerwear and was a great source of inspiration for the company. I asked Shannon Gray, now lululemon's head designer, to come along for the trip.

By this point, Shannon and I had been working together for almost two years. During the first year, we didn't see one another day-to-day, but during the second year, I got to know Shannon a little better. I had huge respect for her work ethic. As a designer and fit specialist, she was phenomenal.

My own sense of design was far more obtuse than hers. I would experiment more and often go too far. Some things I came up with were home runs, some things were disasters. But Shannon had an ability to look at something and fit it, colour it, or make it look a certain way so that people would buy it in volume. This made us the perfect team because I would have the far-out and technical ideas, which she would hone to sell in volume.

Thank God I let Shannon drive the product because I soon realized she was the best in the world at stretch-fabric fit. Lululemon would have been a shell of itself without Shannon's expertise.

Although I knew her well in a work capacity, Shannon and I had not spent time getting to know each other personally. We boarded the plane to Salt Lake City and chatted, not as boss and employee, but just as two people. Ten minutes into our conversation, I was further struck by what an incredible woman she was.

Away from work, I realized I was seeing her in a whole different way.

We arrived in Salt Lake in the afternoon, but the trade show didn't start until the next day. We were travelling on a shoestring budget, so as was standard for the usual three to four people we took to the shows, I'd only booked one room with multiple beds. We saw it as camping.

After checking in, we dropped our things off, headed out for a city art walk, and then caught a free outdoor concert before dinner. We talked and laughed and then went for a swim.

After a nice evening, we went back up to the room and stretched out on our separate beds. I turned on the TV.

I was older than she was, I had no way of knowing if I was her type, plus I was her boss. Shannon was the most valuable employee I had, in responsibility, integrity, and trust. I would never risk ruining our

professional relationship and having her leave the company because I knew how hard it would be to get anyone else at her level of expertise. She was far too important for me to risk making a romantic move.

We each lay on our own beds while I flicked through the television channels. Then, Shannon got up. I assumed she was heading to the washroom. Instead, she came over to my bed and asked me to move over. After some time, Shannon put her head on my chest and closed her eyes, and we both fell asleep like that.

In the morning, we woke up to a new reality. We hadn't even kissed the night before, but everything had changed.

As Shannon says: "Chip interviewed me for a job at lululemon in October of 1999. He was late for our meeting. I saw him peel into the parking lot, no shirt, no shoes. I then watched him rummage around in his car for something clean to put on. That was my introduction to Chip, him frantically picking up shirts, sniffing this one, sniffing that one, trying to find a matching pair of shoes . . . When my mom asked me how the interview had gone, I told her I wasn't sure I'd get the job, but I did think I would marry him."

I couldn't believe I had been working side by side with this incredible woman and not understood how she felt. At that moment, in a hotel room in Salt Lake City, everything changed.

Many years before, as a little kid, I'd thought my grandparents had the best possible kind of partnership. They not only loved each other, but they also *worked* together in almost perfect synchronicity. My whole life since I'd been searching for something comparable and had so far never found it.

Even in those first few moments with Shannon, I felt like I'd found what I was looking for. As crazy as it may sound, that morning in Salt Lake City, I asked her if she wanted to marry me and she said yes. Then we kissed. It wasn't a great kiss (we both agreed). We were both unprepared. Still, our chemistry was powerful.

Shannon told her parents right away. They were surprised, but okay with it. My own mom, dad, sister, and brother were all a little more apprehensive about the whole thing because they didn't know Shannon. There seemed to be a sentiment of not being sure it would stick, as if it was just a brief, happy delusion.

My sons, JJ and Brett, were the two people whose feelings about this new development in my life were most important. In the past, the two had been a challenge for the handful of women I'd brought home to meet them, understandably out of allegiance to their mother.

But since I'd started lululemon, the boys were always in and out of the store, so they'd met and spoken with Shannon many times prior to me explaining what was happening between us. In many ways, she'd already won them over. JJ's own growing interest in design meant that he and Shannon had a lot in common from the get-go. He was only 13, but his vote of confidence helped to smooth things over with their mother, who'd been worried my new relationship might be disruptive for our sons.

Workplace romances can be tricky, and it was reasonable for people to be concerned there might be favouritism, or that the work environment would change. But ultimately, the people we worked with knew how important integrity was to both Shannon and I, and how we would not let our relationship hinder lululemon's success.

We immediately fell into a routine. We worked 12-hour days, went home together, worked out, ate dinner, went to bed, and woke up to do it all again. There was nothing to explain or apologize for since Shannon knew what the business was going through all the time. I could talk to her about issues and count on her to understand. I loved her and the life we were already building together.

I also made good on that promise to put a real ring on Shannon's finger just a short time later. We were in Paris at a fabric show. The ring I bought – which wasn't extravagant by any stretch of the imagination – meant a lot. I was nervous to leave it in the safe in the hotel room, so I carried it with me everywhere, waiting for the perfect moment to ask Shannon to marry me.

This trip was a week after 9/11, and security everywhere was heightened. I was worried that the ring

would set off an alarm and I'd be forced to get down on one knee beside an x-ray machine. Luckily, that didn't happen, and I finally popped the question at a nice little Parisian café. It was perfect.

Initially, we figured we'd get married as quickly as we could. "We'll just go to the justice of the peace, or we'll just get the boys and pop off somewhere," says Shannon. But then a good friend of hers insisted on putting something together for us. "She knew how busy we were with lululemon, working flat-out, seven days a week. She started planning a little backyard affair for the following spring, allowing Chip and me to grow the business we were both so passionate about."

April 20th, 2002 was a Saturday and our wedding day. I went into our West 4th Avenue store to work as I usually did. The number of Guests in our store had been steadily growing for a long time, but on that Saturday afternoon, I was taken aback by how many people were coming through the doors.

The change rooms and cash desk had huge line-ups. The Educators were lit up with enthusiasm especially as we had a very lucrative daily, weekly and monthly incentive program that paid educators as entrepreneurs. There was energy in the air. I immediately jumped in to help and worked at the front of the store, directing traffic.

As the day went on, the store became even busier. I didn't feel I could leave. I kept an eye on the clock. I was cutting it close, but I wanted to stick around to find out how our sales had gone. Plus, we needed every extra pair of hands we could get. It felt like we'd reached a critical mass.

A seemingly random day in the calendar was doubling the best day of sales in the history of the company – \$30,000.

At the last possible moment, I rushed out of the store, ecstatic with the revenue and the experience of everything coming together. I had a dozen things to do, and I was running late, but the first thing I did was call Shannon. I couldn't get over the fact there was no logic behind that day being so extraordinary. It wasn't a holiday of any kind – it was just a weekend in the middle of spring.

For the first time in a long time, I felt like a whole new future was ahead of me. I believed I could pay for a mortgage and raise a family without working myself to death. I felt like we would be fine. I rushed home, threw on my tuxedo, and with JJ and Brett as my best men, I married Shannon Gray in our backyard, surrounded by our friends and family.

Shannon and I had turned a significant corner in our personal lives that day in April, and it felt like lululemon had too. Our store was doing huge amounts of business week after week. A few years earlier, I'd noticed women wearing our clothing here and there on West 4th. Now it seemed I was noticing it all over Vancouver.

### ***The lululemon Manifesto***

At a certain point, I became aware it wasn't just our designs that were becoming ubiquitous – it was what we were putting them in.

The shopping bags we gave our Guests were suddenly everywhere I looked. Women, men, and even children were carrying them, using them as grocery bags, lunch bags, gym bags, shoe carriers, and just about everything in between. People had come into the store just to ask for bags and not even purchase anything. Our culture was being broadcasted far and wide, and there was a reason why.

In 1998, I spent 30 minutes compiling a list of sayings I called *the Manifesto*. It was just a list of random statements about how I lived my life with authenticity and integrity. *Friends are more important than money*, was one. *Do one thing a day that scares you*, was another. *Children are the orgasm of life*, another yet. Most of these thoughts had come from my life experiences, my parents, my commitment to transformational development disciplines, and our lululemon library.

I thought these observations were interesting enough to post beside the cash register so people in line could read something thoughtful while waiting. I quickly found other people liked these observations

and aphorisms and were asking for their own copies.

I asked some surf and snowboard graphic friends of mine (Cowie & Fox) to make the Manifesto look like artwork. Then I photocopied a bunch to leave at the cash register. Most customers who came in the store wanted to take a copy, so we started putting them into every bag automatically.

Soon afterwards, I thought of creating a bag with the Manifesto *on* it, instead of *in* it. I reasoned that one of the world's worst environmental wastes were pretty, but useless, paper packaging from the luxury fashion world and single-use plastics from low end retailers. I wondered if I could develop a reusable bag with the Manifesto printed on the sides that would add to people's lives instead of being another piece of garbage. I didn't want people to walk around the street with a bag featuring a logo or lame words for the sake of demonstrating to others that they were wealthy enough to buy luxury. I was all about function - with fashion being a distant second.

I wanted customers to be sitting in their car or on the subway or at home and pick up the Manifesto and spend 10 minutes reading it. I noticed the transformational effect the Manifesto had on people. It validated the way I wanted to live my life, and I saw this occur for others too. The Manifesto was not just inspirational, it was aspirational.

I researched a few different options and came up with a 100 percent polypropylene reusable shopping bag that was durable, waterproof, and recyclable. We created them for Christmas gift-giving, so that the present was "wrapped" in our Manifesto. As far as I know, we were the first company to make these expensive, reusable and recyclable shopping bags.

As Darrell Kopke, our first general manager, recalls: "The fact that the word 'orgasm' was on the bags caused a bit of a stir. I got a call from an outraged customer not long after the bags came out. She was particularly upset, she said, because as a result of bringing the bag home, she had to explain the meaning of the word orgasm to her 12-year-old daughter. I listened to her patiently and when she was finished I said, 'You're welcome!' That was the end of the conversation."

As I reflect on the lululemon shopping bag, I realize just how great our branding was. The popularity of the bags was spectacular. Not only did they create conversation, but they were recognizable around the world! It was proof that our Guests aligned with our psychology of health, athletics, and the West Coast way of living.

Unfortunately, inspirational and aspirational quotes from lululemon would fade from the picture. Eventually, future company leadership would become overtly and unnecessarily concerned by potential litigation and social media blowback - being led by customer complaints rather than our core Guest.

### **The Original lululemon Manifesto (2003)(these were the quotes on the side of the lululemon shopping bags)**

- Coke, Pepsi and other pops will be known as the cigarettes of the future. Colas are NOT a substitute for water. Colas are just another cheap drug made to look great by advertising.
- Drink fresh water and as much water as you can. Water flushes unwanted toxins and keeps your brain sharp.
- Love.
- Do yoga. It lets you live in the moment and stretching releases toxins from your muscles.

- Your outlook on life is a direct reflection of how much you like yourself.
- Do one thing a day that scares you.
- Sunshine absorbed into the skin might be worse than no sunshine. Get the right amount of sunshine.
- Listen, listen, listen and then ask strategic questions.
- Life is full of setbacks. Success is determined by how you handle setbacks.
- Compliments from the heart elevate another person's spirit and will often result in an encouraging word for someone else – a domino effect.
- Write down your short and long-term GOALS four times a year. A class study at Harvard found only 3% of the students had written goals. 20-years later, the same 3% were wealthier than the other 97% combined.
- A daily hit of athletic-induced endorphins will give you the power to make better decisions and help you be at peace with yourself.
- Let SWEAT FLOW from your pores once a day to regenerate your skin.
- Jealousy works the opposite way you want it to.
- One hour of aerobic exercise will release endorphins to regenerate cells and offset stress.
- Wake up and realize you are surrounded by amazing friends.
- Communication is COMPLICATED. Remember that each person is raised in a different family with a slightly different definition of every word. An agreement is an agreement only if each party knows the conditions for satisfaction and a time is set for satisfaction to occur.
- Friends are more important than money.
- Live near the ocean and inhale the pure salt air that flows over the water. Vancouver will do nicely.



- Do not use cleaning chemicals on your kitchen counters. Try vinegar and lemon. Someone will inevitably make a sandwich on your counter.
- Stress is related to 99% of all illnesses.
- Don't trust that an old-age pension will be sufficient.
- Do yoga so you can remain active in physical sports as you age.
- Observe a plant before and after watering and notice the benefits water can have on your body and your brain.
- You ALWAYS have a choice and the conscious brain can only hold one thought at a time. Utilize your freedom to choose.
- Just like you did not know what an orgasm was before you had one, nature does not let you know how great children are until you have them. Children are the orgasm of life.
- Lululemon athletica was formed to provide people with components to live a longer, healthier and more fun life. If we can produce products to keep people active and stress free, we believe the world will be a better place.
- DO IT NOW. The world is changing AT SUCH A RAPID rate that waiting to implement changes will result in you being two steps behind.
- Will you choose a life of a glass-half-empty or a glass-half-full?
- Take various vitamins. You never know what small mineral can eliminate the bottleneck to everlasting health.
- Nature leads us to mediocrity for safety and reproduction. Average is as close to the bottom as it is to the top.
- Dance, sing, floss, and travel.
- Visualize your eventual demise. It has an amazing effect on how you live for the moment.

### ***The most brilliant franchise agreement***

After the franchise agreement with Syd Beder in Toronto, which was less than optimal for me, I thought of a new way to structure a franchise agreement that worked for everyone. Lululemon product was in demand, and I didn't have to franchise. I also didn't want to give up branding control. I did need money to expand and we were too few people in our Vancouver office with too much to do.

So, I wrote the cultural, training, and leadership requirements to franchise but the brilliance was in the financing.

The franchisee would pay 50 percent of the cost of the monthly product, 60 days in advance. They would pay the other 50 percent upon delivery. What this meant is the franchisee would pay only half of the normal "wholesale" cost. Consequently, I could grow exponentially as I didn't have any unfunded production costs and my unit quantities grew. As my production quantities grew, my cost per unit dropped and I could get better margins in my own stores.

The franchisees would pay a 25 percent royalty on sales. This might seem high, but we would only get paid if product sold, and the franchisee only fronted half the amount of money of a customary wholesale relationship, and we all got paid daily from the cash register. It was inherent on us to provide the franchisee with the very best inventory at the right time.

The employees of lululemon were bonused on the performance of franchisee stores in the same way they were our own brand stores. This eliminated an "us versus them" attitude, and all lululemon stores operated as one.

All subsequent lululemon franchisees made \$8 to \$15 million in profit for themselves over the next 6 years with the exception of decisions made by our CEO in Japan and our CFO in Australia where agreements were formed on the basis of finances and taxes instead of human psychology.

### ***Calgary***

In late 2002, my cousin Russ Parker came from Calgary to see the lululemon store in Kitsilano. After showing him around, Russ told me he wanted a franchise.

"Although I had been considering a couple of business opportunities," says Russ, "I knew within a day of seeing lululemon in operation that it was something I wanted to be involved in. The electricity was palpable, and I loved the vibe in the store. People were communicating with each other in the office in an open, honest way you rarely observe in an office environment. I wanted in."

This time, I also brought on a lawyer to help me make my franchise agreements just right – including an easy buyout. The buyout clause stated I could buy back the franchise for four times the profit and pay for all depreciated leaseholds and inventory at cost. This meant no negotiations in a buyout; it also meant that I could buy the sales of the franchises for four times the profit and the public market would give me 10 times the profit, or more, if we ever went public.

It was a great deal for me, and it was a great deal for Russ – he would stand to make about \$10 million over the next five years.

So far, the desire to get to five stores quickly to get production costs down was becoming a reality. Syd Beder was running a very busy store in Toronto, my cousin Russ did extremely well as soon as his Calgary franchise opened, and Shannon's sister and brother-in-law had started a successful franchise in Victoria. This, I believed, put us in a strong position to open our second Vancouver store.

## ***Naked on Robson Street***

Every city has its own premier shopping district. While lululemon's origins were tied to Kitsilano, Vancouver's shopping mecca at the time was Robson Street. Even though the focus on Robson was high fashion and not athletic apparel, it was almost impossible to run a store in Vancouver and not think about the possibilities Robson offered.

At that time, Robson was one of the most expensive retail areas in the world, primarily due to the value of the Japanese yen and the influx of well-heeled Japanese tourists. We wanted to set up next to the Robson luxury stores with a product that was completely different. A luxury brand is usually defined as a company with impeccable quality, sold at a price available to only a few. At lululemon, we believed we had impeccable quality that could be sold at a price accessible to anyone who appreciated technology and fit.

Luxury customers, meanwhile, could buy "time" in their lives and were consequently often in great shape and very healthy. These wealthy women were the trendsetters who helped to propel the lululemon brand.

On the other end of the spectrum, we already had the hard-core yogis and athletes in community street stores and had supplied them with the best-functioning athletic garment in the world. I knew that once people used the best of something, it would be almost impossible for them to use anything else.

We signed a lease on a Robson location and designed our first professionally-built store. Then I took out an ad in our local weekly newspaper offering a free lululemon outfit to shoppers if they came naked to the store on its opening day. The response was unbelievable. It was so strong that I became concerned there would be a naked riot, and we would be forced to hand out our entire inventory free-of-charge.

I went back to the paper and placed a second ad. This time I clarified that only the first 30 naked Guests would score free clothes. I had forgotten about Vancouver culture – that given a chance, the whole city would show up naked.

On the day of the opening, at around four o'clock in the morning, people started lining up outside. It was a drizzly, cool October morning in Vancouver, but groups of people were showing up wearing raincoats and nothing else. It was still dark outside, but I could see the numbers were growing. The inside of the store was still swarming with our efforts to get it ready.

Not long after the line formed, the media showed up with trucks and vans. As dawn broke, a large crowd of spectators had assembled. Milestones – the restaurant across the street – had a balcony packed with people craning their necks over their breakfasts to get a look at those lining up. Even lululemon's introverted accountant had shown up not wanting to miss the spectacle.

As we got ready to unlock the front doors, I was very excited . . . until I got a good look at the group of people clustered by the front door. The first two customers lined up were young girls who couldn't have been older than 14.

I turned from the door and went to find Darrell Kopke in the back. I was verging on panic, thinking about the media and the video cameras filming, the crowd of spectators, and these kids about to strip down. What was supposed to be a funfest was suddenly verging on becoming a PR catastrophe.

After a couple of minutes assessing the situation, I asked Shannon to help greet the naked Guests. We went to the door, opened it up, and stepped out to the crowd. I shouted, "You guys are fantastic – thanks for coming!" The tension broke that instant and there were cheers and clapping. Then we counted off the first 30 naked people over the threshold.

As it turned out, those girls at the front of the line weren't alone. They were sisters – and they came with their equally naked mother and grandmother.

Dozens of Guests continued to show up naked to the store all day, just because they could do it. Three naked men arrived that morning and just didn't want to leave. It was a little creepy, but we rolled with it. We had no issues with the police, and this reminded me why I love Vancouver so much. There

are plenty of cities in North America where this kind of event in 2002 wouldn't have gone over nearly as smoothly.

By closing time, it was clear the day had gone phenomenally well. The publicity was worth millions and was so much more fun than a standard press release.

Our store on Robson enjoyed a strong start that continued past that first day. The volume of foot traffic on Robson Street brought in tons of new customers and introduced many people to our world. We made use of our prominent store windows and used them to reach our community authentically. We treated every lululemon store window as a living, breathing expression of the empowered team of Educators in that store. It was theirs to create as often as they wanted. Unlike other retailers that had pre-set merchandising and window dressing, we encouraged our stores to be locally relevant and entrepreneurial with the "advertising" that the window represented for people walking past and into our stores.

The challenge I'd anticipated before opening on Robson was maintaining our ability to do retail our way in a high-fashion environment. People came to Robson expecting the usual luxury fashion commission sales pitch, and they might be surprised when they didn't get it.

Jenna Hills, one of the first Educators hired at the Robson Street store, says: "Chip would visit a few times a week. He always selected a few Educators to do a walkthrough. Nothing got by him. He was fastidious about approaching every single person in the store with a sense of urgency. Time was a huge value. He gave feedback with clarity and was generous with his love.

"One story I remember was at the end of a monthly staff meeting. Everyone from Vancouver would gather at the West 4th store in the evening after closing. I was sitting on the floor, like we did, when Chip said we couldn't grow this company without those of us in the room stepping up. He said any one of us could be making more in a year than a corporate lawyer or an accounting partner in five years' time. It was up to us, and the company needed us. I knew it was the truth. It struck me like lightning. Five years later I broke six figures for the first time in my life. At that staff meeting, I was making 10 bucks an hour. But I'll say it anyway – it wasn't about the money. It was about creating possibility."

## CHAPTER 18

# THE BUSINESS OF FAMILY

### ***Big News***

In early 2003, Shannon and I found out we were going to have a baby of our own. As the news settled in, I felt a tremendous amount of satisfaction with my life. With Shannon as my partner, we had grown a business from nothing. Now, that business was set to provide for the family we were creating.

Shannon was lululemon's phenomenal lead designer. In fact, a few months earlier, the owners of Roots, a Canadian retail icon business with 150 stores, had come into our store, asking who our designer was. "My wife," I told them. I welcomed them to interview her because I wanted her to have free choice and to follow her vision.

Shannon also provided design continuity for the brand, her work representing our original intent. Having a child might lessen Shannon's involvement in our operations and successful formula, but by then we'd hired and trained great people underneath her (Andrea Murray, Cassandra Tse) and had tried to mitigate against her inevitable absences.

Things at lululemon were going exceptionally well. As an entrepreneur, it's sometimes hard to believe you'll ever have a company that's bringing in enough money to create a rainy-day fund, but lululemon was now in a place where it would do just that. I paid off the debt I had taken on our house. That meant Shannon and I could start our family without financial worry and stress.

### ***Partnering with the Hons***

Meanwhile, the lululemon concept was translating smoothly across our locations. The success of the five Canadian stores confirmed we could thrive while doing business our way.

We'd put into place an exclusive manufacturing deal with my friends, Frankie and Elky Hon. Their Vancouver factory was working at 80 percent capacity, and they were always scrambling for business. I made them an offer: I would guarantee 100 percent production with one fabric for 50 percent of their business.

My 50 percent of the manufacturer's profit meant I had eliminated yet another middleman. When great factory people like Frankie and Elky do not have to look for business and can focus on efficiency, amazing work can occur. We ended up making \$2 million a year profit on the factory, and I continued to

build a deeper and wider moat to protect against future competition.

As Frankie says: “We started with very small orders, 100 pieces at a time. Then Chip’s business bloomed crazily, and Chip suggested an exclusive partnership with us.” Much like my relationship with Josephine Terratiano, my relationship with the Hons grew organically, and, to this day, they’re like family. Eliminating two middlemen by owning our manufacturing and our own stores was a key reason for lululemon’s rise to greatness.

Around the time of this partnership, a man named George Tsogas came in as a consultant to look at our inventory, distribution, and overall logistics. “When I first walked into the office,” says George, “all I remember is this big West Coast dude sitting on a yoga ball, shirtless, in board shorts and flip-flops. His first words were, ‘You’re way too serious, do not wear a suit again to this office.’ That was my first taste of Chip’s unique culture.”

At the time, George was a recent graduate of a Vancouver technology school. He was a young, natural leader who quickly modernized the processes in our warehouses and distribution centres. Not only that, George introduced the people working in the warehouses to our culture – he brought in fitness equipment, personal trainers, and development coaches.

Where there had previously been high staff turnover in our warehouse, people now stayed for the long-haul. This concept was almost unthinkable for part-time seasonal workers. Over the coming years, George would prove to be a major asset to the company, eventually rising to the position of VP Global Logistics and Distribution. He was one more valuable addition to our core team.

### ***Toronto: Growing Concerns***

There was one exception to the excitement – I was developing serious concerns about our Toronto franchise. While Syd Beder understood how to sell, he wasn’t embracing our business philosophy. Contrary to our training, he told the customers how pretty they looked and was attached to the old-school fashion model. He was going about things in his own way. He wasn’t investing in his Educators, and without our training, they were unable to connect with our Guests authentically.

What Syd failed to recognize was that the success of our brand was driven by our people development. No matter what the company’s goals were, the most important objective for lululemon was to remain true to our culture. That culture – and how it related to both our staff and customers – underpinned everything we did. Keeping to our core philosophy was what would give us long-term success.

To me, the culture of the company was so critical that it needed a valuable person to lead it – a person who had a major commitment to training. “A huge focus of this was training people to live great lives,” Delaney remembers. Because she was a poster child for personal success, I asked Delaney Schweitzer to be our first training manager.

### ***The Buy-Out***

The Toronto franchise was doing the same sales as Vancouver stores, or about \$1,500 to \$2,000 per square foot. This was double or triple what most retail stores did, and we were just in our infancy. This provided a hint on the sales multiples we could do if we implemented our business philosophy in Toronto.

Jill Chatwood was one of the first Educators at the Toronto store. As she recollects, “There was always a waiting list for products. At one point, we had a binder with lists of people waiting for certain items to arrive. We would call them and make no promises, simply letting them know we had received new stock. Changing room line-ups were regularly waitlisted for longer than 45 minutes. We had people on the floor whose jobs were simply to bring up more stock by the armload and hang it up as fast as they could. Every day was like Boxing Day [or American Black Friday].”

I was happy with this. So was Syd. He wanted to sell lululemon clothes and didn't want to run a lululemon store the way I'd intended with education. Every management issue led to a disagreement. Our communication was broken. Our differences were fundamental.

Part of this was Syd's refusal to attend the Landmark Forum. Already in his 60s, perhaps Syd felt he'd already learned everything he needed to be successful. His business partner, Alex Morgan, was also disinterested in the course. If the two of them weren't willing to commit to guided self-improvement, their employees wouldn't get the opportunity to experience our culture. I experienced a divide between a West Coast athletic concept and an East Coast fashion context. To me, the fashion model was old and dead.

I needed to get the store back to ensure the cultural integrity of our brand. In my mind, without integrity, lululemon was nothing. What had to be done was clear: I needed to buy Syd out of the deal.

I went back to our franchise agreement to acquaint myself with the details of our buyout clause, only to discover there wasn't one. The lack of a buyout clause in my Toronto franchise agreement wasn't the first time I was responsible for a bad contract.

Syd was a shrewd person, and it would not be easy to come to terms with him. He also knew I could set up five stores around him and put him out of business, but I had better and bigger things to do.

The dollar figure we settled on was \$2.5 million. I had sold the franchise to Syd for \$25,000 just two years earlier. Even though the number we agreed to was enormous, it was clear the existing Toronto store, combined with other stores I could quickly build would be enough business to justify the price. I had little alternative but to find the money.

Over the years, I've learned hard lessons about borrowing money and the downward spiral that can result when financial liabilities overwhelm a company. My days at Westbeach had left me with a strong aversion to debt. But while learning fiscal responsibility had been an essential, valuable lesson for me, I also learned it's just as important to know when *not* to be so dogmatic and when to adapt to a new situation. The situation with Syd Beder was shaping up to be one of those times.

I had nothing close to the money I needed to buy back the franchise. I went to my former private equity (PE) partner from Westbeach, Don Steele, whose children were both working at lululemon. I asked Don to buy 30 percent of lululemon for \$2.5 million, but he declined as he had too much on his plate. He said with my cash flow I should be able to borrow the \$2.5 million from the bank. It was such an unbelievable number I couldn't believe a bank would lend it to a four-year-old business. It turned out the cash flow from the one Toronto store could cover the loan.

I had paid off the mortgage on my house, but the only way to secure a new loan was to put up the house as collateral. "Geez," I thought. "Here we go again!" This hit even harder, as the house was inhabited by my pregnant wife and I.

I told myself that as daunting as it was to borrow such a huge amount of cash – and to put up my house as collateral – this was nothing like the old days when we borrowed money to keep the wolves from the door. This was a calculated risk with a huge potential benefit.

The biggest difference between the stress of borrowing money during my Westbeach days and this situation with lululemon was cash flow. The lululemon stores were all cash cows.

I had two factors in my favour: I knew what I could expect for income from the Toronto store, and I knew I could set up more Toronto stores to help pay back the loan in one year. I also knew that if I was going to buy back the store, it should happen sooner rather than later. It would only get more expensive, with more tense negotiation and more complicated terms.

Within a few months of realizing what had to be done, the negotiations were settled: Syd Beder was bought out, and the Toronto store was ours.

## **Briar Hill**

The Briar Hill area of North Toronto was the residential centre of our customer base. I was 100 per cent certain if we opened a new store in Briar Hill, it would be an instant success. We put our plan to open in Briar Hill into action, choosing a location that would be our flagship store. We wanted it to be iconic in the same way the first store in Kitsilano was.

I didn't even want to put the store name outside, just a discreet logo and nothing more. I started to understand that just a logo was much more powerful a branding statement than a name alone. I became averse to using the lululemon name on stores going forward. It seemed like push marketing. I knew Super Girls loved the confidence we showed with just our logo.

This was radical thinking at the time, as no one in run-of-the-mill, old-school marketing would believe it was a good move to just go with a logo. I knew old-school marketers did not understand the subconscious thinking of our customer and her need to discover and not be pushed. The logo-only concept has since been shelved at lululemon under new leadership seeking out brand people who didn't innately understand how branding subtleties increased the value of the lululemon brand. Most lululemon stores now show the lululemon name instead of differentiating themselves beyond the norm.

There was enough potential in the existing staff to make it worth investing in re-training them the true lululemon way. Syd had hired a woman named Karen Wyder from Vancouver as his conduit to the head office. Karen was also the perfect Super Girl and took on the culture naturally. With Karen's help, we rounded up the most amazing group of Torontonians who moved to Vancouver over the next few years and were powerhouses for the company (hats off to Erin Westelman, Jill Chatwood, Julie Ball, and Carla Anderson).

## **Bree Stanlake**

Around that time, I was working as an Educator in the West 4th store. One day, I started talking to a Guest who told me she had just graduated from the MBA program at UBC in Vancouver, just like Darrell Kopke had. "Great," I'd said. "Want a job?"

This Super Girl – whose name was Bree Stanlake – said yes. The next day she was up and running. Lululemon was, by then, attracting a lot of lawyers and MBA-level women – and I could tell Bree was special. She had the West Coast fresh, athletic energy about her, and was obviously intelligent. She was also looking for a great future. As the lululemon model was producing amazing cash, I knew we were entering an era where our executives could make a better salary than they could doing normal corporate work.

Bree would go on to become lululemon's General Manager for Canada until 2012. As she says, "I started as an Educator in Vancouver, and worked in the Vancouver stores for about four months. Then one day Chip said, 'Emergency meeting at the 4th Avenue Store tomorrow at 9:00 am.' I showed up. He said, 'Okay, it's game time, you're off to Toronto.' I went over for the franchisee trip with Chip and Shannon and a couple others, and just got kind of thrown into the fire from there.

"At that point, there was only one store in Toronto," Bree continues. "Then we opened all the other stores out there. I went from Educator to regional manager."

One part of the training consisted of re-introducing people to the company's ethos. Taking the focus away from sales and fashion, I educated the Toronto employees on the philosophy of the company. I enrolled everyone who hadn't taken the Landmark Forum or written their vision and goals and ensured they had everything they needed to be successful. Within a month, everyone was re-energized and excited to be part of lululemon the way it was meant to be. They were fired up about moving forward, using a common language to communicate, and thinking big. Many people who stayed through the transition of the Toronto store would remain with lululemon for years to come.



In retrospect, there were a lot of unknowns in the Toronto buyout. A lot could have gone wrong. But in the end, it was an example of the importance of our culture and the areas in which we could not compromise.

“This was a major success in the history of the Canadian apparel business,” says Darrel Kopke. “There was a tribe, and that was a core element of it. There was a cultural distinction that this was not a product company. The tribe had an entrenched social infrastructure, and that created virality. We deliberately created an industry through a long and painful process.”

We set up the store business model to take advantage of the highly-educated, well-developed employees we were attracting. Each store manager was an entrepreneur, and we paid them accordingly. We sent our managers (all women) full company financials until 2006. We helped them become financially literate so they could make their own decisions as we were completely decentralized. Our managers had absolute control of their store windows, hiring and training, etc. We knew if we didn’t give them almost total control, we wouldn’t be able to keep intelligent minds active and they would get bored and quit. Our best branding came from stores who created tongue-in-cheek windows with a controversial political or social point of view. Customers talked and debated, and our managers’ intelligence shined because they challenged the Store Support Centre, as well as the status quo in retail. This made our work fun and edgy.

This model proved so profitable that we could pay a manager two-to-three-times what other retailers could. We completely upset the low-cost wholesale-retail model. This part of the business model was critical because we had to educate customers on what they could not see visually. We needed extraordinary Educators to deliver our message and to connect on the same educational level as our Guests.

As a side note, I do have to express a thought that occurred to me after the passage of many years. I’d been working side by side with employees for 24 years as an athletic person whose business dealings were mostly with teenaged boys, and then later with 20-something-year-old women. Looking back, I realize some of my staff may have seen me as a 45-year-old “father figure”, and how I communicated with them may have come across as the complete opposite of how their own fathers might have. Generational differences can at times create an unintended impact through the misinterpretation of intent. It is my fault for not understanding or considering the ramifications of the differing styles of communication at play and the impact on our relationships, culture and business.

## **Duke**

Shannon was admitted to hospital to deliver our baby in mid-October 2003. I remember it raining as hard as I’d ever seen it rain in Vancouver. Things happened quickly once we were there. We didn’t know whether we’d be having a boy or a girl until the moment our son, Duke, took his first breath. As soon as I could, I picked up JJ and Brett from school and brought them to the hospital, where they each held their little brother. At that moment, I felt that life couldn’t get much better.

Shannon was eager to strike a balance between being a new mother and remaining a creative force at lululemon. She’d worked right until Duke’s arrival and made her return to the office when our baby boy was around 10 days old, bringing him in with her every day. But, after three weeks, as much as she loved being back in the office and working, she felt she wanted to spend more time at home with Duke.

“Designing for lululemon was my absolute dream job,” says Shannon. “It just fit me perfectly. Though it was uncomfortable to let it go, there was a bigger goal that needed attention. I’m fortunate that Chip had been so inclusive with me about the business. There’s never been a line between what’s his job and my job. He’s always open, always sharing. We got to have those conversations before the actual changes happened.”

I fully supported her decision to step back for the time being. Speaking for Shannon, it’s unfortunate that at the time she wasn’t recognized as one of the world’s great designers. Looking at the success of

design on a revenue basis, one could argue she was the best in the world. However, New York fashion media would be loathe to think an athletic apparel designer was a “real designer,” so no press ever came her way.

In addition to adding Duke to our family, 2003 was a watershed year for lululemon. I felt as if we’d reached a tipping point in Canada. We had systems in place for each new store opening that laid the essential groundwork for entering a new market.

The essential building block to our growth other than our people development program was what I’d learned from Michael Gerber’s book *The E-Myth*<sup>1</sup>. The myth holds that entrepreneurs have control of their lives, when, in fact, they don’t – entrepreneurship is a 24/7 operation with no downtime. The solution is to set up the business

from day one as though it were a franchise, so that it could successfully operate without the founder.

I was meticulous in documenting our quality-control, brand, design development, people development, and store operations. Because the first store operated so well on its own, I could spend time in my area of excellence, which was conceiving and directing where lululemon would be five years in the future.

Yoga and athletics were becoming even more popular among our target market of educated women in their early 30s. I also believed the prudish way Americans dressed for athletics was ready for a change. I envisioned a future when West Coast functional clothing combined with flattering European design lines would change the way the world dressed.

We knew how to generate interest by working with yoga studios and the community. Plus, as more people in Canada grew to recognize the lululemon brand, it would be even easier to break into new retail environments.

In the life of any company, there are cycles of growth that force those driving the bus to figure out where they need to steer. This was the point we’d reached. Things were taking off, and I had to choose where we were going next.

Addressing this plan meant asking critical questions. Who were we? What did I want lululemon to be? Were we a local company that thrived on being quirky and small? Or were we on the cusp of becoming a major international brand?

As I faced the questions of where we were going next, I also kept investing in our culture and people. Bree Stanlake recalls, “It was just unbelievable. It was a group of people who just truly believed in what we were up to. It was grounded in our belief in the product, and everybody’s almost maniacal, fanatical adherence to product quality, innovation, and walking the walk.

“We all wore it all the time, and exercised in it, and did yoga in it, and really just believed in what we were doing, which was elevating the world from mediocrity to greatness.”

### **Honing the Culture**

A key component of the lululemon culture was family values. As part of our hiring practice, we screened for people who wanted families. We wanted our people to meet the perfect mate, we wanted people to have children, and we wanted the family nucleus to be an energy generator. I believed if our employees’ families worked, then our company worked.

Delaney Schweitzer’s team put together a training checklist that included chapters on culture, product knowledge, store operations, community, inventory, Guest conversations, and Guest experience. Everything was covered. One of their first assignments was to create a curriculum called Foundation, which would serve as lululemon’s onboarding program.

Jenna Hills, one of our Robson Street Educators, became part of Delaney’s team. “We were account-

<sup>1</sup> Michael E. Gerber, *The E-Myth, Why Most Businesses Don’t Work and What to Do About It* (Ballinger Publishing Company, 1986)

able to ensure that every single employee got invited to attend the Landmark Forum,” Jenna recalls. “Landmark Education was our other foundational training program. It gave us a common language and allowed us to be real with one another. By living the principles of personal responsibility and integrity, we became unstoppable.

“We believed if we did a great job of providing people with the tools to be 100 percent accountable for everything in their lives, not much else was needed,” says Jenna.

We made a big cultural shift by changing our vision. I decided that our existing vision of “making components for people to live a longer, healthier and more fun life” wasn’t big enough. Our vision became our mission, and our new vision became “elevating the world from a place of mediocrity to greatness.”

This vision aligned better with our mantra of “giving without expectation of return.”

Before we had an HR department, a brand team, or any of that, we had Training and Culture. Training and Culture was our brand and HR department, all rolled into one.

### **New York Fashion Media**

Even as we grew as a company and changed the way women dressed and lived, New York fashion magazines completely ignored us. We were *persona non grata*. To this day, I think the media turned a blind eye to lululemon because we did not fit into their codependent business model of paid advertising in exchange for editorial coverage.

The fashion media model of the 2000’s relied on getting wholesale clothing samples delivered months before a magazine was published. Wholesale companies made samples to show store buyers on an 18-month production cycle from design inception to in-store sales. The samples that wholesalers used to sell their product to retailers were made available to the fashion media for magazine photo shoots.

Because we were accountable only to ourselves, lululemon had a nine-month production cycle. We didn’t do photoshoots. We had no reason to as we sold only in our own stores. The value of lululemon products lay in the tactile feel and function of the garments, and these aspects could never be effectively relayed to the customer through photography.

Our nine-month production calendar also kept us ahead of the fashion houses. We had created the future of apparel and all-day performance, and our business model made it too easy for fashion media to ignore. Rather than embrace the future of apparel, the New York fashion media thought by calling it a “trend” it would go away. Mickey Drexler, CEO of J Crew, famously said “J Crew will not participate in the athletic trend.”

Looking back, I wish I had documented more of the lululemon story in a diary or taken more photographs to capture the context of our early years. We didn’t make samples, and we didn’t believe in media advertising, so we never did photo shoots. My personal culture – and therefore lululemon’s – was never one of self-promotion or “look at me.” This came back to bite me in the future as social media evolved. Because there was no documented history of lululemon, the media took control of our story.

There is a brilliant book out now called *The Four Billion Dollar Tweet<sup>2</sup>*, by Ryan Holmes of Hootsuite. This book describes how CEOs, companies, politicians, and individuals can use social media as a tool to speak directly to their customers or their voters.

As lululemon was successfully eliminating the wholesaler and going directly to the customer, proper use of social media would have allowed us to communicate directly with our loyal consumer. I would then have had a voice to offset sensationalized media and social media comments made by those outside our tribe. Unfortunately, I didn’t change with the times – but that’s a story for later in this book.

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2 Ryan Holmes, *The 4 Billion Dollar Tweet* (Hootsuite, 2017)

## ***Throwing Logs on the Fire***

The opportunity to grow and expand lululemon sustainably was also an opportunity to share what made us unique. The more we grew, the greater the opportunity to elevate the world from mediocrity to greatness – one Educator and one Guest at a time.

I was clear that we were not in the wellness business. We were not interested in making sick people well. We wanted to give people the opportunity to be their best. By being their best, they would elevate those around them. It seemed to be an idea everyone was excited to get behind. People were calling us a cult and employees were in on the first wave of lululemon tattoos.

“Lululemon could have died in November 2003,” says Darrell Kopke. “The problem was cash flow like it is for every other apparel business. We went from two to 11 stores and invested all our money in inventory. Our warehouse was piled to the roof with clothing, and we had no readily available money to pay for future orders. We bet the farm that we would sell everything that Christmas.

“By the second week of December, we knew that lululemon was going to be unstoppable. Our sales were through the roof. We sold through tons of inventory, and we had our first million-dollar month at one of our stores. We would open a store, and within three months, it had paid itself off. We were just throwing logs on the fire.

“We made a ton of mistakes, but we were able to make them because we were allowed and encouraged to, and we had the kind of revenue growth that enabled us to make mistakes and still live through it.”

Darrell is right. We were really good at celebrating mistakes and learning from them. A big part of our growth was driven by empowering our people and creating an environment that would foster creativity and new ideas. This was especially relevant as it related to our Guests and our community. For example, we originally held yoga classes in the first store to increase foot traffic coming up the stairs. When we moved to the street-level store, we had as much foot traffic as we could handle, so we stopped offering in-store yoga.

A while later, our community people came up with the idea to reinstate in-store yoga at every location. I’ll admit I was not aligned with the idea at the time, but the employees wanted to do it, and it ended up having fantastic results. It proved that allowing our people to take ownership was a vital part of our company’s successful formula.

At Westbeach, I’d often led by command-and-control. At lululemon, after setting the culture and documenting the Operating Principles, I chose to lead by developing and mentoring others. I was fanatical about developing people because the future was so huge that I had to get out in front of it. I made it my job to delegate so aggressively that I had to do nothing outside of mentoring. Inside of nothing was the ability to be the future before it occurred. It was now time for me to think about how to establish lululemon outside of Canada for the first time.

## CHAPTER 19

# LOOKING SOUTH

### ***Victoria's Secret***

In 2004, I received a letter from Victoria's Secret expressing interest in acquiring lululemon. I sat back and savoured the moment because I had foreseen it coming. I had believed the moment a vertical retailer like Victoria's Secret was interested, it meant we'd succeeded in bringing something special to the world.

I discussed the letter with several people at lululemon. We were flattered, but it didn't take us long to agree that this wasn't a direction in which we wanted to go. The letter confirmed what we already knew: we had a successful formula of our own.

It occurred to me that Victoria's Secret might use our concepts to develop their own line. Although our focus was athletic pants, I decided I wanted to look at athletic bras as well. I knew we couldn't be a complete women's athletic company without being best in the world at athletic bras by 2013 - still nine years away.

I considered our position. A lot had changed in our first five years as a business. I was very happy with our jump on the market and the moat we'd built around us. We had an industrial trademark on all innovations and had trademarked the lululemon name and logo worldwide. Our profit margin was twice that of most other apparel retailers.

With interest coming in from US companies, it was time to increase our growth and get a solid foothold south of the border.

### ***One Step Closer to Global***

In my view, there are two classic reasons that Canadian companies meet their end at American hands. They either stay in Canada too long and get run over by an American competitor with economy-of-scale, or they expand into the US with a product only viable in Canada.

I knew lululemon had the potential to be a global company because health and the desire for longevity crossed across all cultures. I also knew our philosophy of transformational people development was a revolutionary international brand driver. Our success in America would depend on knowing when conditions were just right and then making a calculated move.

The conditions were right. The steady stream of US interest in our company was showing no signs of letting up. Americans were buying a lot of our product when they ventured north, and we'd proven ourselves successful right across Canada. Our Canadian stores were generating enough revenue to justify the risk of an international expansion.

I felt my personal ties to the US would be advantageous in introducing lululemon to the American market. Although my younger brother Brett was born in Calgary, my mom and stepfather had taken him and my sister to pursue the oil business in Denver when he was ten. Despite the time we'd spent apart, Brett and I had a history of influencing one another's plans at pivotal moments.

### ***Brett and Susanne***

After selling Wave Rave to Ride Snowboards in the late '90s, Brett and his wife Susanne began developing a social tech company called Two Jet in 2000, but they got caught in the 2001 tech bubble burst and lost almost everything.

After Brett and Susanne closed Two Jet's doors, I immediately spoke with him about opening the first lululemon store in the US. He said yes right away.

I trusted Brett and not just as my brother. I also knew he had the entrepreneurial gene and had already run vertical retail stores. Having someone with Brett's experience setting up our first US store meant I wouldn't have to divert the attention of our Vancouver people who were busy growing the business in Canada. This wasn't a franchise. The first stores in the US would be owned by the company, with Brett taking responsibility for the leasing, build-outs, hiring, and opening.

As the plan of opening a store in the US took form, the first question that came up was one of precise location. I wrongly chose to do a hybrid model of a showroom and a flagship store. I believed the core yoga culture wouldn't want us to set up on Santa Monica's busy Third Avenue Promenade and look like a big-shot retailer. I wanted to do it softly. I picked a location a block away.

When Santa Monica opened, things were much slower, even slower than we'd anticipated. In retrospect, we had a product the world wanted, wanted now, and wanted a lot of. There was nothing the world over comparable to what lululemon was doing. All I had to do was put lululemon on a busy street and let the maximum number of people discover it.

As Brett recalls, "As the brand was taking off in Vancouver and Toronto, we opened in Santa Monica where nobody but travelling Canadians knew anything about the brand. Just getting a foothold in the US took work."

"The first time I had concerns about our company's future was when we didn't have instant success in Santa Monica," says Deanne Schweitzer. "When we opened up the Santa Monica store it was probably the wrong location and wrong size of store. The build-out didn't really feel like us, and we were really struggling to get Educators that were excited about the brand and what we were creating."

"There was a very naïve understanding of what it would actually take to begin the community-based branding process," says Brett's wife Susanne, "but it needed to happen in the same way it had in Vancouver. Slowly, organically, and through word-of-mouth."

Fortunately, Brett stuck to the formula: he went straight to the yoga community and began a grass-roots campaign. Slowly but surely, that strategy paid off.

Still, one store alone would not be enough. We knew we needed to get a few stores to accelerate the brand conversation in the US. Over the next year, following the Santa Monica store, Brett opened additional locations in Newport Beach, and then Cow Hollow in San Francisco. Cow Hollow was really a pivotal store opening because it was a launch outside of the Southern California market.

It wasn't easy to break lululemon into the United States, and I was constantly mindful of how hard it was for Canadian companies to take off in the US. But as we moved through 2004, it felt more and more

like we were onto something unique and unstoppable.

### ***The Tipping Point***

I was starting to believe we'd reached our tipping point – that crucial moment where we moved from being an underground brand to becoming something everyone in mainstream society wanted.

When the tipping point occurs, the last thing posers want is for the company to advertise or make products for them. They want only to buy what the target market wants because non-target customers want to look authentic.

The underlying principle of surf, skate, and snowboard branding was to push the non-strategic customer away and play hard to get. The branding was clear about who the customer was not. It was also a strategy we employed again successfully at lululemon. I found this concept very difficult to explain to newcomer management members and older boards of directors. It was difficult to explain what cannot be measured, and because so many new people were from the east coast and they were not adept to West Coast athletic branding subculture.

Lululemon's tipping point came when two things occurred. First, we noticed customers coming in with friends and educating their friends about our products, just as a paid lululemon Educator would.

Second, the stores got so busy that we could no longer fulfill on being a conduit for health and fitness to our Guests – there was simply not enough space. I shifted our focus from the Guest to our store Educator, their families, and their communities.

I believed if we made our Educators icons of their communities, their presence would be of inspiration to our Guests.

### ***Category Killer***

Part of lululemon's success – even in our slow, early expansion into the US – was that we were a category killer.

A category killer refers to having so much of a desired product that a business becomes the only place customers will go for it. It effectively 'kills' the competition in that category. For instance, many years earlier, I knew of a ski shop in Whistler that was rather mediocre, selling every product everybody else sold. But one day I walked into that mediocre ski shop and saw they had devoted their entire store to selling only ski or snowboard gloves. Before long, if you had to get a pair of gloves, you knew there was only one place to go . . . that formerly mediocre ski shop.

I wanted to do what no one else had done before. I dreamed of a large, athletic store whose stock was 80 percent women's clothing. I believed the market was missing the ability to buy 100 styles of women's technical clothing, in one store, where all pieces coordinated in fit, style and colors. In 2000, almost all stores carried multiple brands where none of the "looks" worked together. The store would match luxury store standards but be functionally organized instead of color coordinated. When outfit or colour-coordinated stores were out of sizes, this frustrated women and it didn't value their time.

Instead of buying in outfits, a lululemon Guest would go to the sections in the stores for pants, shorts, bras, etc. The change rooms would have five hooks and a bar, so a woman could hang her purse, jacket, and street clothing, and still have five garments she could try on in the change room.

The lighting would be perfect, and each room had to have a three-way mirror so a woman could see all angles and choose freely whether to buy or not. I didn't want to force a woman outside the change room to get beauty validation from a commission-oriented salesperson.

To expand on this concept a little more, you might be best in the world at making something, the way

lululemon was the best in the world at making black Lycra pants. But to become a category killer, pricing also had to be considered. One option is three-tiered pricing: a low, medium, and high pricing model that depends on ascending levels of quality.

I preferred not to use that model because lululemon couldn't make a low-price garment in the first place. I wasn't reaching for a discount product or demographic (I recently saw a documentary about Steve Jobs, where he said something along the lines of: "Make them pay full price, make the best in the world, and the best will come.") I was aiming for the athlete who wanted something that worked. I couldn't think of producing a profitable medium-tier garment that didn't work for the athlete.

As the three-tiered pricing model was not an option, another option was to make 16 pairs of pants that were all priced the same but looked radically different. These included high-rises, low-rise, crop, long, and even loose-fitting. We did just that.

In this way, we appealed to the woman who appreciated quality and would spend \$90 to \$100 on a pair of pants. She would recognize that she was buying the best black Lycra pants in the world and would likely want to buy 10 of the variations we were offering, rather than one of this and that from 10 different companies.

This truly set lululemon apart as a category killer.

### ***Dumpster Diving and Headbands***

Once we'd started making decent profits as a category killer, I thought of different ways to own the yoga market. Yoga mats, straps, and blocks were the only things we bought from other suppliers to round out the store's offering. Because of yoga clothing, we were a natural stop for mats.

Yoga mats were really a commodity product, as the product was hard to differentiate. They weren't rocket science, so to speak. But I realized if I could sell yoga mats at cost, it would bring more people through the door, which would sell more clothes. I could envision hundreds of lululemon stores selling millions of yoga mats. I also wanted to encourage people and provide them with a low-priced gateway to experiencing yoga. In the era before great search engines, I had no idea how to find a manufacturer. So, I got scrappy.

I decided I had to find the source of production. I waited until after dark and then went dumpster diving in the alley of a mat supplier. I figured all I had to do was find a cardboard box with the return address of their Asian supplier.

I was successful.

I sold yoga mats at cost. Store sales jumped and so did profit even though we made zero margin on yoga accessories. Once I controlled the market, I raised the price on the mats to a point where I could make a small profit but kept it low enough so that it wasn't economical for anyone else to enter the market. This was part of my ongoing build-a-moat-around-our-success-and-don't-let-the-competition-in model.

Another cool idea came from seeing scrap fabric. When I was abroad, I remember watching fabric fall to the floor of a sewing factory and thinking, "God, that's a lot of waste, what can I do with those scraps?"

As Shannon recalls, "The lululemon headband was born out of the hemming process. One of the seamstresses used to take the ends of the pants she cut off and wear it as a headband because her hair got in her eyes while sewing. We thought, 'What a great idea! Let's take these pant ends and sell them.'"

Thinking back to my mother's talent as a quilter, cutting small scraps into small triangles and squares and making caps and headbands seemed like a natural next step.

Every headband looked different, which was always a bonus of quilting. I extrapolated this idea of variability to the drop-down waistband on the Groove pant. Women would sift through 20 pants looking



for the colour combination that would best suit them. I had figured out how to do mass production and still make each garment different. Guests loved this.

Headbands were especially popular with younger girls who used them to differentiate themselves amidst a sea of school uniforms. They would become one of lululemon's best-selling items.

### ***Contemplating the Future***

The year 2005 had arrived, and I still couldn't see any competitors on the horizon. No other apparel retailer wanted to spend the money necessary to build the retail stores they'd need to compete with our vertical retailing model. No one could match our successful formula, unique designs, high-quality Luon, free hemming, flat seams, or the other 1,000 nuances that made lululemon so unique.

Nevertheless, I'd recently begun to wonder if the time was coming – sooner rather than later – when the growth of the brand would outpace my ability to keep up with its demands. So many people started to tell me that I didn't have the expertise to run a billion-dollar brand. My stated vision and goals prioritized my family while still focusing on lululemon and its employees. JJ and Brett were young teens, and I only had a limited amount of time to be the best dad I could be to them. I also had a two-year old and twins on the way – I wanted to go to every school concert and every bike ride to Kits Beach with them.

With that in mind, what were my next steps? Would I partner with a larger retailer? Did lululemon need a more experienced CEO? How could I ensure my family was taken care of for life?

I had turned down the offer from Victoria's Secret, but I still had a stack of letters of interest from big public companies and private equity firms. Everyone, it seemed, wanted to participate in lululemon's phenomenal story.

I knew the business of my business, but I was frightfully naive about firms that invested in other businesses and the motivations of the people who ran them. Who would I get to advise me, I wondered? I knew no one inside my small circle of friends who qualified. I had been working hard, and the speed of growth was phenomenal. Every step was exhilarating. But I had not taken the time to develop mentorship type relationships I would need in the future. I thought I could get mentorship, partnership and advice I needed with a Private Equity firm.

On a side note, Muhammad Ali was in Vancouver to promote a biographical movie I had helped finance and I asked him to come to lululemon and meet our people to talk about what it was to be great. After all Muhammad Ali had coined the term "I am the greatest". This was a highlight of my life and could have only been better if Jimi Hendrix was playing guitar in the background.

## CHAPTER 20

# THE VALUATION

If we were going to get involved with a big company or private equity, the first step was understanding the value of lululemon. Naively, I had a ballpark figure in my head of about \$25 million – a number which seemed intangible, surreal, and very weird to me. But my GM, Darrell, and CFO, Brian, had determined that the company was worth about \$225 million, more than 10 times the number I’d come up with.

From my end, I knew we had a great brand. All our profits were being reinvested in the company because the return on each dollar doubled each year. Shannon and I were not drawing salaries, and we were only pulling enough out of the business to cover living expenses. In retrospect, I could have borrowed \$40 million unencumbered from the bank to give my family a lifetime of security. But I had told the top-tier of our senior employees that I would give them 10 percent of the company if we ever went public. I had integrity to my promise, but this promise possibly drove the wrong actions by management towards going public, but I didn’t understand that at the time.

I would soon have three boys under the age of two, and my priority was to be present as a father. I knew lululemon’s future meant a lot of travel around the world to find perfect store locations, and to Asia, specifically, to maintain my partner relationships with mills and factories. I was not astute enough to gather and talk to experienced advisors. This may seem counterintuitive, but in retrospect, I needed to talk to people who had been through the experience of PE before. I limited my options to either continuing as CEO and prioritizing the business, or selling part of lululemon. Selling would allow me to bring in advice, partners, and financial oversight, and give me an opportunity to prioritize my family. I chose family, and I will never regret this choice.

“We had the best of both worlds,” says Darrell Kopke our GM. “Highly profitable growth in the front end, and timely, accurate, and useful information in the back end. We implemented software and payroll systems and then had to replace some of them as we grew. This paid off when we looked for the outside investors.” The reality was that we had such a great foundation of Operating Principles, a world-class people development platform, and a strong employee pipeline (based on ideas from the book *The E-Myth*), that the company was relatively easy to run. The hard work had been done, and we simply needed to replicate what we had built. The company’s profitability and cash flow were best-in-class.

I felt out of my depth, and I wasn’t confident that I could broker the deal I believed we deserved. Corporate finance and tax were a weak point for me, and I’d never been a natural negotiator. I was the best in the world at making an excellent product and asking a fair price for it (my theory always has been that customers could take it or leave it). I didn’t know what I didn’t know, and I wasn’t even sure where to look for help. I was too old to have joined YPO, and at that time I didn’t even know the organization

existed.

I needed help with negotiations and valuation.

### ***The Beauty Contest***

I decided to work with a local Vancouver business broker who had come highly recommended. It took a month to create a package to send out to the private equity companies and retail operations that had asked about lululemon. The package profiled the brand, explained our history, and showcased our culture. We wanted to give them all the tools they needed to evaluate our company and understand who we were.

This was a process called a *beauty contest* – introducing a client to people who could provide financial solutions or make potential investments in their company.

One of the first retail operations we met with was Liz Claiborne. Executives from the longstanding women's apparel company were in Vancouver conducting due-diligence on another deal when they came across lululemon. The Liz Claiborne people offered \$500 million at \$100 million per year to be paid out over five years. They also asked that lululemon perform within their overall corporate structure, meaning we would have to conform to their system for finances, shipping and receiving, and technical infrastructure.

After some deliberation, I turned down the Liz Claiborne offer. I felt the \$100 million a year for five years was too thin a spread, but more importantly, that their culture was not the right match for us. I was worried our people would have a tough time working under that much structure. All things considered, Liz Claiborne was a little bit too corporate, too big. I thought the culture clash would be too big an obstacle to overcome.

Another retail giant on our radar was the Gap, but it seemed nearly impossible to get a real read on what they wanted. As a public company, the Gap had to be very cautious about who they met with and what they reported. The whole thing was secretive to the point of being unproductive. They couldn't discuss concrete terms or put a single word on paper.

When the Gap finally made an offer, it was inadequate – \$200 million for a full buyout, which was much less than valuations we were getting from private equity.

I was frustrated because I felt it was a bad move by the Gap. The Gap, as a brand, wasn't thriving. It was a commodity product, and the stores were underperforming. I thought they were too big. Their stores looked like bowling alleys. I thought if the Gap would replace half of all their oversized 5,000 square foot retail stores, which had the best retail locations, and insert, in their place, 3,000 square foot lululemons, the Gap would be victorious. The Gap would be stronger because they could better focus on their "best-in-class" product, and lululemon would be able to grow exponentially in one year.

I was bursting to tell the Gap what I thought they should be considering. I wanted them to buy lululemon for \$500 million. A rapid roll-out of lululemon would be a home run for them. I believed that lululemon would have brought a lot to their organization, beyond that which I felt I could personally contribute.

Over the years, the Gap suffered because they became driven by numbers and metrics instead of staying in touch with their core customers. I surmised the "new" digital e-commerce team was telling Gap's leadership to make more of the same thing because, at the time, commodity products were e-commerce's bestsellers.

I thought the Gap should have dropped half of their merchandise and focused more on innovation and selling only their best products. To me, innovation is delivering to the customer that which the customer does not yet know he or she needs. I felt if the Gap brought in lululemon's product development, buying principles, and shared store space, the Gap could quickly be worth \$20 billion more by 2012. The Gap didn't know how to morph. It was resting on its laurels.

Interestingly, just after this, the Gap brought on a Canadian – Glenn Murphy – who had run Shoppers Drug Mart in Canada. Murphy made a good decision at the Gap to buy the e-commerce and catalogue-based company, Athleta, and move Gap into the future. I believed the commodity thinking of Gap management would trickle its way down to Athleta. Because merchants, and not designers, ran the Gap, past sales metrics told them they should target a more sedentary, cost-conscious older market that didn't sweat.

Interestingly, Glenn Murphy would become co-chairman of lululemon in 2018. More on this down the road.

### ***Vetting Private Equity***

There was a lot more appeal in a deal that got us less money but found us the right partner. That way, I could maintain a strong position in lululemon and find the right private equity people who could provide me with foundational guidance to build a billion-dollar company.

The things I wanted from a PE agreement were fivefold:

- expertise in US real estate locations
- help in hiring world-class upper management
- to maintain a 70 percent interest in the company
- advice on future needs and processes so lululemon could skip usual growth roadblocks
- to have \$40 million in cash to fulfill the goals my wife and I had set in 2002

By the summer of 2005, I was determined to find the right personality fit in a potential private equity partner.

Generally, interested private equity parties made a trip to Vancouver to have a look at our operations and meet our team. When they arrived, if things were going well, I'd take them up the Grouse Grind. Grouse is a local Vancouver ski mountain with a very popular, rugged hiking trail – the Grind – running up its side. If you're in reasonable shape, it's about an hour climb, straight up.

The Grouse Grind was a great way to measure culture fit. People were showing up at our office in suits, ties, and dress shoes. For someone not from the West Coast – or someone who doesn't understand the Silicon Valley surf, skate, and snowboard culture – a suit and tie is mandatory. On the West Coast, the suit and tie uniform subconsciously says you are not in control of your own life.

When I suggested a hike, some of these visitors acted as if it was a root canal. Not a great sign. But there were others who jumped at the opportunity to do the Grouse Grind. Doing a strenuous hike with someone was the first part of assessing whether they might be the kind of person with whom I wanted to work. We had to be authentic. It was my way of meeting people in lieu of a round of golf.

"At one of our first meetings with private equity," Sean Morrison, my broker says, "Chip was wearing flip-flops and shorts. If it was anyone else, I might have said 'How about throwing on a jacket and pants,' but that's totally not who Chip is. Lululemon was and is a lifestyle brand, and lifestyle brands were a

mega-trend at that time. I didn't want to package it in anything fake. So, we ran a process, and we had a couple of really good partners to choose from."

We ended up with offers from all eight groups of investors who came to Vancouver. Their proposals ranged between \$225 and \$270 million, but in the end, it came down to personality match.

### **Tom Stemberg**

Midway through the beauty contest, I got a call from a man named Tom Stemberg. Tom was the founder of Staples. He'd served as CEO of the company for 16 years and as chairman of the board for another, taking Staples from a start-up operation to a leader in the office superstore market. Tom was also a partner at an equity firm called Highland Capital.

Tom first heard of us when both Staples and lululemon were up for a retail award. When we won, he decided to go and see one of our stores for himself. Tom's wife was from Toronto, so he visited the Briar Hill location. He walked into the store and was shocked by the crowds inside. He noticed the enthusiasm of our customers and the quality of the products. His wife, who'd purchased several items, loved our designs and technical features.

"People were practically fighting over garments in the store," Tom said. "I went outside and saw that there wasn't even a name on the front, just the logo. I went to another store, and it was the same thing. I had to know what was going on."

Tom and I met face-to-face in Vancouver. At the end of our conversation, he told me he wanted to invest if we ever took lululemon public. He would offer \$20 million in return for a board seat. His investment meant lululemon would get the benefit of everything he knew about real estate locations in the US.

Tom also said we would need a board of directors to conduct lululemon's governance. My only experience with a board was the advisors at Westbeach. The Westbeach advisors had been very helpful, so I was enamoured by the board concept. It seemed I had an ally in Tom.

### **Advent**

Advent International out of Boston had moved to the top of our list. Advent was founded in 1984, and since then, had specialized in the growth and restructuring of companies around the world, representing tens of billions of dollars in capital.

Advent valued lululemon at USD \$225 million. It wasn't the biggest offer we'd received, but I still didn't feel I needed the cash nearly as much as I needed the right partners. I had a good feeling that Advent would fit the bill. We must have been incredibly appealing to a PE firm. We had trademarked our name and logo worldwide, we were set up to be global, and we had the best apparel metrics in the world. We were a cash cow with a product the world wanted, and we were the only company that knew how to manage a highly volatile technical knit fabric.

David Mussafer, the managing partner of Advent, seemed to take a long-term view of what lululemon could achieve. Besides that, David and some of the other Advent people had a super hike on the Grouse Grind, which spoke well about their fit with our culture.

David and his partner, Steve Collins, completed our full development program and set out their goals. I was impressed with their due diligence and their desire to understand lululemon. They seemed like they would be perfect for us.

While we were in Boston meeting with Advent, we also saw Tom Stemberg again. Tom was still very interested in getting involved with lululemon – so interested, in fact, that he told me Highland Capital would come in for 25 percent of the portion I would sell.

Advent had reservations about Tom Stemberg, but it would take me a long time to learn their reasons. In any case, everyone agreed to the arrangement. All that was left was the due diligence that both Highland and Advent had to do on lululemon, plus the final negotiations. I had been clear with Sean that negotiations were not my area of expertise. I trusted him to be great.

Months were spent on due diligence, and this was a lot more time than I wanted. It was late September 2005 before we were closing in on a final deal, which coincided with the arrival of my twins. In retrospect, this put undue subconscious pressure on me to complete the deal.

I think Advent and Highland dragged out due diligence on purpose. They had their price set, and they realized we had a very junior negotiator. Each month the demand for our product increased in double-digit numbers, and the value of the company increased correspondingly. Advent and Highland were happy to let the deal drag on to confirm that our sales and profitability numbers would continue without their having to increase the price they would pay.

Shannon went into the hospital in late September. Our sons, Tor and Tag, were born minutes apart just before midnight. There wasn't much time for me to celebrate or relax. Advent and Highland had called for a meeting in early October.

I went into that meeting assuming an agreement had been made. I was confident that the due diligence had gone well and that the meeting was mostly a formality to sort out the details.

I was wrong.

Steve Collins went through a list of criteria they'd used to evaluate lululemon. He said they were concerned that lululemon's current sales compared to last year's showed that sales were falling. Right away, he tried to bring the price down from USD \$225 million to USD \$200 million. I was stunned. I later determined that we were selling product far beyond our projections for two months and consequently didn't have sufficient inventory to meet demand for the past month. I should never have been in the meeting at all. A good broker would have handled these discussions prior to accepting an in-person meeting with PE firms. I had hired the broker as a go-between so I wouldn't be doing the negotiations on the spot. Another new development from Advent was that they wanted to take 50 to 51 percent of the company.

Looking back on it, I realize it was all negotiation and posturing. We didn't need to negotiate at all.

When I replay the scenario in my head, I wish I had stood up, told them that the price had just gone up to \$350 million, and walked out of the meeting. The power was all lululemon's – I was in over my head.

In retrospect, the incentive for a business broker was no different than that of a real estate broker. Their number one goal is to do the deal. It is very risky for a broker to drive for the best price for their client and lose a deal. When the deal is lost, a broker gets zero. In final negotiations, the broker stops working in the best interest of the client and instead works to get the deal done. In retrospect, I paid for a negotiator, but I got a very smart broker who was only in it for himself, a great lesson for me. I was unable to communicate what I had expected.

We agreed to \$200 million USD. The next issue was the 51 percent ownership. Steve Collins argued that with Highland and Tom Stemberg in on the deal, they needed 51 percent of lululemon to share between them. I said no, but once again, I was just trying to hold my ground. Instead of the 30 percent I had originally proposed, I told them I would sell 48 percent so I would still have a majority interest. Advent agreed to this, and the deal was finalized. The PE people provided me advice that only worked for them. Neither my broker nor legal team were savvy enough to provide advice about what the 51 percent ownership would mean in the long run. It was all a great learning for me.

When we were at \$110 million in sales, even more people told me I would not be able to run a company from \$200 million to \$1 billion, and that I should get help. Of course, I'd also been told I didn't know how to run a company from \$15 million to \$100 million, despite how perfectly everything had gone. I had reinvented retail and people development models, and in retrospect, I was the only person in the world that understood the technical apparel vertical model, and we would have gotten a lot further with internal

people than bringing in outside expertise with conflicting priorities.

I now understand the concept that 'those with the most expertise and knowledge are the ones who feel they know the least'. It often happens, however, that the more a person knows about a particular subject, 'the more they know that they *don't* know'. Those with the most knowledge are reluctant to speak up in the midst of people who are older or who are highly accomplished in other fields of expertise.

As I would discover, the people I leaned on for advice thought they knew a lot and made decisions with tremendous confidence based on their previous business models. I now know the entrepreneur knows the multiple nuances for success and differentiation, and needs advice from people who can put ego aside and help leverage a new business model.

Still, I was satisfied with the outcome. The people from Advent and Highland had proven themselves to be savvy businesspeople and skilled negotiators. It seemed that having Tom Stemberg, David Mussafer, and Steve Collins on my side in future negotiations would only benefit me and lululemon. Since I had not operated a company of \$110 million in sales, I trusted this group to provide the guidance I asked for and hold my hand into the future.

I have made many life decisions that were survival-driven, but never wealth-driven. In selling to private equity, I was motivated by a desire to develop an idea, a concept, a philosophy that was solid in its foundation into a global phenomenon to elevate the world.

To go from essentially owning nothing to having \$100 million in my pocket gave me one thing above all else: an easier night's sleep. I could breathe easy knowing my kids would be taken care of. But after years of basic poverty, Shannon and I still had a '30s Great Depression mentality. We thought that at any moment it could all be taken away, or that it was all a dream, so we did our best to make sure our lifestyle didn't change.

## CHAPTER 21

# CHANGE MANAGEMENT

### *Learnings*

I want to preface this by saying this section may only be of interest to people who are taking on private equity (PE) to go public, or to people wanting to learn more about it.

Going into negotiations, I don't think my local Vancouver lawyers even knew I didn't *need* outside money to grow. Their experience had been in big mining deals where substantial outside capital had been required.

I am not sure we even told our lawyers how amazing our cash flow was. They'd probably never been in a situation where the seller wanted advice as the end goal, so they didn't ask, and we didn't tell. I think my lawyers assumed that the PE people were in the driver's seat and the deal was done accordingly.

Hopefully, my learnings will help any entrepreneurs who are thinking of taking on investment from PE and going public. My learnings are as follows:

A broker works in his own best interest to close the deal and shies away from hard negotiations for fear of losing the deal and the commission.

Select three experienced advisors with no vested interest in the deal other than your own. Lawyers, brokers, and company executives were not enough to provide the high-level, independent advice I needed.

Carve out time to talk daily to your advisors. The business will need you; however, good advice will last a lifetime.

Keep two PE companies at the negotiating table until the final decision is made. Play the PE people off each other to get the best deal with the single PE firm you know you want.

If PE says they will be with you for a period of four to seven years, do not believe them – instead, negotiate as though they will monetize your business sooner than is most advantageous for the business. PE works in their own best interest.

Set a due diligence completion date and increase the price if the company's profit increases during the due diligence time.

PE will only be with you for a short time. From their viewpoint, the shorter, the better. You must understand the different scenarios of governance and control that will be in place after PE leaves.

PE provides a stamp of approval to the entrepreneur and his or her idea. However, the entrepreneur



should not let that feeling of approval affect financial negotiations.

My 51 percent control of the company after selling to PE meant nothing, as I didn't control voting at the board level. I needed legal confirmation I would control the most board seats after the PE sale *and* after going public. (When I consider what happened – the way we went public, and what came to pass in the following years – I think of Phil Knight from Nike and Kevin Plank from Under Armour. Both have dual-class shares, which gave them control of their boards. When you control the board, you control the company's culture and vision. Nike never lost its vision, and that's what made it the company it is today. This is where I feel I missed the mark – not knowing how to keep board control.)

Create a special director onboarding program. Have them read three to four books critical to the company's culture and business model. Then, have them work in the store for a day and, in a case like lululemon's, have the director go through the same development program as the employees. Have them verbally discuss 10 points that indicate their understanding of why the business model works, as well as their grasp of the company's linguistic abstractions, values, and vision statements. Ask them if they fully understand the hidden, subconscious reasons the business makes money.

The entrepreneur needs to develop his or her own set of directors and not let the PE firms bring in any more of their own directors, other than what has been negotiated at the start for the present and post-IPO.

Never take more money than you absolutely need. When you have more money than is required for your personal life, a new business is required to manage the excess money. This takes your eye off the cash cow of your business in lieu of less attractive, boring investments. Lululemon was a cash cow that provided me with all the negotiating power in the world. I held all the cards but played none.

### ***The Governance Model***

With the long-term possibility of going public, we needed a Board of Directors. Its role was to select a CEO, set and oversee a compensation plan for upper management that would reward long-term value, define management succession plans, set our strategic plan, and ensure legal compliance.

I was getting to know our PE directors well. I treated them as my absolute equals and partners, a dynamic I felt was reciprocated. I had built an amazing company, and the directors had the experience to help me continue to put the building blocks in place.

The only thing that stood out for the team at lululemon was that the directors were a group of older men with button-down shirts, pleated khakis, and Blackberries slung on their belts like six shooters. It was the opposite of lululemon apparel.

For any organization to succeed, a combination of different mindsets is critical. Organizational theory would tell you a successful team needs the right balance of conceptual, analytical, structural, and social people. An imbalance heightens risk and mediocrity.

My own abilities were (and are) creative and analytical. I wanted the directors to keep their eyes on the hiring of management and create structural processes into which we could grow.

The Advent people took on our employee development and slipped smoothly into our culture. I loved that they wanted to figure out why we were successful so they could transfer new knowledge to their other investments.

Tom Stemberg, I found, was very keen to offer his advice on how to set up a board. However, Tom did not want to do Landmark, perhaps because he already felt successful in his life. His wife was also against the ideas of transformational development, and I believe this contributed to the roadblock Tom hit with our culture. I wasn't worried. I thought he would come around once he saw how successful we were *because* of our development program.

But, now that Tom was inside lululemon, he seemed sure our future value depended on "profession-

alizing” our company. Culture took a back seat, since, in Tom’s view, professionalization had little to do with culture.

### **Bob Meers**

As the Board took shape, Advent had a recommendation for an operating partner. An operating partner is someone a private equity firm puts inside the company, who is paid for by the company but works to the benefit of the private equity firm and acts as their eyes and ears.

Advent put forward former Reebok executive, Bob Meers. Bob had been with Reebok when it was the number one athletic company in the world, easily dominating the top position of the women’s fitness market with step classes.

Where Reebok had failed, I thought, was in their decision to shift away from women’s fitness, a business they knew well and at which they were best in the world. They’d chosen to shift focus to men’s fitness and big sponsorship marketing and were quickly swallowed up by their massive competitors in the men’s market – primarily by companies like Adidas and Nike.

What I liked about Bob were the lessons he’d learned. He’d seen the mistakes and had gained experience through them. He also understood women’s fitness, which was valuable to lululemon. Finally, he came highly recommended by Advent. Most importantly, Reebok had been built on the foundation of Landmark, and Bob told me he had been through most of the courses.

After meeting Bob, I realized he might be a good fit as CEO, as well as a member of the Board. I was a father to three toddlers, and I was tired of travelling. Where else could I find a Landmark-trained athlete who understood the future of the women’s market? How else was I going to be the father I wanted to be?

On our way to dinner in Boston, I asked Bob if he was interested in the position of CEO. He immediately lit up.

We announced both the private equity deal and Bob Meers’ appointment to the CEO position in a press release on December 8, 2005. In January 2006, Bob arrived in Vancouver to begin work. Bob and I shared an office for six months. Having a new CEO onboard didn’t alter the number of hours I spent at work, but it relieved me of almost all business travel. I could come home at night and spend time being a husband and father.

Bob’s arrival brought a mix of excitement and wariness. He was a new, older, experienced, East Coast executive coming in to run an unorthodox, highly personal, female-dominated, West Coast company that operated like a family. This time, I’d expected the wariness, and I knew it would take a while to foster trust in the people working for me. This was why Bob and I worked in the same office for six months – I wanted to ensure he understood who we were at every level. Bob’s compensation package was not negotiated until after he had ingratiated himself into the company for a few months. With the CEO offer on the table, Bob leveraged this in negotiating his compensation. It was a very big mistake on my part to engage Bob before compensation has been discussed. Advent was so keen on having a Boston managing partner as CEO that they too fell into Bob’s trap.

### **Foreign Markets**

Before Bob joined us, I’d looked at some expansion plans beyond North America. I was reluctant to open stores in Europe because human resources complications were akin to those we’d discovered in the state of California. I felt that rules around hiring, firing, lunch breaks, vacation, cost of benefits, and the threat of legal ramifications created weak business processes which, in turn, developed employees to be good but not great. In my opinion, that’s why few great retail managers come from Europe or California –

it's all due to the overregulation in those markets.

Fortunately, there were other locations to explore. Back when I was with Westbeach, a man named Kano Yamanaka was my Japanese distributor. In the years since, we'd maintained contact and become friends. As lululemon was picking up momentum, Kano and I decided that he would open a lululemon franchise in Japan with a view to opening a series of stores. Westbeach had had a lot of success in Japan, and I wanted to build on that with lululemon.

Kano's first store had opened a year earlier. Since then, it had performed moderately well even though it wasn't in a prime location, it wasn't big enough, it was spread over two stories, and so on.

Playing it safe was not what we needed, as we already had a proven concept. I needed a prime location to ensure that if lululemon wasn't great in Japan, it wouldn't be because of the same challenges we'd experienced in Santa Monica. Like a science experiment, I had to remove all external variables to validate our business philosophy.

It became apparent that Kano's financial resources were not as deep as they once were at the apex of the snowboarding business. Perhaps he had stayed in the market too long. While Kano was doing his best with what he had, I wanted someone committed to prime locations, who could afford to build out the brand.

We got an offer from Descente, a large Japanese company with a very modern CEO who wanted to westernize his staff and teach them what North American retailing was all about. He even wanted them to speak English. Lululemon bought Kano out of his franchise and made an agreement with Descente, who, under Bob's approval, opened three more lululemon stores in Japan.

If I had not stopped travelling, I would have seen that the well-educated but incompetent new executives Bob hired were reluctant to work in our stores. Consequently, the top of the organization started to lose an understanding as to why our stores performed so well.

From the employees' perspective, we didn't necessarily want Bob's new hires working in the stores because they were not athletic and not the brand. We didn't have an executive onboarding program (that was my fault), and we eventually came to see new executives as inauthentic salesmen instead of authentic Educators.

We were beginning to understand the difference between "experienced" new management and lululemon's "self-developed" people. I had turned to experts to expand our business but discovered there were no experts for our new technical retail model. The self-developed people of lululemon lived to support others in being great and were "leaders creating leaders." This was part of the reason lululemon had grown so fast without losing control.

## ***Australia***

Lululemon's first Australian store was a brand-starter on Melbourne's Chapel Street. I was expecting a three-to-four-year brand build. There were many reasons I thought lululemon would be a natural fit in Australia. A love of the outdoors and a healthy, active lifestyle is a deeply ingrained part of Australian culture, just as it is on the Pacific Coast of North America. It's casual and laid back – a place where women would find functional athletic clothing a natural extension of themselves.

But I'd also looked at Australia to solve a problem. A big issue with North American apparel is that excess inventory is sold at a discount at the end of a season. I realized that if I could get stores open in Australia, I could move the end-of-season winter goods to Australia at the beginning of their fall season and vice versa. This would eliminate discounting in North America. It was a brilliant idea in my mind.

By moving inventory back and forth with Australia, I could give each hemisphere something brand new, in the right season, at full price. Even if the product we transferred only "broke even" after the transfer, it was better than discounting.

A central part of our retail store rollout consisted of opening an out of the way, inexpensive showroom with open doors only a few days a week. We would educate, hold design meetings and network with a local community before opening a store. We had the cash flow to play the word-of-mouth strategy in Australia and wait for the tipping point. We also had to learn about their labour laws, and customs and duties before going all in.

## **US Rollout**

An April 2006 analysis on Canadianbusiness.com described Bob's plans in the following way: "Meers . . . seems determined to relive Reebok glory by building lululemon into a ubiquitous global brand . . . Meers quickly ticks off his plans: additional outlets in Los Angeles, San Francisco and Seattle. A new store in Chicago. Multiple shop openings in New York City and Boston in Q3 or Q4."<sup>1</sup>

To assist with his plan, Bob hired a top retail executive named Celeste Keely who had run the Western US for Abercrombie & Fitch. It became obvious that our director, Tom Stemberg, knew nothing of cool small-box retail real estate and as a director was becoming a liability. Consequently, someone of Celeste's background in vertical apparel store locations was essential. I thought Celeste was a good hire – I was adamant to not hire anyone from apparel wholesale, as I didn't want them bringing their old processes to a new business.

Lululemon's primary strategy was real estate expansion in the US, which Bob had made a cornerstone of his tenure as CEO. The vision was to build the US in the same mould as Canada.

The expansion looked good, but the new stores were in expensive, high-profile shopping malls, and I didn't know to what extent we'd first seeded cities with a cool, urban street location, or if we'd been proactive in creating excitement or building networks in the local yoga and athletic communities. We wanted to ensure the locations were correct for Super Girl customers. I was overwhelmed at the salary Celeste commanded, but I trusted Bob in his choice. In retrospect, Celeste was a "yes" person who couldn't stand up to Bob about the choice of new stores. Bob just wanted the quantity of stores to push the stock price up, quality be damned. Bob already had a short-term game plan for himself, and Celeste did not prove to be the guard at the gate for the company.

After a series of poor performing locations, we had an epiphany: We came to understand the power of our showrooms, pop-ups, and community marketing. We had not yet realized the strength of what we had invented.

We were ready for expansion. New stores would add substantially to lululemon's valuation, as analysts would model out our profit a year in advance and then recommend a higher price for the lululemon stock if we were to go public. The idea of an IPO was still highly conceptual to me, but it seemed Advent and Highland talked about it constantly.

I thought I had made the right moves to succeed in the US. I had hired an experienced CEO, I had Tom Stemberg who seemed well-versed in US real estate, and I had Advent who were private equity retail experts. I believed the PE partners when they said lululemon needed another four to five years to mature.

## **New York City**

We'd recently signed the lease for our first store in New York City. Lori Jane Budd – a former track athlete, Calgary lululemon Ambassador, and most recently, manager of the highly successful Oakville, Ontario lululemon store – was on her way to Manhattan to run the new location.

As Lori recalls, "I told Chip that if he ever opened a store in NYC, I was the person to do it. Without

<sup>1</sup> Laura Bogomolny. "Toned and Ready: Lululemon Transitions," *Canadian Business*, April 24, 2006, [www.canadianbusiness.com/business-strategy/toned-and-ready-lululemon-transitions/](http://www.canadianbusiness.com/business-strategy/toned-and-ready-lululemon-transitions/).

hesitation, he responded with ‘Great! I will pay you \$80,000 a year to manage it.’ I was beyond ecstatic at his apparent confidence in me . . . yet slightly overwhelmed, but that night I sat down with my husband and put my one, five, and ten-year goals down on paper for the first time.

“I managed the Oakville store for over a year,” Lori continues, “and it became one of the top performing stores in the company and produced many managers that moved to other stores and regions. In early 2006, a lease was finally signed in Manhattan, and I was offered the position of Store Manager. I promoted my assistant manager to take over the Oakville store and planned my move to NYC.

“Bringing this company to NYC exceeded every expectation I ever had. We attended unlimited yoga and fitness classes around the city, meeting instructors, and talking about the brand. There was no middle ground – people either hadn’t heard of us yet, or they were already *obsessed*.”

To borrow from Frank Sinatra, if you can make it there, you’ll make it anywhere. His lyrics were top of my mind as we decided on lululemon’s next big expansion. New York City has always been a world leader in retail and apparel – in some ways, taking lululemon to NYC was something we had to do.

Expanding into New York was nerve-wracking, partly because of the high rents. It was a surprise to set up in Lincoln Square and see how little space we could get. Sometimes a company might open in New York, taking a high rent, and not make any money on the location. They would just use it as a marketing ploy to build the brand since New York has major international appeal. Despite the size of our store, we managed.

If world-class logistics managers knew how the staff at our smallest stores (located in Lincoln Square and West Edmonton Mall) problem-solved, they’d hire them at a salary of half-a-million dollars a year. Our employees were amazing.

### **Michelle Armstrong**

Meanwhile, the question of going public was looming larger by the day. In 2006, just after we’d made the private equity deal with Advent and Highland, PricewaterhouseCoopers was brought in to assist with auditing lululemon.

A young woman named Michelle Armstrong was the manager of the audit. She came out to lululemon in March of 2006. We were so impressed with Michelle that we offered her a job as director of finance, to augment Brian Bacon, our CFO. Up to this point, I hadn’t put a lot of effort into hiring finance personnel. Working in the stores, I had developed an acute sense of the business and could tell within a few percentage points the exact profit and cash flow of the company. My new partners did not have this same insight, and at \$110 million in sales, we could no longer only operate based on my innate sense of numbers.

Much to the surprise of Michelle (and everyone), the prospect of the IPO came up within a few months of her joining lululemon.

As Michelle puts it, “When I got hired they told me it would be a two- to four-year time horizon for us going public, but then in August [2006], Bob brought me into his office and said, ‘Actually, we’re going to start the process now.’”

This wasn’t just a surprise to Michelle – most of lululemon was surprised. I wish that I had the type of relationship with Michelle at that time where she would have felt comfortable letting me know the IPO was coming sooner than expected. The world in early 2006 was awash in capital, and there were a lot of parties eager to invest in IPOs. Under Armour had just gone public, as had Crocs, both at high valuations. David Mussafer, Steve Collins, and Tom Stemberg all advised me that lululemon needed to make the move sooner rather than later.

I didn’t know that Advent and Highland were already thinking of their exit. I expected Bob Meers would preside over a five-year period of growth, after which we’d presumably open the books and assess

our options. I didn't know how closely his profit motive was tied to that of private equity.

### ***Conflicts of Interest***

I had been transparent that I was not averse to going public. I thought the IPO and public experience would allow me to be a valuable mentor to my children if they ever, one day, took their companies public. (Now in 2021, my son JJ has taken a functional mushroom company called Optimi Health public, and he has asked me to be an advisor – very cool.)

At a Board meeting just before going public, Tom said I had to clean up my personal connections to rid myself of conflicts of interest as a future director of a public board. To clean up, I had to change three things. The first was to let go of my sister-in-law, Susanne Conrad, as a Board advisor since she would be a conflicted director as my relative. Susanne was the spiritual leader of our culture and a critical part of what made lululemon profits rise above all competitors.

“Because I was a family member,” Susanne recalls, “there was a fear about optics. I was asked to step down just before the company went public. I would have liked to stay on the Board. I think I sustained the company culture at the board level.”

Even though we'd lost Susanne from the Board, it was still very important to have her as part of the team. I wanted her to coach and develop our top 100 people every quarter, as her background was executive-level coaching. Working with Delaney Schweitzer's Training and Culture team, Susanne would become one of lululemon's most beloved speakers. The curriculum Susanne developed, 'igolu' (now known as “Lightyear Leadership”), is a comprehensive self-leadership methodology that she delivered to thousands of lululemon employees and Ambassadors from 2007 until January of 2017.

As Susanne remembers: “Delaney [SVP retail] and I worked to make lululemon a place where people could come and be with like-minded people, workout, sweat, and make work a place where we could transform some of the most difficult things in life with humour and love.”

Susanne had the energy and advocacy I wanted on the Board. I was sorry to lose her, but the company was lucky to have her in the years that followed. I asked Rhoda Pitcher, a change-management consultant, to replace Susanne on the Board. I was counting on Rhoda to help us protect the company's culture through the coming changes.

The second thing I had to do before going public was sell my 50 percent stake in our manufacturing partner. I was okay with this if lululemon bought my share. The ownership of factories was essential to ownership of the vertical model, but Tom and Michael Casey, then Lead Director, deemed factory ownership too risky. They didn't want to be in the manufacturing business. They didn't see it as an integral part of the business model, but rather as a distraction.

The third change we had to make was to replace my lawyer, confidante, and our company secretary, Jon McCullough. Tom said we needed an American law firm who understood US public law.

Each of these steps seemed so incremental that there was never one specific moment where I thought to say stop. I now understand it was a highly manipulative move by Advent and Highland to gain control and power before I even knew what they were doing. From this point forward, I had been swindled, but I just didn't know yet exactly to what extent.

### ***The E-commerce Mediation***

Another thing lululemon needed to clean up before our IPO was our e-commerce. I had waited to properly invest in e-commerce while our company was in rapid growth. We couldn't manufacture quickly enough to fill our own stores, so we didn't need an e-commerce store just yet. I understood that e-commerce had come to stay, and I appreciated its power in completing a top-to-bottom vertical model with

absolutely no middleman to skim profits.

In 2006, I felt that e-commerce was good for a commodity product – something a customer already understood – while lululemon was primarily touch and feel. At that time, there was no video to educate e-commerce customers on our product. Our value was not in the look of the garment but in its tactile feel and technical features. A photo worked for fashion but not for lululemon. Today, you can ship three or four garments to somebody so they can try them on and return them if they so choose. There was nothing near that level of sophistication in 2006.

Lululemon had its own selection of commodity products, including yoga mats and yoga straps. We also had a few items to sell at a discount. So, in the early days, I made an agreement with a digital company to sell commodity and discount products online. It was a small agreement with no buyout clause.

If I wanted to regain complete control of lululemon's online products, it looked like we would have to buy them out.

It was clear lululemon was a raging success, so the company asked for \$2 million as a buyout. I wasn't convinced this was anywhere near an appropriate price and I refused. We went to mediation, and their ask jumped to \$7 million.

Mediation, in my experience, usually splits something down the middle, so by then, it looked as if I would get hit for \$3.5 million. I countered at negative \$6 million to get the price down to \$1 million. Mediation collapsed, and I let it go. My private equity partners pushed Bob to settle at any price because they knew what I didn't; an IPO was imminent, and they wanted a clean slate. The company paid out \$9 million.

This wasn't just a lesson in e-commerce, or in being specific in contracts. I needed to grow up and make more solid legal agreements.

### ***Needing More Directors***

At the last Board meeting before our IPO, Tom told me we needed more Board members to fill committees as a public board. Tom, who had been on many public boards, had a deep Rolodex of quality people who were more than happy to come to lululemon. I had none, and I had no advance advice that I should be looking for directors who would support me and my vision for the athletic apparel business.

Tom told me it would be a good idea for me to sell more stock as we went public because then there would be more floating shares and institutions would be more apt to buy and hold. If the institutions bought and held, then fewer stocks would trade and demand would increase. As demand increased, so would the stock price. This is a great strategy for a PE firm that wants to monetize their investment and get out. I found it to be terrible advice to a founder like myself who already had more cash than I knew what to do with. Especially as I couldn't imagine a better place to invest my money than in the company I had built.

It was important for me to go public because I believed this would provide control over my inherent weaknesses of global financial control and auditing. I am one of the few people who has likely ever thought that imposing financial reporting parameters on public companies would be a good thing. But for me, having this area controlled allowed my mind to focus on brand, innovation, culture and product. I knew lululemon would get the best out of me if I didn't become a businessman, but worked on the business. Releasing myself of the burden of financial control allowed me to continually work myself out of a job and be lululemon's futurist. However, as I would learn, the inherent risk of being a futurist is there is only room for one futurist in a company. Throughout this process, I learned that a public company is driven by quarterly public reporting, and that inexperienced CEOs with poor compensation are only able to perform over a three year horizon.

## CHAPTER 22

# THE IPO

### *Lessons from the IPO*

Going public was another critical juncture that affected the future of lululemon. Again, for those of you who might be in this position in your own lives, I would like to share what I learned.

Have each prospective director explain their theory as to what type of CEO is needed at each growth stage of the company. (Oversight of companies drastically changes as revenue and employee base grow).

I didn't control the Board, so I should have nurtured and selected my own people to fill Board positions and not let PE do it.

A founder with more than 10 percent of the company will be a "dependent" director. The other directors are deemed as "independent" to ensure the founder-director does not control the company decision making, and these independent directors will elect a lead director. The lead director is essentially the chairman as he or she represents more board votes. Giving the chairman title to the founder is often nothing but smoke and mirrors.

If the CEO and founder do not see eye to eye on vision or operations, a strategic CEO can divide and conquer a board by marginalizing the "dependent" founder from the "independent" board members.

A staggered board where only three directors are up for election each year does not allow directors to change with the speed at which the world changes. Directors get stale fast and nepotism and mediocrity can set in quickly.

### *Becoming American*

A final step in the process of going public was officially making lululemon an American company. We registered our business in Delaware. It took me years to understand why this was important. The value of lululemon would be dictated by the demand for its shares. The Board wanted to give investors the confidence they needed to buy into lululemon. If lululemon was an American company, under American regulatory laws, it provided assumed security for potential investors. This never made sense to me. Canadian corporate taxes had always been less than those of the US (until, of course, Trump changed the tax rates in 2018 to favour American companies).



## Going Public

At nine thirty on the morning of July 27, 2007, I stood on a riser at the NASDAQ Exchange in New York City. Beside me were my family, an assortment of our core staff, and our new Board of Directors. I took a breath and pressed the button to ring the bell. We'd done it. We'd taken lululemon athletica public.

"I always kind of joked that lululemon was like the sister we never had," my son JJ recalls. "And growing up, I always kind of thought, 'Well, my dad owns and runs a women's athletic apparel, yoga-based business. And that's what he does every day. He gets up, and he goes and makes little black stretchy pants.' I kind of had an understanding, eventually, of what was occurring. It was part of my life growing up. The IPO happened when I was 18."

The day of the IPO was huge for us, but I felt as if I'd already experienced it. An entrepreneur is easily able to put themselves five to 10 years into the future. They build into the future, and not for the present, so I had envisioned this for lululemon already. It was akin to being a designer. A designer designs a garment but doesn't see it come into the store until eight months later. By that time, the designer has long since moved on to future designs.

Almost as soon as the bell was rung, our stock jumped from its initial price of \$18 to \$25 a share.<sup>1</sup> As planned, I now owned 30 percent of the company. We marked the day in a memorable way. We'd already arranged to shut down traffic in Times Square on the day of the 27th, which allowed us to stage a massive yoga demonstration right there in the centre.

The demonstration was Eric Petersen's idea, and it went off perfectly. Eric would later share that the day of the IPO was among his proudest moments at the company. "Everyone at lululemon felt like they were involved in the process," he commented. "It could have been a divisive time in the growth of the company, but it wasn't."

Lori Jane Budd, who managed our first store in NYC, says: "It was a very exciting time to be the manager of the only store in NYC with all the hoopla surrounding this giant step for the company. After having the thrill of watching the bell being rung, the excitement and traffic increased even more in the store. On the day of the IPO, a banker walked into the store on 64th and Broadway and said, 'Who are you guys?! I just made a shitload of money off you!'"

## Giving Back

I also wanted to do something for all of our employees, so we had every electronic billboard in Times Square displaying rotating pictures of everyone working in our stores. If you were working for lululemon at that time, you would have seen your face in Times Square. The whole thing brought the company together. It wasn't just those of us down there for the IPO – it was a positive way of enrolling and involving everyone in the entire company in the experience.

July 27 also marked the fulfillment of a promise I'd made to the staff years before. When lululemon was much, much smaller, I'd told a group of our people that if we ever went public, I would give them 10 percent of my shares – which I did. This created 30 or so multimillionaires, most of them women (many of whom have since gone on to build their own businesses).

Coming to New York and experiencing the final stage of our company going public wasn't just symbolic for our staff, it meant that they were now its owners.

The investing world seemed to believe in our new way of doing business. We had a successful formula that was producing the top retail metrics in the world.

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<sup>1</sup> Steve Gelsi. "Lululemon Athletica IPO Jumps 50%," *MarketWatch*, July 27, 2007, [www.marketwatch.com/story/clothing-maker-lululemon-rallies-50-raises-328-mln](http://www.marketwatch.com/story/clothing-maker-lululemon-rallies-50-raises-328-mln).

## **Tall Poppy**

I had no idea what going public would mean for my family and I. Lululemon and our Kitsilano community were home and family to us. I never thought I would become a sensationalized media heat score in the years that would follow.

### **The Media and Short Selling**

Around this same time, I learned my first – but not my last – lesson in dealing with the media. I'd always been my own PR and brand manager.

Back when I was making technical apparel for surfing, skating, and snowboarding (followed by yoga a few years later), the press would come to me looking for an expert opinion on these markets. Westbeach used to receive free editorial coverage and never had to advertise. Also, everything that was published about my work had always been a good story, so when it came to the press, I'd gotten used to positive coverage.

I never had to be guarded in what I said.

The first time I was “set up” through a series of leading questions by a journalist was in 2007, right around the time lululemon went public. We were making a line of clothing called VitaSea, with an eco-friendly, seaweed-based technology called SeaCell. We'd found that using SeaCell fibres in the fabric of our shirts would make them anti-stink and would moisturize the skin of the person wearing the shirt. On top of that, shirts made with SeaCell just felt great to wear.

I was contacted by the New York Times who wanted to talk about the SeaCell technology.

“Well, have you had it tested?” the reporter asked.

“We get it from a supplier in Germany,” I told her. “We've got all the information, all the specs on it.”

“How do you know it actually works?” she asked. “What kind of testing have you done?”

“We haven't done any technical testing,” I said, “other than I wear it every day, and my wife tells me I don't stink anymore. I also think the suppleness of the fabric is beautiful. I really love it.”

I didn't realize how the statement could be manipulated ... but then the article came out. The headline read: “'Seaweed' Clothing Has None, Tests Show.” Here's an excerpt from the article itself:

Lululemon Athletica has been a standout performer on Wall Street since it went public in July, thanks to the popularity of its costly yoga and other workout clothes, which are made with unusual materials, including bamboo, silver, charcoal, coconut and soybeans. One of its lines is called VitaSea, and the company says it is made with seaweed . . . There is one problem with its VitaSea claims, however. Some of them may not be true.<sup>2</sup>

Basically, the New York Times was calling us frauds. When I read it, my first thought was that it seemed mean-spirited. Lululemon was all about love so I couldn't imagine why someone would ever write something like that. I wondered if it was a case of tall poppy syndrome.

The negative article in the Times also provided me with insight into the game of short selling in the stock market. When the article was published, lululemon was at almost 60 times EBITDA, which is the very top end of stock valuation. When a company is valued for perfection, anything that goes wrong will drop the stock, even temporarily. I knew lululemon was very heavy on the short sellers. It naturally hap-

<sup>2</sup> Louise Story. “'Seaweed' Clothing Has None, Tests Show,” *New York Times*, November 14, 2007, [www.nytimes.com/2007/11/14/business/14seaweed.html](http://www.nytimes.com/2007/11/14/business/14seaweed.html).

pens when a stock is priced that high. People will run algorithms on it and determine that the possibility of the stock dropping could be 80 percent. That's the game.

If those prospective short sellers want to ensure profits, then the smart ones will manufacture a false story that will impact the stock. As an example, they might feed false information to interested journalists. The journalists, in turn, write high-profile articles that damage a company and cause its stock to drop, and the short sellers reap the rewards. There is a lot of money to be made on all sides.

It's interesting to note that the Times even admitted they'd gotten the story from a short seller in that article: "The Times commissioned its test after an investor who is shorting lululemon's stock – betting that its price will fall – provided . . . test results to The Times."<sup>3</sup> I'm sure many people made very good money off that stock drop.

Anyway, it didn't take long for our stock to recover. Our overall numbers were among the best in the world, so the drop wasn't a huge problem. In managing the bad publicity, David Mussafer from Advent Equity (who was on our Board of Directors) stepped up and did a phenomenal job. He'd seen this kind of thing before - Advent had so many public companies that he understood the game well. He understood how to get in, how to respond, and how to talk to the media in the right way.

Overall, with lululemon going public and the article in the New York Times, I recognized that the world had changed for me. I saw how easily salacious headlines could increase readership and sales. Even so, the incident didn't change my willingness to engage with the media.

### **Board Structure**

At the time of the IPO, Tom brought forward two possible, very experienced and successful directors. The first was Michael Casey, the ex-CFO of Starbucks. The second was Brad Martin, the ex-CEO of Saks. I couldn't have been happier with the quality of people we had on our Board.

Michael Casey was elected by the independent directors to the lead director role. This was a nice balance, I thought, between the eight independent, financially-minded directors, and myself as a creative and visionary founder.

Michael once told me he took the same route to work every morning, so his mind could focus on what needed to be done that day. When I heard him say that, I chuckled under my breath. I took a different route to work every day. I always wanted to see how the world was changing around me. It seemed we had a nice balance of expertise. Our nine independent directors brought structure and consistency to the Board, I brought industry analytics, a five- to seven-year vision, and a deep understanding of what differentiated lululemon and made it special.

### **Returning to Vancouver**

After the IPO in New York, we returned to Vancouver. The atmosphere at the company was incredibly positive – everyone had seen their face on the screens in Times Square, and now most of our staff owned a share in the company we'd grown. Across the board, this was a transformative accomplishment, and we commenced our first day as a publicly traded company.

Over time, there were small pieces of the business model that seemed to break down as we grew. I'd been taking extra measures to protect and preserve the culture of lululemon, including establishing an award called the "Holder of the Flame" to elevate those who stood for transformational leadership, and continuing to ensure Landmark Education was available to all employees. In the future, I believed a Board of Directors that would let this award fall away was the board that could make lululemon mediocre. I also

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3 *Story. "Seaweed," (see chap. 21, n. 6).*

knew the board team that would remove the “Holder of the Flame” award and Landmark Education from the culture would be the downfall of lululemon.

I felt that everyone had trusted me when I told them that Bob Meers and his team would take lululemon to the next level and had trusted me again through the IPO. I needed to find out where things were breaking down.

The good thing about Bob was that he seemed genuinely excited to work at lululemon. He was a strong leader who could command attention and draw people in. With our 30 to 40 percent growth each year, Bob’s big achievement was recognizing and solving our bottleneck in production capacity.

Unfortunately, solving our production bottleneck was not enough to bring Bob fully into our culture.

As Deanne Schweitzer put it: “Doubts about the future of the company were definitely on a lot of our minds when we started to see how Bob Meers was leading the company, the people he was hiring, and the money he was spending. Bob was spending money in the wrong places and hiring the wrong people – bringing in people who were there for the short term, not the long term. There was a feeling that we were all looking at our watches and wondering, ‘How long am I going to last here?’”

Bree Stanlake made this observation: “When Chip was our CEO, it was a period of high growth, but it felt very free, very entrepreneurial in the truest sense of the word. There were some people that Bob brought on who didn’t really fit with the culture. It just started to feel like people were there to make money, then leave. It may sound trivial, but some things showed us that they just weren’t in line with our culture. For instance, they didn’t care about working out. Doing regular workouts wasn’t important to them. Being healthy and fit is something that’s central to lululemon.”

A key challenge to employee satisfaction presented itself. We started to hire MBAs and experienced management whose pay grade was 50–100 percent more than our existing employees. Because we had a new business model, MBAs and experience meant very little. Our existing younger employees were spending their time teaching their bosses about the business. The inequality of ability and compensation put undue stress on the HR department.

Bob and I still had a good working relationship, so after I studied the growing problems for a while, I spoke to him about the way trust, communication, and culture had eroded over the past year-and-a-half. He was the CEO, and I wanted to empower him to fix the problems. I outlined that things simply couldn’t continue to carry on as they had. Bob assured me that now that he’d taken us public and the share price was skyrocketing, the differences could be reconciled.

### ***The Fight in the Air***

After a few more months had gone by, I was on a private flight with Bob Meers and David Mussafer from Advent. At one point, Bob and David started raising their voices and, after a moment, David asked Bob to take the heated conversation into the galley. The plane was so small that I could still hear what was being said, but I tried to be respectful. Bob and David had known one another before Bob came on board at lululemon, so I assumed their argument was personal given their shift to the galley – but it wasn’t.

After the flight, Bob told me he would soon leave lululemon. I was shocked. I thought Bob would be around for five years, leading us through our high-growth period. I didn’t understand why he was leaving so soon.

At any rate, with Bob’s departure hanging in the air, it turned out he already had a successor in mind. Bob wanted us to meet a woman named Christine Day, who was introduced to Bob (and lululemon) by Rhoda Pitcher.

At the end of 2006, Christine had left her position as head of the Asia-Pacific division at Starbucks to take a year off. She’d been with Starbucks’s international group for three-and-a-half years. She’d been

with the coffee giant for 20 years as a trouble-shooter, rejigging the foundations for Asia. The time had come for her to spend more time with her family. By September 2007, as her year-long sabbatical drew to a close, she began to look at what her next move would be.

We contacted her in October and asked her to come and see us before she made any other decisions. The first time I met Christine face to face was at a restaurant in Seattle. Rhoda Pitcher, our board member and a Seattle native, joined us for the meal.

During our meeting, Christine told me that lululemon appealed to her on a lot of different levels. Primarily, she could see how unique the product and its business philosophy were. From Starbucks, she understood how the vertical retail model – selling lululemon product in lululemon stores – allowed for our higher margins. The Guest experience was essential, and Christine said she was impressed by the loyalty we'd generated with our customers.

I was excited to land a Starbucks executive because the company philosophies, locations, employee, and Guest profiles seemed so similar to those of lululemon. I thought she would be a good fit. My only concern was not having an athlete at the helm of lululemon.

Something I didn't know at the time was that Bob was doing everything he could to accelerate his departure from lululemon. A long, drawn-out search for a suitable replacement would only slow that process down, so Bob was highly motivated to hire Christine for the job as COO. She was slated to join lululemon in January 2008.

Christine came in as a COO with the idea to take over the CEO position from Bob. She'd never held the top job before and would need a little time with us to get the lay of the land. Still, it was good that the best candidate to run a female-oriented company was a well-accomplished woman.

## CHAPTER 23

# AFTER BOB

### *Coke and Pepsi*

That January, before he left us for good, Bob wanted to remove the first and most prominent branding statement from our Manifesto and our shopping bags.

*“Coke, Pepsi, and all other pops will be known as the cigarettes of the future. Great marketing, terrible product.”*

A typical businessperson would advise against this branding approach because of the risk of alienating people. Exactly! We didn't want anyone who was wearing lululemon to be drinking Coke or Pepsi. It was bad for our brand.

In the '70s, I correlated lung cancer with cigarettes before there was any real data. I did not allow smokers into the Westbeach store. By driving these customers away, my core customers became more fanatical.

In the '80s, I correlated obesity in the US with Coke and Pepsi. Coke and Pepsi had marketed themselves as the American dream, but I believed it was one of the primary reasons Americans were getting fat. I also knew only a company with absolute integrity could stand up to their massive marketing machines.

I wanted our Super Girl market to know the lululemon brand was not for soda drinkers. If we were aligned with our iconic health-inspired Super Girl, I knew the rest of the world would follow.

After we put our declaration on the Manifesto, Coke and Pepsi threatened to drown lululemon in lawsuits. I had always thought of lululemon as a social experiment. I believed our company could be the driver for social health. I believed I had a platform of integrity and an obligation to society to speak out against unhealthy things even if they were not yet scientifically proven.

“We had absolute conviction in what we were saying,” says Deanne Schweitzer. “We had to do a lot of research, due diligence, and legal work to prepare our side of the story and throughout that time we were in the process of going public. I would always follow Chip in focusing on what you believe to be true. In this case, we focused on supporting the claim we had made, and in the end, it was completely supported by facts.”

Bob made a point that since people were now much more aware of the health risks posed by colas, the item made the Manifesto seem dated. He said we'd already played our part. President Bill Clinton had

led efforts to take pop machines out of schools across the US, and I wondered if the lululemon Manifesto had played some part in the President's ruling – that is, until I attended the Clinton Global Initiative meeting in New York, sponsored by Coca-Cola.

I never wanted lululemon to appear dated. I deferred to Bob, and the slogan came off our Manifesto. The decision to remove this quote from the manifesto was a big mistake on my part.

## **A Coverup**

The Manifesto on the side of our shopping bags was such a success that I wanted to take my theories a step further. I couldn't get the entire Manifesto on the side of the small shoppers, so I started writing a list of short health philosophies I held.

When the health philosophies were printed on the side of the shoppers in 2008, Bob thought there would be public pushback and unwanted publicity. He ordered the side of the bags to be covered up with something vanilla. There was some online discussion, but social media was still in its infancy, and the whole incident blew over. The fear of standing for the health of our customer with perceived controversial statements was too much for Bob and the Board of Directors.

## **Resetting our Leadership**

The CEO transition plan was for Bob to stay at lululemon until the fall, at which point Christine would take over.

In early 2008, Christine moved her family to Vancouver and completed the Landmark Forum. She was officially the first externally-hired executive to engage in our newly-formalized cultural onboarding.

Within a few weeks of Christine's arrival, Bob was MIA. He was still being paid, but he was absent. After it became clear he wasn't coming back, my instinct was to fire him. Why were we keeping someone around who wasn't doing the job for which we were paying him?

But the Board of Directors didn't want to fire Bob. As they explained, lululemon had not been public for long. Firing a CEO – even an absent one – would be bad optics. Investor confidence could be affected; analysts and advisors might recommend against buying lululemon shares. It just wouldn't look good if we fired Bob. The company had to suck it up and pay him because the lululemon Board was willing to forego lululemon's integrity and not release the news to our shareholders. It made me sick.

We were careful about the public message we released about Bob's departure, simply saying he would "retire" from his position as CEO of lululemon at the end of June.<sup>1</sup> I informally slipped back into the role of CEO, got rid of Bob's hires, and righted the ship. It was a breath of fresh air. The silver lining of our time with Bob was learning what we *didn't* want.

I still didn't know *why* Bob had disappeared. As I thought about it, I was reminded of that private flight that Bob and I had taken with David Mussafer several months earlier. Bob and David had gotten up from their seats and had taken their conversation into the galley for privacy, but their voices carried – especially as things got more heated.

"I did it," Bob kept saying. "I did it, I got the stock to X amount for two months, now pay me."

I now believe Bob had worked out a side deal with Advent that enabled him to cash out if the stock got to a particular value for two consecutive months. Perhaps there was a public disclosure about such an incentive package, but it was never brought up in a Board meeting to which I was privy. Had I known, I think I would have watched for short-term decision making. This was a clear case of Advent working for

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<sup>1</sup> Business Wire, "Lululemon Athletica Appoints Christine Day as President, Chief Operating Officer and CEO Designate," *lululemon athletica*, April 2, 2008, [investor.lululemon.com/releasedetail.cfm?releaseid=302772](http://investor.lululemon.com/releasedetail.cfm?releaseid=302772).

themselves and not for the good of the company.

In February 2008, MarketWatch summarized the situation like this: “All [Meers] had to do was to be on the job when lululemon’s LULU, +0.04 percent share price hit a certain level and its private-equity investors sold a slug of shares . . . this puts management’s interests in line with private equity, not necessarily with public shareholders.”<sup>2</sup> The same analysis described the inherent dangers of these kinds of deals because they “[align] management’s interest with the wrong group of shareholders – those who are cashing out.”<sup>3</sup> It will be important to remember this paragraph as I continue to demonstrate conflicts and self interests of so called “committed directors” in the pages that follow.

I realized that Bob had done everything in his power to get the share value to where it needed to be to trigger his exit, and that he was likely incentivized to maximize that share price. The easiest way for him to do this was to carelessly open new stores.

I realized then that it had never been Bob’s intention to set lululemon on a course of sustained, long-term growth. He was incentivized for short-term results, also to PE’s David Mussafer and Tom Stemberg’s benefit because they both maximized their share value and cashed out.

In Darrell Kopke’s words: “I was with lululemon for the IPO process. Bob Meers was there to protect himself during this process, so he brought in his own people. There was a pure, selfish manipulation of the market for their own benefit. It changed the company from one with a legacy on the health of its community to one that cared only about getting stock prices up to maximize options. I learned about revenue smoothing and presenting oneself on an earnings call to make the stock look good.”

Public earnings calls where the management reports on the financial metrics of the last quarter to Wall Street analysts “seemed” to be a waste of my time. The analysts knew so little of the technical apparel industry and they kept trying to put old streetwear metrics to a new way of operating. For example: our employee development costs were way above industry average and so management and the board kept trying to cut costs, unaware that this was directly correlated to the best sales-per-square-foot. Analysts also punished us if margins dropped, instead of looking at profit. One of my strategies was to lower pricing to take market share in certain categories to dominate the long run. The last thing a public CEO wants to explain is why margins are dropping when sales are increasing. We had multiple strategies that became prohibitive to public reporting.

In the end, Bob made around \$30 million on stock appreciation. Instead of announcing that he was no longer the CEO, he simply walked away. As a result, Christine’s rise to CEO was expedited, and her development under Bob was truncated, much like the development of the Power Women Christine subsequently hired underneath her.

There was a lot for me to learn from the Bob Meers era. It was also my introduction to the art of looking good to maximize short-term gains.

### **Christine Becomes CEO**

Lululemon’s shareholders’ annual general meeting (AGM) was held in June 2008, and Christine Day was publicly appointed as CEO. It was a boon to investor confidence, with magazines like Forbes describing it as a breath of new life for the company.<sup>4</sup>

Unsurprisingly, the US side of the business was struggling, and stores were not hitting their projections.

The first thing we did was coach Christine on our fundamentals. Christine had solid real estate ex-

<sup>2</sup> Herb Greenberg, “Lululemon CEO’s Sweet Deal.” MarketWatch, February 25, 2008, [www.marketwatch.com/story/lululemon-ceos-sweet-deal](http://www.marketwatch.com/story/lululemon-ceos-sweet-deal).

<sup>3</sup> Ibid.

<sup>4</sup> Melinda Peer, “Christine Day Breathes New Life Into Lululemon.” Forbes, April 3, 2008, [https://www.forbes.com/2008/04/03/day-christine-lululemon-face-markets-cx\\_mp\\_0402autofacescan03.html#4425fb639f37](https://www.forbes.com/2008/04/03/day-christine-lululemon-face-markets-cx_mp_0402autofacescan03.html#4425fb639f37).



perience from her time at Starbucks, and she knew what a good deal looked like. She reset deal terms, brought the economics back in line, and looked to the streets and the lifestyle centers to complement the mall stores. We also hired store staff from the local communities and invested in their training.

Just like Bob had done with the Coke and Pepsi slogan, the first thing Christine wanted to do as CEO was to eliminate another of our Manifesto slogans: *"Children are the orgasm of life. Just like you did not know what an orgasm was before you had one, nature does not let you know how great children are until you actually have them."* We thought she was joking as that particular statement and the greater Manifesto were the number one reasons people said they applied to work for lululemon. After we realized she was serious, we took it as a good moment to coach Christine on how tipping point branding worked.

Using different cultural tools, we had learned ways to be authentic about being inauthentic; we'd found new ways of being open and unapologetic about who we are and how we protect ourselves. This understanding and training allowed us to coach each other in moments where we reverted to being inauthentic.

Christine had received one call about the slogan, from one offended person. Her direction to remove the quote was a response based on reaction and fear, and not one of choice. She may have been new to our culture, but Christine had completed our executive onboarding. With coaching, she quickly came around and withdrew her directive.

### ***The Great Recession***

The 2008 economic downturn, now known as the Great Recession, began only a few months after Christine became CEO. This major event – considered the worst stock market plunge since the Depression in the '20s – had been building since the American subprime mortgage crisis in 2007.

Things only got worse from there, culminating in the Lehman Brothers investment bank collapse in September. Despite massive government bailouts, the damage was done, and everyone was hit hard. The DOW fell 500 points, and there was a massive sell-off of stocks on Wall Street.

It was scary to watch our stocks drop from \$45 to \$5, almost overnight (especially after we'd gone public at \$18). All at once, nearly every company could be bought for cents on the dollar, and everything we felt we'd achieved by going public was suddenly underwater. Nobody knew if anyone, anywhere in the world, would be working the next day.

Times were tough for several months. We didn't have to lay off much staff but hiring slowed substantially. We closed our stores in Japan, and we saw a much slower holiday season.

However, overall, lululemon weathered the storm. Through the worst of the recession, the fundamentals of lululemon seemed to be as strong as ever, and we didn't have to sell our soul as so many other companies did. As we came to the end of 2008, we didn't have to focus our efforts on merely staying alive.

It occurred to me that in past downturns, people had been known to turn to gambling and drugs, but in the new world, people were managing stress with athletic endorphin hits. My theory seemed to be verified as our sales continued to soar.

### ***E-Commerce Revisited and the Lab Concept***

The excess inventory triggered by the Recession drove us to invest in e-commerce, and our platform launched in April 2009. To supplement it, we sent out widespread email blasts to our customer base whenever we had a new product. E-commerce was very successful for us - even with a limited product line available, we were quickly selling inventory almost as fast as we could stock it.

I was always concerned a pure e-commerce play (without the costs of retail stores) could undermine lululemon just as the vertical model I developed was undermining wholesalers. The Board was very keen on e-commerce because they could see it working in other companies for which they were also directors. At the time, if I had to choose between e-commerce or owning our own manufacturing, I would have picked manufacturing. But at that moment, manufacturing would not have helped our excess inventory position created by the financial crisis.

In retrospect, the recession was the best thing that ever happened to lululemon. We stopped growing, got our processes in place and reset our foundation for growth. We had nothing else to do. Even during the recession, our stores made their way up to sales of \$1,000 per square foot in the US while maintaining about \$3,000 per square foot in Canada (the average retailer does about \$650 per square foot).

I had always wanted to recreate the laboratory inside the store like we had in our original Kitsilano location. We had an unused lease in Vancouver, and we had \$1 million dollars in excess fabrics, zippers, and trims. We had an internal “quick turn” pod to turn this excess inventory into cash, but I wanted a fish-bowl in which to test new designers.

We hired new designers and turned them over every three months. We let them loose on samples and excess fabric in the floor space of the new building to create street clothing from technical fabrics. With creative freedom, these new designers brought a great dynamic into the brand in a highly uncertain time.

My experience told me we had to go through 15 designers to find one amazing designer like my wife Shannon, or four or five others like Shannon Savage (another incredible designer). A designer who could consistently create multiple new ideas, four times a year. I knew finding a Shannon Wilson or Shannon Savage-type creative was more valuable to the bottom line than our CEO or CFO.

We would open more labs in New York City’s Soho and eventually another in Vancouver’s Gastown. It was one more innovation that helped get us through very uncertain times and develop local athletic design talent unavailable anywhere else in the world.

### ***Effects of the Recession***

Christine did a fantastic job with real estate deals, resetting our strategies to a fundamental successful formula, investing in e-commerce, and working with the back-end public details and financials. We came out of the Recession with increased cash flow and a massive surplus of money.

On March 9, 2009, lululemon’s share price was hovering just under \$2.25, far less than what it had been just after we’d gone public in 2007. From there, however, our share price began a rise that would continue steadily until 2013.

Analysts at Thomson Reuters were impressed with our performance and the uniqueness of lululemon’s position in the market. “Few Canadian retailers have found this kind of success expanding south of the border,” Reuters said.<sup>5</sup>

Christine hit the ground running and the next two years were golden.

We didn’t have a brand or marketing team because our brand spend was hidden in people development, quality processes, store locations, and anything else “off the cuff” I wanted to do in response to social changes in the world. Everything we did seemed to strengthen the brand.

I kept my desk in the middle of the design area, and we produced our best innovations and products ever. My wife and I hired a dancewear designer named Antonia Iamartino to bring femininity to the functional yoga look. This idea put us four years ahead of anyone even thinking of competing with us.

<sup>5</sup> Reuters Staff, “ANALYSIS-Lululemon Seen Growing in Lucrative Niche Market.” Reuters, November 2, 2010, [www.reuters.com/article/idUSN0116446120101102](http://www.reuters.com/article/idUSN0116446120101102).

From an innovation standpoint, we set the goal to become the best athletic bra manufacturer in the world by 2013. We contracted the University of Manchester to study breast movement. Lululemon produced radio wave bonding seams, laser venting, and cell phone pockets on every garment. I brought silver threads into our garments to kill bacteria and to end stink.

A “home run design” (a design that drives company profits) was the Scuba Hoodie. From my years in the surf, skate, and snowboard business, I knew the hoodie was an iconic garment and my wife Shannon had made a test version of it in 2001. I wanted to make the best hoodie in the world. The absolute beauty of vertical retailing was that it allowed us to make what no one else could afford. With my friend Elky Hon, we developed a super-soft cotton fabric, thicker than any hoodie ever made. When we combined the fabric with a scuba neck and a 2-inch-wide hem at the hood, we had reinvented a classic item. Finally, by inserting the logo on the front seams, we realized that the Scuba Hoodie would account for up to 20 percent of sales at Christmas in 2009. The key innovation that made this garment look perfect after five years of wear – we preshrunk the garment before we inserted the zipper. With this method, the zipper never buckled, even after multiple washings.

### ***The Oprah Effect***

Around that time, we got a call from Oprah Winfrey’s people, in preparation for her “Oprah’s favorite things” episode. Shannon and I flew to Chicago to be in the audience and give out pants. Our share price instantly jumped by \$10. We had 75 stores in the US, but with Oprah’s boost, suddenly millions of Americans heard about lululemon for the first time.

To be honest, I was torn about a celebrity endorsement. I’d become more and more aware of the increasing influence of celebrities on many facets of life. The excitement over what a celebrity was wearing was something I couldn’t understand. It felt as though they were being paid to wear stuff, just like the Nike endorsements. That’s not what we ever wanted to do.

When a celebrity would walk into one of our stores in California, our staff would automatically want to give them clothing for free – a practice I opposed.

Ultimately, we did well in the US because we got back to basics. Instead of opening poorly located stores to push the stock price, we built more studio pop-ups, we developed the local markets, we developed our people, and we focused on education. It took time, but the community was ready for us when we came in, and that was, by far, the most important thing.

We found ourselves in a good position at the end of 2009.

### ***Defining Who I Am***

The great years at lululemon, 2008-2010, were an expansive time for me personally because I got to focus on my love of innovation.

To understand me, you would have to know I am an extremely finicky person. Everything about clothing bothers me. If I could spend the rest of my life in a Speedo, I probably would. Every fibre, seam, fit, and colour on most garments irritates me. I’m annoyed by anything un-functional.

I want my clothing to work for me. I want to know exactly how my body is positioned in any sport and I want a perfect ergonomic design to enhance my ability to perform. Pockets must be an exact length, and at the right angle. I must be able to get at my smartphone in two rings. I need a place for my earbuds. My backpacks must have a pocket for everything, and I must be able to get at my toothbrush, Kindle, laptop, phone, lip balm, cards, sunglasses, computer cords, pens, and vitamins in under three seconds.

I have to have a place for my wet clothing, and I need a backpack with breathability for stinky shoes. I want zippers to open with one hand and to be positioned perfectly. I want venting, so air flows through

the front, under my armpits and escapes out the back. I want manual venting so I can control for sweat and outside weather.

Without my background in athletics, lululemon would never have come to be. When I was a competitive swimmer, the water provided a natural cooling system. After my swimming era ended and I started running or biking or playing squash, my body went into overdrive, and it would take 45 minutes of perspiring to cool down. As someone that exercises three times daily, the very thought of putting on a non-stretch-cotton collared shirt, tie and – god forbid, a jacket – was appalling to me. That is no way to dress or live life. I saw no reason to wear clothing that I associated with an archaic way of dressing. A suit seemed to be a piece of apparel in which to look good while feeling terrible.

The West Coast had no overhangs of the East Coast uniform. Especially in the extreme sports realm.

I am a technical apparel scientist. I observe the body of every person I see in complete detail, and I log, extrapolate, and run algorithms from the information I absorb. I have done this since I was 10 years old. I see a body and correlate gender, age, sport, muscle, fat, height, race, passion, and colour of clothing.

I study bodies down to the molecular level in my desire to make the perfect garment. I want to know exactly what type of body performs best for each sport. I want to know exactly how a short, muscular gymnast operates and wears clothing differently than a wiry marathon runner.

I am passionate about solving for testicular compression when on a bicycle or during extended periods of sitting. I want to understand how different sized chests affect performance in different sports and what is needed for athletic perfection. I want to know which bodies correlate to which fabrics in winter and again in summer. I was meant to do what I do. I love analyzing why each Olympic sport requires radically different clothing to allow the athlete to perform microns better than a competitor.

I live, eat, and breathe apparel technology, and at no time in my life could I do this with more freedom than the years immediately following the Great Recession.

My mind always seems to be in the future. I have a difficult time articulating a fuzzy futuristic idea in the present with no firm data beyond gut belief.

I had to marry into humour, and my wife always makes me laugh. I have a poster near my desk that said, "If I could remember your name, I would ask you where I left my keys."

## ***The Olympics***

One highlight of our great years was the 2010 Olympic Games, which took place in Vancouver. Seven years earlier, our city had been named to host the event. This was a great guerrilla marketing opportunity for lululemon, and I knew that we could make the most of it by unleashing the creative brain of Eric Petersen.

Like me, Eric had a very unorthodox and irreverent approach to marketing (exemplified by the Times Square yoga demonstration). I told him I had questionable respect for the International Olympic Committee. I saw the IOC as an organization that had created a great athletic event, but that contradicted what they stood for with the acceptance of sponsorship money from corporations like Coca-Cola and McDonald's.

John Furlong, a long-time member of the Canadian Olympic Committee, was made the CEO of Vancouver's Organizing Committee (VANOC), which was set up shortly after the city won the bid. John is one of my heroes. I have never seen a person inspire a country and an organization to do so much with so little. If John calls me up at any time, I am at his service.

I ran into John in 2004 and told him that lululemon was going to put in a bid to provide clothing for the Canadian athletes.

I absolutely did not want to win the bid to sponsor the Canadian team. Sponsorship deals usually come with a lot of IOC regulations that restrict creative freedom. My goal was to inform everyone that

lululemon was going to pay top dollar to guarantee our sponsorship as a ploy to motivate Roots to pay an exaggerated premium. This money would help VANOC stage a successful Games, and that success would ultimately benefit the City of Vancouver for years to come.

For 30 years, Roots Athletics had outfitted Canadian Olympic athletes, but creating high-performance technical clothing was way outside their wheelhouse. It just wasn't their core business, but they'd had a monopoly on providing clothing for our Olympians because no one else thought to compete for the rights. I figured that if lululemon put in a bid of \$2 million, Roots would have to put in a higher bid to be an official clothing sponsor.

We put in our bid, but then the Hudson's Bay Company stepped in with an offer of their own...\$100 million. This was both to outfit the Canadian athletes and become an official sponsor for three Olympic Games. Their exorbitant bid was one of the dumbest business decisions I'd ever seen. Just like all sponsorship I had experienced, I believed Canadian athletes would end up with mediocre quality apparel and would have to pretend they liked it.

Laws were introduced to protect the Olympics' paying sponsors and give them special legal protection. Embargos were put on words like Vancouver, 2010, Olympics, Games, winter, gold, silver, bronze, sponsor, Whistler, and medals. The legislation making this special protection legal was supposedly intended to address "ambush marketing" (by which they meant attempts by businesses to associate themselves with the Olympics without becoming official sponsors).

We planned to navigate around the IOC rules and make fun of their seriousness. In December 2009, just two months before the opening ceremonies, lululemon avoided all embargoed words and called the apparel "*Global Sporting Event That Takes Place in British Columbia Between 2009 and 2011 Edition*."

We put the slogan on labels inside of a line of hooded sweatshirts, toques, and T-shirts, which came in combinations of colours representing Canada, the US, Germany, Norway, and Sweden, which were the countries we expected to have the most visitors at the Winter Games. We also included gold zippers on the Canadian hoodies.

VANOC couldn't ignore what we were doing because they had a legal obligation to protect the IOC sponsors, so they sent us some threatening letters. Despite the letters, VANOC couldn't do anything since we'd been so careful and smart about our wording. Their only real option was to express public disappointment in us.

Bill Cooper, Director of VANOC's digital rights management, accused us of bad sportsmanship.<sup>6</sup> Cooper also plugged the "real" merchandise being sold by the Bay.<sup>7</sup>

That didn't matter to us. The uproar caused a lot of media attention, which was basically free advertising for lululemon. Break-even, innovative, controversial marketing won the day once again, and I couldn't have been happier.

## **Vertical Victory**

There had been no template for a vertical technical product, nor a how-to manual for lululemon's business model. We were winning because we were inventing daily. We leapfrogged the East Coast "lifestyle retail industry" because we reinvented on top of reinvention.

Each day I walked into the office and asked myself, "If I had to compete against lululemon, what would I do?" This allowed me to dismantle and put back together what was working today for what would be best for the future. I was fanatical about building a moat around our success. However, getting rid of processes or products that were working at the moment but were taking resources away from a bigger

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<sup>6</sup> The Canadian Press, "Lululemon scolded for linking clothing line to Olympics," CBC, December 16, 2009, [www.cbc.ca/news/lululemon-scolded-for-linking-clothing-line-to-olympics-1.843999](http://www.cbc.ca/news/lululemon-scolded-for-linking-clothing-line-to-olympics-1.843999).

<sup>7</sup> *Ibid.*

and better future, was becoming more difficult. Management's short-term bonus plans put roadblocks into any change that would affect metrics of the one-year plan.

We were also open and undefended about our weaknesses, and we coached each other whenever we found ourselves complaining or out of integrity. We enjoyed feedback because we wanted each other to succeed. This wasn't just internal – this was the culture we brought to our customers, which they then brought to their families and to the community. Through our Ambassadors and community-building formula, we could see consistent proof of how we were elevating the world from mediocrity to greatness.

Lululemon was firing on all cylinders.

### ***The Founder and the CEO***

From 2008 to 2010, Christine and I worked very well together. It was like a great marriage where each partner appreciates the other's differences, synergy exists, and everyone wins. Christine was a pure operator who knew exactly what to put in place to handle our high growth and multiple store openings. I was the brand builder, strategist, product innovator, and cultural founder. I knew where the market was going, and Christine knew how to build a solid chassis to get us there.

The financial crisis ended quickly. It ended even faster for lululemon because our business suffered minimally. We'd maintained our status as a cash cow, and we kept to my mandate of no debt and lots of money in the bank. I wanted lots of money in the bank because I knew opportunities would present themselves, and with that money, we could move fast and stay ahead of future competition.

We continued the same incredible sales and profit numbers we had done since inception. We just had to keep doing more of what we were doing and hone our expertise. We were coming to the end of 2010 with no visible competition.

Our stock had climbed dramatically and our shares split. We were all living a utopian life. The Super Girl managers were driving the company. They cared, they had integrity, they were smart and responsible, and every decision they made was for the long game.

At this point I stopped attending the quarterly analyst calls. Within the definition of integrity, I felt that lululemon should be open and undefended on these calls, which we were not. We would only take soft questions from the analysts and anyone with a tough question was ignored. If we could be open and undefended, then there wouldn't be any tough questions because there was nothing to hide. My authenticity didn't mean providing the competition with any undue information, but rather that if we told them our worst, then they would believe our best when we said it.

Lawyers and litigation dominated these conversations, and I believed I could do more for the company by working on the company than I could in attending these calls.

In hindsight, it was a mistake for me to have stopped attending the calls. As time went on, the analysts created a relationship with Christine that poured accolades on her that she had never received before and this seemed to change her perception of herself. The level 5 leader we expected, as defined in the book *Good To Great* as one who acknowledges her management as the reason for success instead of herself, seemed to be fading.

## CHAPTER 24

# THE FOUNDER AND THE CEO, REVISITED

### *Missed Opportunities*

Although we finished 2010 in a position of strength, success, and with “best in the world” business practices, the next seven years would be a time of significant change for lululemon. Sadly, this change would include many missed opportunities.

Much of this is the cautionary tale of how “not firing” a manipulative employee quickly led to Directors acting in ways they would not have otherwise. To provide context, the following includes highlights from a paper called “Where Boards Fall Short,” written by Dominic Barton and Mark Wiseman for *Harvard Business Review*. The reader is encouraged to read the entire paper.

“Boards aren’t working,” Barton and Wiseman tell us.<sup>1</sup> “It’s been more than a decade since the first wave of post-Enron regulatory reforms, and despite a host of guidelines from independent watchdogs such as the International Corporate Governance Network, most boards aren’t delivering on their core mission: providing strong oversight and strategic support for management’s efforts to create long-term value.”<sup>2</sup>

According to Barton and Wiseman, of some 700 directors surveyed, only a small percentage (34 percent) of directors understand their companies’ strategies; an even smaller percentage understand how their companies create value (22 percent).<sup>3</sup> With these shocking figures in mind, how can boards better serve the companies they lead? The answer, as Barton and Wiseman put it, isn’t “good-governance box checking” – something I would see on lululemon’s own Board in the years to come.<sup>4</sup>

Barton and Wiseman suggest that it is crucial for everyone in a company to understand what a director’s duty is. Legally, that duty consists of “loyalty (putting the company’s interests ahead of your own) and prudence (applying proper care, skill, and diligence to business decisions).”<sup>5</sup> A director, committed to his or her duty, does not prioritize short-term financial gain above all else. Rather, the dutiful director should, if necessary, push management to bet on a “credible corporate strategy that will take years to

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1 Dominic Barton and Mark Wiseman, “Where Boards Fall Short,” *Harvard Business Review*, December 19, 2014, [hbr.org/2015/01/where-boards-fall-short](http://hbr.org/2015/01/where-boards-fall-short)

2 *Ibid.*

3 *Ibid.*

4 *Ibid.*

5 *Ibid.*

bear fruit.”<sup>6</sup>

Another key shortfall Barton and Wiseman observe is that public boards don’t do enough to attract the right expertise. “If you truly get the importance of thinking and acting long-term, you’ll do whatever it takes to attract [expertise].”<sup>7</sup> Here was another weakness I would see – the lululemon Board of Directors had no interest in finding the right people...or, more critically, fulfilling on their number one job of planning for CEO succession.

The plan for lululemon should have been for our Board to attract directors with deep, relevant experience, who were able to think long term. Unfortunately, this was not the case. It is important to state that I am responsible as I allowed the Board to be set up and developed as it was. As with the law of attraction, “short-term directors will attract other short-term thinking directors and short-term driven CEOs.” To add to the law of attraction, “directors who lie to employees and shareholders will attract new directors who lie and will hire CEOs who lie”. A Director will subconsciously surround themselves with those who support their ego and survival.

### ***Moving my Desk***

In late 2010, Christine Day hired Sherri Waterson as the head of product. I liked Sherri, but she approached design primarily from a fashion viewpoint. I thought maybe she just needed time to prove herself.

In addition to hiring Sherri, Christine also hired consulting companies to look at the way we designed and brought a product to market. These consultants had never seen a technical vertical retailer, and by bringing them in, we essentially paid \$2 million to educate *them* on our business. The consultants recommended we adhere to “best in practice” operations set out by wholesale companies. I never understood the point of this contract, but I do know that it slowly started to unravel our “best in the world” business practices.

These same consultants soon came out with an “expert paper” telling the world how vertical retailing worked. It was disheartening to me that we had shared our secrets of success with a group of consultants who would go on to invoice our competitors to teach them the lululemon business model. I considered myself the ultimate consultant, but our directors believed better processes, information, and validation were possible from East Coast apparel consultants who were experts in fashion wholesaling. Now I am going to be blunt. Christine and the board should not have hired consultants to help them understand what they themselves could not grasp. Their unwillingness to simply have ask management why lululemon worked so well was beneath them. Perhaps Christine was looking for an outside consultant to help her tell the board that lululemon-trained people needed to be replaced with people who would not challenge her.

Our most important Operating Principle had always been “The store Educator is the most important person in the company.” They deliver the technology and brand to the Guest. After the Educators, it was the managers, then the CEO, followed by the Board, and the shareholders. As the founder, I was at the bottom of that list. If a company wants to deliver amazing value to the shareholder, I believe they must elevate the very people who drive the profits – in our case, the Educators.

One day, a strange thing happened. The Board asked me to move my desk out of the design area. They explained this was so Christine could manage and be responsible for results without the messiness of dual direction and interference from me.

I agreed that this was the best next step. I did not want to be the excuse used to explain why man-

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<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid.*



agement did not hit their numbers or collect their bonuses. I said I needed six months to find the right person to head innovation – someone as finicky about apparel as I was, who had the same love of small technical details with a background in technical outerwear. Six months was not soon enough for Christine, so I acquiesced when I should have started fighting in the corners. I was an idiot for letting this happen.

In retrospect, moving my desk out of the design area was a huge mistake. Without me or an appropriate replacement, lululemon product innovation slowed to a crawl.

### **The Harvard Business Case**

Around that same time, Christine had asked me if Harvard Business School could come in and do a case study on lululemon. She told me they wanted to document lululemon's history. Since we'd never had the time to do so, it seemed like a win-win, and I agreed. Frankly, I had no idea what a case study was, nor did I ask enough questions up front. Again, my genetic makeup of trusting people would bite me yet again.

Harvard professors looked at our stores, our past performance, and our history. I took them up the Grouse Grind and answered interview questions about the transition between Bob Meers and Christine Day. That was the extent of my part, and after it was done, I didn't give it much thought.

The business case was published in December 2010 as a series of 20 or so videos, each maybe three or four minutes long, designed to be presented in business school classes.

My heart sank when I looked at the published business case. The videos gave away 50 percent of our unique culture and business practices, our successful formula, and our Operating Principles.

Further, the videos were done in the context of Christine arriving at the company in 2008, at the worst of the Recession, and fixing everything. Christine was quoted as saying: "The whole organization slowed down . . . because people weren't aligned."<sup>8</sup>

This wasn't a fair or accurate depiction, and it fully ignored the successes we'd experienced *despite* the Recession. In reality, the financial crisis was a positive. It gave us the opportunity to slow our growth, get our feet under us, and create a solid foundation.

Once the foundation was in place, all we needed to do was open more stores while sticking to our successful formula. Any good operator could do this or I as I sometimes said "a refrigerator could have run lululemon with the foundation we had set in place." The whole case study seemed like a brand-building exercise for Christine herself - one that could've arguably cost lululemon billions of dollars as our successful formula was handed to the competition.

I wondered how I could have been so short-sighted as not to ensure that I got the final say on the history of lululemon. He who wins the war writes the truth, but the truth that Harvard got was wrong.

I went to Harvard to present my issues with the case study, and they were receptive to my concerns. They were embarrassed by the inaccuracies, so they let me record two additional videos to set the record straight (having said that, I saw the case study presented in Vancouver in 2016, and the new videos had not been included).

The people at Harvard explained that they'd needed a senior executive at lululemon to sign off on the case study, and Christine had been the person who'd signed off.

### **Trimming Expenses, Raising Prices**

Christine was adding value to lululemon's stock by trimming expenses and testing the upper limits

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<sup>8</sup> Michael Tushman, Ruth Page, and Tom Ryder, "Leadership, Culture, and Transition at Lululemon, Multimedia Case." Harvard Business Review, <https://store.hbr.org/product/leadership-culture-and-transition-at-lululemon-multimedia-case/114HBD>.

of what we could charge for our product. I believed this created “bad profit.” The company priority was shifting to focus on quarterly expectations set by the public stock analysts.

For the first time, I wasn’t entirely sure Christine and I were pulling in the same direction. It seemed we were cutting costs and increasing prices for the wrong reasons.

As a long-term shareholder, I believed all we had to do to keep our “first in market” advantage was to continually increase quality and keep prices low enough to make it uneconomical for competitors. Our vertical model was unbeatable. If we continued with our strategy, we would eventually end up with more than 50 percent of the technical apparel market share and 10 percent of the future \$1 trillion streetnic market.

We would become a mediocre company only if our quality failed or if we increased prices too much. If we increased prices, competitors would enter the market, take market share, and we would make less money.

Advent had sold down their position and needed to tend to other investments. In their parting words, Advent implored lululemon to pursue international expansion as soon as possible. They said we needed to be first in market with our global product. We had invented the break-even showroom/pop-up concept, and we could softly enter Europe and Asia on a break-even basis. We made so much money in North America that we could afford to slowly and authentically build our brand elsewhere. This would have meant an investment now for future growth with no projected return for at least five years. However, the rest of the Board did not agree as David’s parting words were not good for short-term financial reporting.

### **Gap Athleta, Nike, and Under Armour**

In 2010, we owned streetnic (*athleisure*), even with other brands circling in on what we were doing. The Gap was floundering, but it made a great move by buying the infant online competitor Athleta in 2008 for \$150 million and adding brick and mortar stores to build out the Athleta brand.

Athleta didn’t concern me as I saw them as a Microsoft (compared to our Apple) when it came to design. Lululemon and Apple had that undeniable, unquantifiable cool factor in their designs, technology, product and branding.

I didn’t mind having Athleta in the market. The Gap was a merchandiser-led business where decisions were made based on past spreadsheet numbers rather than instant customer feedback. I knew spreadsheets and algorithms would show two big openings in the market. The older and plus sized markets had been underserved, and Athleta took this position. I knew their consumers were not iconic brand drivers, and in my opinion, Athleta would never be a market leader.

In general, I observed that older people preferred looser clothing and as age sometimes dictates, were typically larger in size than younger people. This meant a 30 to 40 percent increase in fabric with far less profit than lululemon.

There were also wholesalers Nike and Under Armour to consider. As of 2010, Nike was a footwear company trying to understand apparel, and Under Armour was still making garments with big logos for impressionable teenage boys and insecure men. I knew wholesalers would be very good competitors if they could use their model to produce huge volume and low margin (think of the McDonald’s hamburger model). Huge volumes meant they could take away production space from lululemon’s fabric and mill suppliers.

For a brief period, I even considered buying Under Armour.

For a few years after our IPO, lululemon was worth about twice as much as Under Armour, maybe even three times as much. About 85 percent of our sales went to a female market. Under Armour, meanwhile, was almost all male and did not appeal to the female market. Had we been able to take the Under Armour male brand and market it through the lululemon business philosophy, the result could have been

a formidable opponent to Nike.

However, after a meeting with Under Armour CEO Kevin Plank in 2008, I couldn't see Kevin's macho philosophy working with that of the Super Girls. Lululemon stood for soft, rounded edges. We stood for yoga, mindfulness, and for everybody winning. Under Armour, I thought, had an in-your-face image of winning at all costs, male chauvinism, and leaving everybody else in the dust. With those things in mind, I did not pursue the idea of a merger.

In any case, I didn't see Nike or Under Armour as a major concern for the moment as the expense of developing and running apparel retail stores was not in our competitors' area of expertise.

As 2010 ended, I was thinking more about traditional media advertising than ever before – just because we hadn't advertised in the past didn't mean we shouldn't do so in the future, especially with the changing horizon. Lululemon was still an *underground* brand, known mainly to its customers and employees (and competitors), but not as well-known to the rest of the world.

If Nike used its worldwide network, it would appear to Asians or Europeans that Nike was first in the women's market. I thought lululemon needed to build 300 to 400 small breakeven community pop-up stores around the world and/or start buying traditional media advertising to inexpensively put our stake in the ground and flex our global e-commerce muscle. We had perfected the pop-up model - all we had to do was put it into action.

### ***Anna Wintour and Jacques Levy***

Around that time, Shannon and I had a meeting with Anna Wintour from Vogue Magazine at her New York Conde Nast office. We were introduced by one of our Directors, Brad Martin, the former CEO of Saks. We tried to paint a picture for her of how West Coast technical athletic apparel was starting to dominate fashion.

To provide a couture-related context, I asked Anna to imagine a future where wedding dresses would be made with stretch fabrics and have silver threads for anti-microbial stink control and mesh venting for breathability.

More and more, people were demanding the comfort and functionality of athletic wear in everything they wore, but the NY fashion scene hadn't yet caught on to this paradigm shift. The fashion scene had always had a very cyclical relationship with itself – the same designers were covered by the same journalists with the same advertisers, year after year. The fashion media couldn't make any money off lululemon because we were delivering runway styles to the consumer faster than NY and Paris couture designers. We were a threat to their existence.

For the last 12 years, I'd purposely pushed the fashion conversation out of the lululemon dialogue. This wasn't difficult, as NY media didn't believe west coast athletic apparel fell into their definition of "fashion". To the NY media, athletic apparel was something you wore when not being fashionable. If athletic clothing was mentioned, it was only in the form of lip service like telling someone their baby was cute. Consequently "streetnic" or "Athleisure" was a mystery to fashion experts.

During our meeting, Anna rightly stated that the mass consumer knew nothing about lululemon and that our success existed only in our own mind.

We needed to advertise in a big, big way, Anna told me. People needed to know about lululemon before multiple competitors could water down the idea that lululemon had invented a movement – before they could make us just one of many. I'd seen this exact same thing happen in the surf, skate, and snowboard industry, when the market became oversaturated. I wanted lululemon to be known as the inventor of the streetnic business, and I wanted us to be recognized globally. I knew if we were the first athletic company to advertise in old-school media, we would attract thousands of unpaid editorials, resulting in exponential future sales. This was an area of massive opportunity and I was super excited to get to work.

There was a little part of me that wondered if Anna was just trying to sell advertising space in *Vogue*, but I had no problem agreeing with her premise, and I couldn't deny the point she'd made.

Then, in early 2011, a man named Jacques Levy joined our Board of Directors. Jacques had served as CEO of Sephora and had 25 years' experience in the high-end retail industry. Unfortunately, Jacques would not be with us long – he lost a battle with cancer less than a year after he joined our Board – but in the time we had him, he repeated what I'd heard from Anna: lululemon needed to advertise and bring our message to the masses.

As I mentioned earlier in the book, a personal mandate of mine holds that when I hear something three times, I must do it – almost as though hearing something three times were a sign. Hearing about big advertising first from Anna, then from Jacques, then more and more from my own subconscious as I considered the changing market, prompted me to act. I approached our CEO and Board of Directors and told them the authentic community way our brand was built had worked for a long time, but we now had to double down. We needed to continue our community branding, but also advertise in a big way. The rest of the world needed to know who we were as competitors were now discovering that what we were doing was taking their market share. We needed to invest now so we could own the future.

### ***The Fearful Boardie***

Grassroots networking and word-of-mouth promotion had worked for lululemon for 10 years. Not only had it worked, but it had also contributed to the company's unprecedented success. Lululemon's marketing costs were 2 percent of sales compared to wholesale companies' marketing costs of 10 percent. But I couldn't convince the Board to spend money for the future. This was weird because neither the Board nor our CEO really understood how or why our brand strategy worked in the first place.

I could not prove advertising would work and this was frustrating. I had always done well at knowing the right time to venture into something new for the future of the company.

Lululemon had a strong Board and CEO. It was the perfect combination as far as share ownership and distribution went. I owned 30 percent and \$2 billion of the stock. My 30 percent represented the company's voice for brand, vision, and innovation on the Board. The other Board members represented audit, compensation, governance, and in Christine's position, operations.

Michael Casey, the lead independent director, delivered the message: If I couldn't prove the unknown future, then my advertising idea had zero validity.

I sensed something was amiss. I knew lululemon had a financial wizard in Michael Casey as the lead independent director. I also knew he felt his job was to secure the money lululemon had in the bank, whereas I wanted to use the free cash to make money for our shareholders. I was okay with Michael being fearful and cautious, as that's what the company needed to balance out the Board's diversity. But I wondered if the Board was truly diverse.

It occurred to me that the combination of a security-driven lead director and a CEO-operator was not synergistic for the company. I believe the decision to *not* step up advertising cost lululemon \$5 billion in future market value from 2010 to 2015.

### ***Who is John Galt?***

*"A company is stronger if bound by love and integrity rather than fear and lies." – Chip Wilson*

If the Lululemon board declined to invest in big advertising, that didn't mean we couldn't leverage our best branding asset internally. We would ask the world one compelling question: "Who is John Galt?"

John Galt was an idea I raised at a creative brand meeting with 12 people and our CEO, Christine Day, in early 2011. The focus of the meeting was to up the ante on lululemon's shopping bags. The bags had successfully displayed our Manifesto for many years, but perhaps the time had come to think of something new.

I'd read Ayn Rand's *Atlas Shrugged* when I was 19 and working on the pipeline, but I'd also reread it when I was 50. As I reread the book all those years later, I recognized how much influence the book had had on my life. I'd absorbed the characters' uncompromising quest to make a quality product, their love for their employees, their passion, and their refusal to make money off the backs of other people. I was fascinated by the convergence of both self-interest and providing for the world.

Not long before this creative meeting, Christine and I had done a joint on-stage interview. We laughed during the interview because we both said the one person we would want to have dinner with was the author Ayn Rand.

At the meeting in 2011, I mentioned that *Atlas Shrugged* had been an important book for me in laying the foundations of lululemon's culture. I thought this book represented the perfect Super Girl philosophy.

I proposed we allude to *Atlas's* influence on our iconic bags. I loved subtle branding. Only highly-educated, well-read people like our Super Girls would understand if we put "Who is John Galt?" on the side of our bags. This was the kind of marketing no other company would think of doing. The brand team agreed.

A 1991 poll by the Library of Congress and Book of the Month Club found that *Atlas Shrugged* was the second most influential book after the Bible. Another poll conducted in 2007 found that 8.1 percent of adult Americans had read it, but almost none of the young women who worked for us had read the 1957 novel, let alone heard of it. This was surprising to me because if there was anywhere a woman could look for inspiration to be great in business, it was in protagonist Dagny Taggart.

Christine loved the idea of putting the John Galt question on our bags. A few months later, the new bags came into circulation in all of our stores. I thought of this as both a branding strategy and a way to start a philosophical conversation. It would also help us solidify the people who "got it" as our core customers.

To supplement the bag's release, we added this explanation to our community blog: "Many of us choose mediocrity without even realizing it. Why do we do this? Because our society encourages mediocrity. It is easier to be mediocre than to be great. Our bags are visual reminders for ourselves to live a life we love and conquer the epidemic of mediocrity. We all have a John Galt inside of us, cheering us on."

Although I loved Rand's work, I was not aware of just how politically divisive she was in the United States. With the 2012 US election on the horizon, right-wing political factions were using *Atlas Shrugged* as a touchstone. This gave the left wing (who I am sure had not read it) all the more reason to hate the book, as well as the rest of Rand's work. Many pointed out there was an incongruity between a brand influenced by yoga and Rand's objectivism.

But I didn't see it that way. Lululemon's philosophy is about building people up, influencing everyone around you to be great, and elevating the world. *Atlas's* Dagny Taggart is a driven, professional female in her 30s – someone in whom lululemon's ideal customer might see herself reflected.

I also noticed that the loudest complaints seemed to come from people who were not striving for greatness or fighting to do something extraordinary. These people were the antithesis of our iconic customer and I knew it did our brand a disservice to have mediocre people buying our product.

To build a brand, our CEO and directors needed to understand that strong resistance to social media from non-customers outside our "tribe" actually helps build real brand value. Core customers don't want to be lumped in with the loud naysayers, and their loyalty only increases as a result.

Meanwhile, the media had a wide swath of analyses of the bag. The *Globe & Mail* acknowledged the "lively conversation" the bag had stirred up, while *Slate* and *Forbes* pointed out Ayn Rand's status as a

Tea Party heroine.<sup>9</sup>

Overall, I was happy with the chatter, but this was also the beginning of social media. Suddenly, anyone with a computer was an expert on any given subject. Endless political debate aside, we were doing something right. We'd sparked a conversation, and we were marketing our brand in our own unique way.

Many of our directors did not want to understand our unique branding as it was the opposite to what was taught in business schools. Our branding emanated through my experience in the surf, skate, and snowboard industry where brands were created by being anti-establishment. This created a "tribe" who then created a social movement that others wanted to emulate (no different than the aspirational jet-setting advertising we see promoted by luxury brands). These are the subtleties of how word-of-mouth branding works, as described in the book *The Tipping Point*<sup>10</sup>.

Christine's reaction to this was nothing but weird.

But in the Board meeting, Christine told the directors that she had never seen the shopping bags, nor had she given approval. The notion that Christine didn't know was baffling. I had to take time to check in with myself to ensure I had not made up a story in my own mind.

I thought it best to talk to the brand team to make sure I wasn't going crazy. When I brought up Christine's lie in a separate meeting with Lead Director Michael Casey, I could sense he didn't believe me.

My integrity took a hit, and the John Galt bags were removed from the stores.

In my opinion, that recall was damaging to our brand because our Super Girls could sense misalignment in our stand for greatness. The people from the creative meeting wondered why I didn't stand up for them and why Christine had thrown us all under the bus. I couldn't explain myself.

Christine stood firm in her story and received accolades for managing a stable company with a wild-card founder. It seemed the love of a rising stock value compelled the Board to err on the side of caution. Over the next several months, she would go on to tell the media the same story she'd told the Board. She maintained that she had no oversight or agreement on the production of the shopping bags.

The culture at lululemon changed immediately. The company culture shifted to one where people wanted nothing more than to look good, protect their own interests, and embrace mediocrity. It seemed Christine had ensured that our employees had no direct access to the directors, and the directors seemed determined not to interfere or examine such things under the guise of good governance. I was speaking for the employees at the board level, but sensed I had lost influence. The culture of integrity was taking a hit at the highest level.

As you read onwards in the book, you will begin to see a series of disasters that occurred one after the other. Taken as a whole, one would think I attracted the missteps and deserve what I got. To them, I say, fair enough. I also think not firing Christine the first minute I knew she wasn't the right fit created a seemingly never ending domino effect.

<sup>9</sup> Simon Houpt, "Lululemon's Ayn Rand Bag Irks Some (Others Shrugged)," *The Globe and Mail*, November 15, 2018, updated, May 8, 2018, [www.theglobeandmail.com/report-on-business/industry-news/marketing/lululemons-ayn-rand-bag-irks-some-others-shrugged/article4200710/](http://www.theglobeandmail.com/report-on-business/industry-news/marketing/lululemons-ayn-rand-bag-irks-some-others-shrugged/article4200710/); Molly Worthen, "Who Is John Galt and Why Is He on Lululemon Bags?" *Slate*, November 18, 2011, [http://www.slate.com/articles/double\\_x/doublex/2011/11/ayn\\_rand\\_groupies\\_yoga\\_enthusiasts\\_and\\_the\\_american\\_genius\\_for\\_self\\_absorption.html](http://www.slate.com/articles/double_x/doublex/2011/11/ayn_rand_groupies_yoga_enthusiasts_and_the_american_genius_for_self_absorption.html); Todd Essig, "Occupy Your Yoga Pants: Lululemon's Toxic Mix of Commerce and Ideology," *Forbes*, November 21, 2011, <https://www.forbes.com/sites/toddesig/2011/11/21/occupy-your-yoga-pants-lululemons-toxic-mix-of-commerce-and-ideology/#611893935848>.

<sup>10</sup> Malcolm Gladwell, *The Tipping Point* (2000)

## CHAPTER 25

# FRICION WITH THE BOARD

### *The Manufacturing Moat*

By 2011, the growth of the streetnic market was picking up speed. I knew we were at the start of an exponential change in the way the world would dress. As we looked again at our competitors, I knew we needed to think strategically beyond simply big advertising.

In lululemon's early days, we'd owned 50 percent of our main apparel factory (Charter Link, run by my good friends Frankie and Elky Hon). From a vertical retail perspective, we could change production to meet immediate needs and style changes. It was good for the factories, too – we stored fabric inventory on the factory premises and worked at full capacity, so we all made a lot of money.

The Hons were creative, smart, and very diligent. When I negotiated pricing with them, we would look at the market together and determine at what price we needed to sell our product to maximize the volume while still making the best margin.

Further, and maybe most importantly, lululemon's 50 percent ownership of Charter Link essentially cut out any of our competitors from using the factory. If they did use the factory, we made money.

But in 2011, with the changing landscape and competitors rearing their heads, I thought I might try to revisit manufacturing as a strategic asset.

I knew Taiwan had the three largest technical fabric mills in the world. They could make the fabric lululemon needed. Of these three, Eclat Textile out of Taiwan was the most innovative and our best supplier. Eclat also happened to be a manufacturer and was a publicly traded company.

In 2011, lululemon had almost a billion dollars in profit sitting in the bank with no plan for its use. It seemed clear lululemon could buy enough shares in Eclat to become a 50 percent owner. If that worked well, we could also partner with the other two big mills. We could dig a huge new moat around the production of technical fabric.

Unfortunately, my idea fell flat with the Board. Billion-dollar investments in factories and mills were not our core business. Besides, they said, they'd seen nothing as of yet to indicate any serious competition from other brands.

I was frustrated with my own inability to describe to people how competition in the surf, skate, and snowboard industry had undermined Westbeach's ability to protect our margins and business model. I thought smart, successful directors understood lululemon made its money from being vertical. I felt the

world was catching up and on the verge of passing us by.

Well then, if building a moat around our manufacturing wasn't an option, what about diversifying our product line? There was a wide range of products coming out of lululemon's rising competition. For example, Nike produced apparel and shoes, and that was the direction in which Under Armour had gone as well.

For a time, I'd considered entering the footwear market to supplement our own product line. But, lululemon had grown so quickly that all our efforts were directed at keeping up with the production of our core products.

The best time to diversify, I thought, was two years before yoga apparel became widespread, when there was still a little breathing room. We were not quite at that point in 2011 but would be soon. The worst thing a company can do is to start planning when the need is already there – a company must invest prior to demand.

I also had reservations about footwear. Running shoes had an odour – rubber, plastic, glue, and leather – that evoked old-school, male-centric sporting goods stores. The shoe smell made me picture industrial light fixtures and dirty sports stores' change rooms that only men found acceptable. This was the opposite of the beautiful design and atmosphere of our lululemon stores, which we'd designed specifically to welcome and appeal to female Guests.

Chemical odour aside, Nike had always done a hell of a job designing and producing footwear and had eradicated the toxic glue smell in shoes. For lululemon to compete in the shoe market, we would have to develop new technology and get ahead of Nike in what they did best. It seemed like a broad, uncertain gamble when most of lululemon's efforts were directed at keeping up with its own production. Shoes also had the opposite store layout of apparel. Shoes have 30 percent of the retail store up front, and 70 percent in the back for warehousing whereas apparel is the reverse.

My theory was to own the entire athletic market of yoga. I believed if we were the best in the world at this, then the customer would give us the right to venture into other areas. Because the Vancouver yogi was also a 10k runner, running apparel was a natural fit.

In 2008, the only female running short was something our design team called the Nike diaper short. This short met the Midwest sensibilities of Americans, but it wasn't attractive. I wanted to create running shorts with a waistband that mimicked my wife's yoga pant design, so I shared my vision with one of the best designers I knew, Shannon Savage. Shannon created an iconic style. The only additions I made were the bar tacks along the back venting, so we could create an industrial trademark to own the look forever.

There was also outerwear, including winter jackets and other seasonally specific apparel, for lululemon to consider. From my days of making outerwear with Westbeach, I considered myself an expert in the field. I knew our business model was perfect for mountain survival apparel. But I didn't like where global warming was heading, and it seemed outerwear was always on discount. I hated discounting.

Global climate change meant one coast was too hot and one was too cold well into December. If the heavily populated East Coast was warm, 30 to 40 percent of seasonal inventory would be unsellable. I decided lululemon was to be the best in the world at *mid-layer* clothing that could sell from fall to late spring.

What I called *Après Yoga*, or clothing to get to and from a sweaty endeavour, was a big gap in the market that we could own. Instead of diversifying our line into footwear or outerwear, I strongly felt our focus needed to be on continued design and innovation of our core products.

Unless we redefined lululemon as something other than a yoga company.

### ***Crests and Descents***

Through my years as an entrepreneur, especially through the different sports of the surf, skate, and snowboard apparel industry, I'd seen a tendency of crests and descents. Westbeach, like many business-



es, had always crested and descended, crested and descended, repeatedly, like a wave pattern, with no real change. The question now was how much this applied to lululemon. Were we stuck in this pattern as well? How could I change the context before yoga crested?

Evolution is crucial to a company's success. Enhancing and evolving the brand by *being* the future, because riding into the commodity market with hundreds of competitors is my definition of failure. It can even lead to eventual bankruptcy or buyout.

I loved the business model of the workout studio where I took my first yoga class. Ron Zalko wasn't one to sit on his butt. He was always evolving, and he was the first with every new fitness trend in Vancouver. He said you shouldn't be stuck in your ways just because they work.

When you're moving forward *ahead* of a trend, you can become the coolest gym in town, keep your customers, and charge a higher premium. The coolest, most athletic people want to be in the future right now.

A renewed, refreshed customer response drives your product for the rest of the world.

This made me wonder how lululemon could evolve. My recurring strategy was to take myself out of the competition altogether. I hated how the commodity market revolved around low-paid, uninvolved employees. I knew it didn't fit into our business model. Commodity is a boring business that requires uncreative bureaucrats to run it.

I believed in yoga the same way I believe in swimming or cycling. It would never go away, but it would become mainstream, and not be a future brand-driver. We'd originally succeeded not just by making apparel, but by creating new meaning and new futures for people, Guests, and Educators alike. We gave people something they hadn't had before. Now lots of other companies were trying to get in on that.

Perhaps lululemon could evolve by creating a whole new meaning for people. I needed to determine what that meaning might be. I found the answer by looking at my life as a swimmer, the lululemon Manifesto, my dad's mantras, and lululemon's roots in yoga.

### ***Taking Mindfulness to the Board***

My own experiences with mindfulness had begun with my athletic background, specifically the times when I felt the runner's high – that endorphin rush that comes from a combination of intense physical activity and being mentally attuned to the present moment.

I'd thought more about mindfulness as a business in 2009. At that time, lululemon was moving like a rocket ship and was keeping me very, very busy. On top of that, I had three young sons, plus two sons in their late teens, and a working wife – all the responsibilities of a modern family. For my own health and wellbeing, I was trying to work out two or three hours a day. Smartphones were just coming to the market and connection to work had become.

I found the only time I had to shut down – to become mindful of nothing more than the present moment – was whenever I was peeing. I'd go into the bathroom, pee, close my eyes, and try to find a mental black dot. Then I'd float through that black dot for almost 60 seconds and be in nothing. I'd come out of the bathroom thinking how perfect I felt. I understood that my brain worked the same as an errant phone or hard drive and that all I had to do was turn it off and then back on again to realign information and make it run faster and more efficiently.

With millennials in particular, I saw the value that mindfulness might add to their lives. Millennials could not see the water in which they were swimming. They never had the context of "no digital" in their lives. Millennials held it as a source of pride that they could multitask, but I felt this was false. As the lululemon Manifesto says, "The mind can only hold one thought at a time." Without the right tools to keep them grounded, I knew millennials would push themselves off the edge.

In 2011, I wondered if lululemon could *own* this concept. I wondered if we could bring it to the world,

be authentic about it, and invite a whole new generation of people to create new meaning in their lives through our brand. Imagine if lululemon owned the concept of mindfulness just as it had yoga. I knew I had a wall to climb. At Westbeach, the internal resistance to transform the company from surf and skate into snowboarding had been overwhelming. When I started lululemon, everyone over the age of 30 thought the yoga apparel idea was dumb. I thought my track record would speak for itself as I presented a new idea.

It wasn't about abandoning yoga or our core products – it was about moving to where the puck was going before it got there. If I could get lululemon to own mindfulness, I knew our ability to maintain an aura around our brand would build a moat around competition and provide superior branding. With superior branding comes increased demand, which means higher margins and less discounting.

If we could add mindfulness into people's lives with the same success that I'd had with surf, skate, snowboard, and yoga, it seemed we could add between \$5 and \$10 billion to our market cap before 2015.

It might take a few years to bear fruit, but we needed to prepare for the future. Otherwise, a brand that is not generating new concepts will eventually consume itself.

Even beyond the business opportunities mindfulness offered, mindfulness itself represented to me the final frontier of personal development. Consider this: a runner's high, which occurs after 35 minutes of aerobic activity, floods the mind with dopamine. Dopamine locks us into the present by eliminating our past from our thoughts.

As time went on, some athletes realized they did not have to get a dopamine hit from athletics to be present. The runner's high could be achieved by simply choosing to be in the moment. Choosing the present became known as mindfulness. If we understand this, we can choose to be mindful a thousand times a day.

I'd discussed owning mindfulness as a concept with Christine as far back as 2010, and in November 2011, I took my proposal to the Board. Owning mindfulness could start right in our stores, I said.

I envisioned our stores opening at 9:50 a.m. instead of 10:00 a.m. and inviting our customers to come in early and join our employees for a 10-minute, guided meditation. As mindfulness gained attention across the world, I could see it was what people would want – the same way they'd found yoga. We might open mindfulness studios in the future, but at that time, all we needed was 10 extra minutes in our stores every morning.

From a financial perspective, there would be a small advertising cost to get the word out. There would be the added expenses of having our 300 stores open 10 minutes earlier. We would also need to bring in mindfulness teachers and experts to introduce the training, at least until our staff could master the work of being mindfulness leaders.

I calculated an expenditure of \$800,000 to be included in the 2012 budget – a very modest number, given lululemon's revenue – to get the ownership of mindfulness underway. I proposed a launch date of four months.

I also provided whatever metrics I could find to support my proposal, but really, there isn't much in the way of metrics when you're creating the present from the framework of an unknown future. That wasn't a bad thing, I told the Board – if there were detailed metrics available, that would've meant that mindfulness had *already* arrived on the market, and this proposal would be too late.

To my disappointment, the Board and upper management once again erred on the side of caution. They pared my request for \$800,000 down to \$250,000.

Realistically, this amount was a nonstarter. Through multiple start-ups, I knew \$250,000 would not provide critical mass to launch mindfulness before others did. Christine and the Board just did not want to spend any money to invest in the business. Once again, Michael Casey made sure the message was clear – lululemon would play it safe and protect the money in the bank.

As the illustrious entrepreneur and author Peter Diamandis said, "the day before something is a

breakthrough, it's a crazy idea." If an idea could be quantified, it would have been done already. No one wants to change. Change is hard. But change is the only constant, and today the rate of change is faster than ever. The Board may not have meant any harm by their unwillingness to be anything beyond mediocre, but the end result had lasting harmful effects.

I was getting more depressed with each opportunity we passed up. I understand it takes a particular type of person to visualize the future. If you ask a genetically predisposed, risk-averse person about an unprovable future, they will likely say no. Especially if they think their responsibility is to protect the money.

Looking back on it as I write, it's interesting to see the way mindfulness has exploded over the past few years. Nowadays, you can subscribe to many online meditation tools. Companies such as Google, General Mills, Target, Virgin, and Intel have all invested heavily in internal mindfulness training for their employees. I know lululemon could have been the iconic leader of this next social movement, which in turn, could have doubled the company's value.

I remember a story of how, in the '70s, Detroit automotive executives took the same road to work every day, and everywhere they looked they saw Detroit cars and concluded business was great. If they had taken a different route to work, through California, for example, they would have seen small, economy-sized Japanese cars starting to appear – cars that would take hundreds of billions of dollars in value away from the Detroit companies.

## CHAPTER 26

# UNCERTAINTY

### *Metrics Versus the Unprovable*

I was beginning to feel that my own role within the company was uncertain. My proposals to the Board had been stopped in their tracks. We were putting less money into quality control and, as a result, quality was falling from our standard. We were increasing prices just because we could, and it seemed like we were selling our future for instant gratification. We were giving the Wall Street stock analysts everything they wanted, and our foundation was weakening by the moment.

I assumed the Board was doing what they thought was right. We had nine very smart independent Directors who met four times a year. They continued to tell me everything was perfect. “You don’t know how a big company operates,” they told me. “The best thing you can do is not interfere with management.”

As 2011 ended, it occurred to me that lululemon’s stock value was rising at the expense of serious reinvestment in the company itself.

My concerns about quality were very difficult to articulate to the Board of Directors, but I’d spent every day for 30 years (between my time at lululemon and Westbeach) feeling our fabrics, looking at them, stretching them, and inspecting the stitching. Tiny, almost unnoticeable errors to a layman were huge indicators of trouble to me.

Over time, those tiny flaws would accumulate. With no deliberate reinvestment in quality control, lululemon had few employees who could raise a red QC flag without being fired by Christine.

Our new head of product started meetings late and was not open to coaching about the ramifications of integrity. By consistently being late, she indicated to the entire company that it was acceptable to be late. Most meetings started 10–20 minutes late while the 10–20 people who arrived on time sat around waiting. My theory was that if a design meeting started late, then the employees subconsciously believed the thousands of intermediate steps to get product to the stores, could in turn also be late. If delivery to the stores is late, the product doesn’t have enough selling days that season and styles must then go on sale to move excess inventory.

Each \$1 of sale discount removes \$10 from the company’s market capitalization. Companies that consistently discount product attract employees of lesser quality and incur higher employee turnover. Higher turnover means higher human resource expenses, training costs and management issues. Higher turnover results in fewer people being available to develop for the management pipeline. This is how in-

tegrity works. It's why meetings must start on time.

## **The Soda Story**

Staff at lululemon had always practiced what they'd preached. Nowhere was this truer than in our long-standing Manifesto, especially the part about how Coke and Pepsi and all other sodas would be the cigarettes of the future. Lululemon – whether at the Store Support Centre or out at the retail locations – had never been a workplace where you'd see people drinking pop or eating junk food, until the early '10s.

In late 2012, Deanne, Delaney, and I went with Christine to Whistler to spend a few days away from the office and look at lululemon's culture and future. We took Susanne Conrad – now our outside development consultant – with us.

While in Whistler, we talked at length about lululemon, the changes it had undergone in the past few years, and what we thought lay ahead. One evening, the subject of seeing Coke and Pepsi cans around the office came up. We discussed what we could do about it, how we could get ourselves back to our core culture.

Seeing cans of soda on people's desks seemed to coincide with the arrival of American middle management. I wasn't the only one who'd noticed it – both Deanne and Delaney had seen it too. On its own, this may seem like a small issue, but it was fundamental to our health culture. We were concerned about the edges fraying.

The answer we came up with seemed straightforward – we would just put the Coke and Pepsi part back in the Manifesto. The Manifesto was lululemon's guiding light.

However, as Christine told us that night in Whistler, we *couldn't* put the slogan back in the Manifesto as she told us we'd signed a binding agreement with PepsiCo not to disparage them any further.

This surprised me. I knew nothing of the agreement. I asked Christine if she was sure it existed, and she assured me it did. When I got back to Vancouver a day or two later, I asked Erin Nicholas in our legal department for a copy of the agreement, so I could read the specific clauses. Erin told me no such agreement existed. Later that afternoon, Michael Casey called me, telling me just to drop the whole thing. I wondered if Michael Casey was an idiot or if Christine Day had spun another lie. Both thoughts started to appear possible.

Former Director of Finance, Michelle Armstrong, recalls: "something happened where all of a sudden there was a competition between Chip and Christine. There wasn't room for both in Christine's mind. It just went downhill from there. I saw some things they disagreed over, and I thought, 'Why would she think that? The guy came up with the idea for the whole company.'"

At this point I had zero trust in Michael Casey or Christine Day, and to be responsible to the shareholders I started to consider what had to be done.

## **Board Meetings**

I take responsibility for the board direction of lululemon. I was as green as they come. I didn't understand board dynamics, motivations and directors' desire for power. My biggest mistake was letting Michael Casey and Christine have too much say in determining the agenda items and the time spent on each. I thought I was being a team player by giving in to their desires without realizing they were eating up valuable time with what they deemed board essentials.

I would have thought the highly experienced lululemon directors would not have wanted their own time wasted and would have coached the whole board to be more efficient.

The lululemon board agenda was inefficiently filled with material that could easily have been pro-

vided as pre-reading followed by 10 minutes of questions. We ate up valuable time replicating the audit committee inside the board meeting. The reason boards have committees is to dig deep into detail and then report to the entire board with a 10-minute summary. This is one example of many.

Now that I am older with more experience, I now understand Christine knew very little of the company outside of metrics. To look good to the directors she steered the meeting away from her weaknesses to where she looked good.

With ten competent, time constrained directors getting paid top dollar, a board has to spend most of its time discussing the top three most pressing issues. These issues are usually touchy and fraught with opinion and without fact. Decisions from these discussions are the ones upon which the company relies on its directors. The metrics portion can be managed by committees and management, not the Board.

Like our quarterly analyst reports, the board meetings under Christine and Michael were mostly a waste of time of everyone's productive time.

### ***Hiring Six Months in Advance***

In formulating the 1998 business model, our employees averaged 22 years of age. Very few men were interested in working for our company at that time. This was likely because the product was 90 percent female-focused, though it may have also had something to do with men interpreting personal development as non-masculine.

With an employee pool comprised of 90 percent women, I could foresee a time of risk when 10 to 15 percent of employees would take maternity leave at any one time. This business challenge is not an issue in America, but in Canada and Europe, maternity leave is at least one year.

I anticipated that women would likely have two children in quick succession. Consequently, the average woman could be out of work for two or three years at a time when their company knowledge was essential. Lululemon wasn't just any company – it was a high-growth company, and we needed every position to be performing at full capacity. Any weakness in any position could create a bottleneck, and we were having too much fun and making too much money to put stress on the business.

The underlying mantra of our transformational development program was “leaders developing leaders.” For lululemon to survive, every woman thinking of maternity leave had to be in full conversation with their manager about their plans and had to have a nominee they were developing to take their position during their leave.

There were outside voices who were shocked that we could have such open and unhindered discussions. Our ability to have these conversations without pushback was a testament to our employees' sense of ownership in the company they were building. We were all in it together, and we knew we had workforce demographics like no other company before us. Failure to fulfill leave succession planning would mean our woman-driven company could easily fall into bankruptcy.

From this experience, we developed the following Operating Principle:

***OPERATING PRINCIPLE:*** Hire people six months before they are needed full-time. Have them work part-time in the retail stores and slowly pull them into the store support centre as they grow into their full-time job.

***WHY?*** We want to observe people who are advocates for our culture, who understand our business philosophy, and who communicate business decisions based on our common language (i.e., our linguistic abstractions). Hiring proactively allows us to be two to five years in the future. Our future is big, and we have no need for short-term profit. We invest in the right people to make the business philosophy work.

To provide for company growth and the maternity leave pipeline, we hired people six months before we needed them. However, the world was changing exponentially in the digital space. No longer could a woman come back to work after a year of maternity leave and expect to walk into the same role she

had left . . . we were simply moving too fast! It took three to four months to get our employees back up to speed after their mat leave, and *nobody* had the same job from one day to the next. I was scared about our future ability to compete with American and Asian competitors who had shorter maternity leaves as compared to Europe and Canada. We spent 10 to 15 percent more on labour costs than most companies to ensure our pipeline was intact.

If a CEO stops hiring six months in advance to decrease salary expense, the company will show a short-term profit, the stock will increase, but it will result in long-term pain. I sensed we were hiring more slowly, even though our Operating Principle was easy to understand. I brought the issue up to the Board, but the American directors seemed to want to ignore Canadian one-year maternity rules and a critical piece of our business model. Of course, our stock price kept increasing, so the board maneuvered to avoid a meaningful conversation.

I innately understood a time would come when an amazing opportunity would present itself, and experience told me such an opportunity occurred every five years. When a new idea or trend would present itself (surf, skate, snowboard, yoga, mindfulness, owning production or buying a company with complementary technology), we wouldn't have the extra people required to acquire and leverage. Lululemon certainly had too much unused cash on hand (usually around \$1 billion) indicating the company didn't understand how to re-invest.

Lululemon had the market lead, and we were in a position to be proactive about the future. In addition, the big growth in the technical apparel market was just starting. My theory was to invest in people because the cost of not having people at the right time created a bottleneck that cost us additional salary expenses.

In 2020, lululemon bought an online subscription business called Mirror for \$500 million. I think Mirror was a good purchase, but had the board been comprised of more people who eat, live and breathe the athletic business, they likely could have bought a similar business two years earlier for \$20 million dollars

## **Level 5 Leadership**

I thought again of *Good to Great*, and many of Jim Collins's other writings, which underpinned lululemon's foundation from day one. Among Collins's ideas is the concept of the "Level 5 leader" who builds enduring greatness through personal humility and professional will.<sup>1</sup>

In Collins's hierarchy, there are four subordinate leaders, (1) the highly effective individual, (2) the contributing team member, (3) the competent manager, and (4) the effective leader. But, without the Level 5 leader in the executive position, a company cannot be transformed from good to great.

A key distinction of the Level 5 leader is someone who selects, trains, and prepares their eventual successor, ensuring the company will continue to grow and succeed into the future.

This succession pipeline was a cornerstone to lululemon's survival, not only because of our anticipated maternity leave turnover, but also because of our exponential growth.

We had a large framework of Super Girls who'd started with the company in the early days, and who had since risen to the Level 3 leadership spot (mid-level management). But I could see that with the exception of Delaney Schweitzer, we had stopped developing Level 3 women for Level 4. We had to have those highly effective senior managers next in line for executive positions.

Christine *had* hired people into the senior management positions, but they seemed mediocre at best. As Deanne Schweitzer said, "Christine surrounded herself with a core management team comprised of older, non-athletic women instead of Super Girls." I wondered: why? Lululemon was the iconic

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<sup>1</sup> Jim Collins, "Level 5 Leadership: The Triumph of Humility and Fierce Resolve." *Harvard Business Review*, January 2001, accessed: September 28, 2017, [hbr.org/2001/01/level-5-leadership-the-triumph-of-humility-and-fierce-resolve-2](http://hbr.org/2001/01/level-5-leadership-the-triumph-of-humility-and-fierce-resolve-2).

public company at the time. Lululemon could have hired the best from anywhere.

Christine's senior manager hires did not seem interested in training their own successors, so a whole generation of Super Girls who'd grown lululemon and formed its backbone could not grow. For the time being, there was no position higher than the mid-level management positions they'd already achieved. It seemed Christine's Level 4 managers were killing both the advancement opportunities for the Super Girls and the company itself.

I wondered if Christine had been deliberate about this - if she'd wanted to put a barrier between herself and the next generation of lululemon's leaders. Possibly, Christine ensured she would have no direct competition for the CEO position for the foreseeable future.

In 2010, I was clear with the Board that Christine should name and develop someone under her to take over should she get hit by a bus or quit. Christine deferred for a year, and Michael Casey, as chair of the nominating and governance committee, was hesitant to press her on the issue. Further, the compensation committee under Tom Stemberg did not want to include "succession development" as a key component to Christine's compensation. The Board, to their credit, later nominated Delaney Schweitzer to be interim CEO should Christine be hit by the proverbial bus.

There were two excellent people in Level 4 leadership positions. One of them was a woman named Kathryn Henry. She'd come from a senior position with Gap Inc., and we'd hired her as our Chief Information Officer in 2010. Within the first few months Kathryn worked for us, she'd turned lululemon's entire IT infrastructure around.

The second person was Delaney, who had made it from the bottom to the top at lululemon. Delaney had started off as one of our first store managers and worked her way up to become EVP, global retail. In that capacity, Delaney ran all retail operations, e-commerce, store culture, and anything that made money.

Christine was adamant that neither Kathryn nor Delaney had the ability to succeed her as CEO. In my opinion, Christine felt threatened by these women and started undermining their abilities, creating small, subtle stories of incompetence.

Meanwhile, the employees who were mostly women in Level 3 leadership positions, were constrained by golden handcuffs. There wasn't much room to move to another public company in Vancouver that paid what lululemon did. No one wanted to rock the boat and be fired or quit.

The original Super Girls were now 35 years old with a mortgage and kids they were sending to private school. Where were they going to go? Aside from other Vancouver companies like Aritzia, Arc'Teryx, or MEC (Canada's version of REI), there weren't too many options. Once a person has lived in Vancouver, they will not leave, as Vancouver is easily the most livable city in the world.

One director, Brad Martin, left the Board to pursue a board position with FedEx. With his parting words, he reiterated what the Board had been telling Christine for two years. He told her that lululemon had "B-class" executives heading up HR and other top management positions. We did not have the people to take the company to the next level, Brad said.

Despite this warning, Christine would not fire her head of HR, and the Board would not fire Christine. One can only call the board members incompetent for not taking action.

### ***A CEO in Survival Mode***

I think because Christine knew she had been caught in multiple lies, she moved quickly to control her job security and business reputation. My own personal development had illustrated to me what I do in survival mode, and my sense was that Christine was in that same place.

Christine had the ability to control Michael Casey, her top Power Women, and CFO John Currie. It seemed that she had shifted from "building a company" to boosting her own financial position by maximizing short-term stock value. Perhaps she suspected her time as CEO was limited.



The best and easiest way to maximize stock was to harvest lululemon's brand power by lowering standards and expenses and increasing prices for the short-term. She could lower the standards because the top people were under her control – except for Delaney Schweitzer. Many employees could not risk exposing a mounting crisis because they all needed their high-paying public company salaries.

The Level 5 leader defined in *Good to Great* develops an amazing pipeline of people under them. Christine's lack of such a pipeline ironically gave her more power over the Board as it made her seem irreplaceable.

2011 had been a great year in the media for Christine. She ended the year as the Globe & Mail's CEO of the Year, the first woman to earn that honour.

All things considered, maybe she was not the problem.

### ***Personal Reflections and Decisions***

Maybe the problem was me. If I genuinely believed in the principles of personal accountability and authenticity, I had to consider that possibility.

I continued to believe our directors provided the experience and knowledge the company needed. Most of them had run companies bigger than lululemon. Many were icons of American business. They understood the nuances of being public and how we could avoid being sued in the American legal system. Directors Michael Casey, Marti Morfitt, Emily White, Rhoda Pitcher, Tom Stemberg, and RoAnn Costin told me lululemon didn't need to change.

All we had to do was keep doing what we were doing. Michael told me we had the best CEO possible and we didn't need to develop a pipeline for Level 4 executives. Michael thought it would be too expensive to keep a well-paid competent COO in the second-in-command position until Christine's tenure was up. In retrospect, this was poor corporate governance and I was saddened by the board's unwillingness to spend money in a fast growing company to help prevent future disasters from occurring.

I decided to do what I believed was right. I flat-out told the Board, "Christine is the wrong person for the CEO job, and she is killing the company. Her hires are dependent on her and are not strong enough to speak up. We are not investing in quality processes, and we are going to have a quality disaster. The employees are unhappy, but Christine has built a wall to prevent you from talking to them. You are out of touch. If we can't get rid of Christine now, then the issue is not the CEO, it is the Board of Directors. Our number one job is to have a CEO who can add long-term value. Our CEO is strangling the golden goose. If you can't see you are complicit in the company's destruction, then for the sake of lululemon, please resign."

Unfortunately, the directors disagreed with my assessment, and I was back to being a team of one.

Lululemon's stock value kept increasing. We were headed to a \$12 billion valuation in the next year, but I knew we were only worth \$10 billion. I believed clothing was a bigger market than shoes, but the tide had turned against us to own any future exponential growth. That's when I knew our foundation was crumbling and we had lost the momentum to overtake Nike.

When I was young and held the Canadian record in the 100-metre backstroke, I was visited by Howard Firby, Canada's head Olympic coach. He looked at my stroke and changed my stroke technique to that of the world's top swimmers. As it wasn't effective, I got to thinking that perhaps Howard had it the wrong way around. As I had beat the time of the top swimmers when they were my age, shouldn't they be looking at my stroke and trying to emulate what I had done?

Consider this as an analogy for lululemon. As we were producing the best metrics in apparel, shouldn't people want to figure out what we were doing right and learn from it? Each time someone with outside experience came in, they wanted to change our model into something that was familiar to them. People should have been coming on board to learn from *us*, not the other way around.

Our director Tom Stemberg – who was the founder and Chairman Emeritus of Staples – suggested I step down and become the Chairman Emeritus of lululemon. This sham title may have meant something to Tom, but it meant nothing to me. Tom needed the stature when he was exited from Staples, but I didn't. I also thought Tom wanted to control lululemon to make up for his loss at Staples. It was the wrong suggestion for the wrong reasons.

### ***ABC Pant for Men***

In the meantime, I had conceived the *ABC Pant* for the men's line. I've always believed I should never have to think about my clothing and that the feeling when wearing it should be akin to the feeling of being naked. Although not every man is comfortable admitting this, pants can be the most uncomfortable garment to wear, and we all know why.

I realized that we had created these amazing stretch pants for women – why not for men? We, too, want pants that move with our bodies. We want to be able to sit at a desk all day or go on an eight-hour flight and not be concerned with our testicle compression. So, we created a warp knit fabric and made it into a design I called the *Anti-Ball-Crusher Pant*.

This caused a complete rebellion from the head of branding, a hire of Christine's from Procter & Gamble, named Laura Klauberg, who was not the best culture fit.

The pants were renamed ABC Pants for fear of any social media backlash. This was a missed opportunity for original, irreverent branding that men would have perfectly understood. Five years later, lululemon started calling the ABC Pant the Anti-Ball-Crusher Pant but by that time I was using the term Anti-Ball-Crusher as a descriptive term for other brands. In 2019, I tried to trademark Anti-Ball-Crusher but was told by my lawyer that because the term was descriptive it was consequently not possible to trademark. In 2019, lululemon sent an aggressive letter to Kit and Ace to stop using the term, (a brave and late attempt) claiming their recent application to the trademark.

The design of the men's line was moving farther away from meeting the masculine and athletic demand from the market. If lululemon had put adequate focus on men's apparel, lululemon could have been worth another \$10 billion in 2021. As I've said, lululemon owned 90 percent of the women's market before 2011, and declined to 10 percent from 2011 to 2018. Conversely, lululemon had the opportunity to own 30 percent of the global men's business because no competitor was putting style into men's athletic apparel yet.

In the early 2010s, I felt compelled to define what a lululemon male was in the following email:

“Our man is not a show-boater or a grand-stander. He has no need for self-promotion or self-marketing. He plays a clean game, led by the desire to win, following the rules of the gentleman's game.

Our man does not have to talk about himself. He has such confidence in himself as a good person, he is smart enough to know others will do the talking for him: good or bad.

Our person does not need to win with the use of drugs because he competes against himself using his own morals and goals. Overwhelmingly, he wants to have a nice family, a good business and decent friends. He doesn't want to die early or walk poorly because of sports injuries.

He is a decent person who wins by helping others with no expectation of return. Those he has helped speak well of him when he is not present and would drop everything to be part of his team or to help him succeed in life.

People will give him business because he has integrity and is humble.

To the sport: it is old English / Canadian. The way Steve Nash shows up (even if he isn't that clean). An “aw, shucks” type of guy. Not the biggest or the fastest but certainly the smartest. He leads his teams

by example and never talks about himself.

Rugby players/old school hockey players/swimmers /Tough Mudder participants. We show him doing these sports as it differentiates us from Nike and Under Armour.

Turning our thoughts to the Vancouver male. We know hockey. We know rugby better than the rest of North America, the psychology of swimmers can be exposed.

I believe we can make a connection between Tough Mudder and its required level of cooperation, athleticism, teamwork and what it is to be a lululemon male.

We have to work on these ideas until a new Tough Mudder concept comes, and then commit to owning it.

We need a head of men's design who will lead the pipeline from the psychology of the athlete, through to the product and then to the educators.

Nothing about this can be siloed.

What do you think?

We can define this person using the words above. We need to show the lululemon male in sports but reacting and being the opposite of what Nike and UA would show."

### ***High-level Departures, Quality Worries***

"Chip kept taking on a lesser role in the day-to-day operations," says Deanne, who by 2013 had risen to SVP of women's product, "but at least I still felt his presence on the Board. I always respected what Chip was up to and what his vision was. Right or wrong, I always felt compelled to follow him. So, as he got less and less involved – and as he and Christine started not to get along – I started to think about my own future with the company."

Delaney, the former EVP of global operations, says, "With a new CEO and new senior leadership, they created the next phase of lululemon. In my opinion, almost a new company. I think for a lot of the original people who started with lululemon, this new vision did not fit with their values, and they subsequently left lululemon."

### ***Working in the Stores***

Part of every new Store Support Centre hire's onboarding included working an eight-hour shift in one of the retail stores. Through this experience, each employee learned what our Guests thought of the clothing, just by seeing their facial expressions, body language, and comments when they were trying things on. Most importantly, through this process, we got to see what was staying in the change rooms. This type of information doesn't show up in metrics.

Later, as upper management changed, many of the new people didn't want to carry on the tradition of working in the stores. In fact, many of the people in upper management didn't even see most of the stores. As lead director, Michael Casey would not approve chartering a plane to have our senior most management team members visit 10 stores in a few days, so the connection between stores and head office was weakening. Short-term expense savings and public optics became more important than ensuring the business model was working or investing in the health of our highly-paid, very busy, top staff.

But I loved working in the stores, either working as an Educator or in the change rooms once a week, so I never lost my ability to know just by touch or sight the state of our quality.

At that time, there were a lot of subtle things I was noticing, especially in the change rooms. Our Guests didn't seem to have the right facial expressions when they were trying things on, or they weren't coming out to show other people how they looked in front of a mirror. Maybe the elastic in the waistband

didn't fit quite as well as it used to, or the stretch of the fabric wasn't right.

At the cash registers, Guests weren't buying three items at a time anymore – they were buying two. The prices were getting too high, the quality was dropping, and we had competition.

The trouble was, this subtle instinctual knowledge was almost impossible for me to verbalize to the Board. I knew something was happening, but as the stock value kept increasing, my communication had little sway.

When I first raised my concerns to the Board, I tried to be proactive and positive about it. In September 2012, I wrote a lengthy message to Michael Casey.<sup>2</sup> There were several issues – many related to our culture and quality-control – that I brought forward for Michael's attention.

Once again, I proposed a "king or queen of Luon," since Luon was the main fabric we used and comprised 75 percent of everything we sold. This was something I'd asked Christine to take on, but she'd turned it down.

I still strongly believed we needed to have somebody who was the third-highest paid person in the company, and whose sole responsibility was eating, breathing, living, and loving our Luon fabric, and keeping a close eye on every yard of Luon we made.

### ***Leaving on a Jet Plane***

Perhaps I was a starter of businesses, while other people were meant to be the operators of existing companies? Perhaps creative founders were destructive and disruptive? Perhaps the lululemon business philosophy wasn't supposed to work in a bigger company? If so many of lululemon's directors were telling me I was wrong, then maybe I needed to step out of the way and let Christine prove her long-term value.

I could no longer look the employees in the eye. They knew I was not upholding the culture of integrity and openness with which I had led them. I had told them it was my job to protect them, and I couldn't fulfill my promise. I was confused as to how I had lost the power to fulfill our vision. Worse, I didn't know how to reverse my loss of influence.

Our children were young, so Shannon and I decided to move the family to Sydney, Australia. We would be able to pursue mindfulness as a potential brand since the concept had been turned down by lululemon's directors. In any case, I set aside my dreams for lululemon and chose to focus on my family. If the directors were correct in their view that Christine was running a great company and I was a deterrent by interfering, then we would all benefit by my being far away.

On the other hand, if our investment in people and processes was in tatters and a disaster was imminent, then the proof would reveal itself soon enough.

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<sup>2</sup> *Author's personal records, September 3, 2012, message to Michael Casey, re. September 3, 2012 board package.*

## CHAPTER 27

# QUALITY ISSUES

### *Down Under*

By the summer of 2012, I was living in Australia with my family. Looking back on it now, Shannon says, “We could do it, so why not? Our time in Australia was one of the best things we ever did.” Being in Australia gave me time to switch gears from business to being a full-time dad. Shannon and I assisted with our boys’ surfing lessons, helped with their homework, and read them stories.

The company at that time was worth about \$12 billion, so it put our personal net worth at about \$4 billion. I was also still chairman of the board. I was obviously very interested in lululemon’s performance in the market because every time the stock went up or down a dollar, our net worth went up or down \$40 million.

Since our departure, Shannon and I had stepped away from much of what was happening at the company. I hadn’t been a part of any of the changes to the lululemon product or to the restructuring of the business, but even from afar I could see their struggles.

There was a conflict between the company’s short-term incentive plan and my own plan as a long-term stockholder with a 50-year outlook. A CEO’s personal wealth lies in their ability to sell their options on a high and to inflate their personal brand to negotiate the maximum compensation at their next job. Christine and Bob had both done this. Bob at least had been transparent about it. When Christine did it, it caught me off-guard, and it hurt.

In *Good to Great*, Jim Collins illustrates how every change to a process has the flywheel move more slowly. Lululemon developed systemic atrophy, moving it from great to good. A company of lululemon’s size is made up of thousands of processes. If one process changes, then someone needs to understand how to change the three pieces that fit into it. If a CEO changes 20 processes – but doesn’t change the three contributing processes for each of those processes – then the system breaks.

### *A fabricated story that could have happened to a founder and largest shareholder*

The following fictional story did not happen because if it had, the legal ramifications would be immense.

Let’s say a founder discovered a major quality control problem that made an entire production run of a style unusable. The number of garments to be recalled would materially upset the previous year’s

financial statements. The company would have to destroy the garments, the bonuses for management would have to be clawed back, and the audit committee would have to report the error to the public.

What if the QC problem was twice reported to the CEO without action? What if, after the CEO would not take action, the founder gave the evidence to the Chair of the Audit Committee? What if the Chair of the Audit Committee thought the best route was to figure out how to undermine the founder rather than deal with the issue as a business challenge?

In this situation, the founder finds himself between a rock and a hard place. If the founder reports the issue to the SEC and regulators, then a five-year legal case could ensue, dragging the founder into legal discoveries and court cases that could go on forever. The amount of travel to handle the legal issues would mean time away from his family and time not focused on moving the company forward.

Should the founder forego his and the company's integrity so as not to be pulled into a time-wasting legal sinkhole? Maybe. Is the founder out of integrity by knowing, as founder of a public company, that the error should be reported? Absolutely.

Hopefully, this difficult scenario helps other founders and large shareholders understand what could happen. But fictional stories are fictional stories.

### **Trouble Getting Closer**

As 2012 turned to 2013, our sales were continuing to increase 30 percent per year.<sup>1</sup> The global demand for athletic apparel was exceeding our ability to supply it, and increasing sales easily hid the underlying issues.

In mid-March 2013, the so-far unquantifiable problems in our quality came to a very public head.

"Lululemon Has a See-through Yoga Pants Problem."<sup>2</sup> That was the headline in the Corporate Intelligence section of the Wall Street Journal on March 18, 2013. On the same day, Business Insider ran a story entitled: "Lululemon Pulls Stretchy Black Pants Because They're Too Sheer."<sup>3</sup> Then the CBC ran this a day later: "Lululemon Recalls Pants For Being See-through."<sup>4</sup>

Similar stories ran in the National Post, the Globe & Mail, the Daily Mail, Bloomberg, and Forbes, among many others. We had to announce a massive recall of our signature women's Luon pants, based on the now-infamous transparency problem. Women's Luon pants made up 17 percent of our total inventory, and the recall was likely going to cost \$60 million in lost sales.<sup>5</sup>

Jill Chatwood recalls: "I was on maternity leave, travelling in Australia with my husband and children. We stopped in for a visit at the house that Chip and Shannon were renting. It was clear to me that Chip had some concerns with how the product team was operating. I confirmed for him that quality was not as strong a focus as it had been in the past and that I, too, was concerned.

"Lo and behold, within weeks of that conversation, it was discovered that the consistency and quality of our key fabric, Luon, was compromised. The 'sheer pants' emergency was in full swing. Pressure to make financial numbers was winning out over commitment to quality."

A lifetime of research into how to make best-in-the-world non-transparent black stretch pants all came undone in an instant.

Christine blamed Eclat Textile, which had grown to become our number one fabric and manufac-

1 "Lululemon Athletica Inc.," *Morningstar*, accessed: August 10, 2018, [financials.morningstar.com/ratios/r.html?t=LULU](https://www.morningstar.com/ratios/r.html?t=LULU).

2 Tom Gara, "Lululemon Has A See-Through Yoga Pants Problem," *The Wall Street Journal*, March 18, 2013.

3 Kim Bhasin, "Lululemon Pulls Stretchy Black Pants Because They're Too Sheer," *Business Insider*, March 18, 2013, [www.businessinsider.com/lululemon-see-through-yoga-pants-2013-3](http://www.businessinsider.com/lululemon-see-through-yoga-pants-2013-3).

4 *The Canadian Press*, "Lululemon Recalls Pants for Being See-through," *CBC*, March 19, 2013, <https://www.cbc.ca/news/business/lululemon-recalls-pants-for-being-see-through-1.1347288>.

5 Stephanie Clifford, "Recall Is Expensive Setback for Maker of Yoga Pants," *The New York Times*, March 21, 2013, [www.nytimes.com/2013/03/22/business/lululemon-says-yoga-pants-mishap-will-be-costly.html?\\_r=0](http://www.nytimes.com/2013/03/22/business/lululemon-says-yoga-pants-mishap-will-be-costly.html?_r=0).

turing partner and fired our Chief Product Officer.<sup>6</sup> Shifting blame is a standard Machiavellian move to protect the incompetent, and it was Christine's go-to move in a situation of survival.

According to Christine, the sheerness issue was Éclat's fault, plain and simple. I was mortified for lululemon. Solving for sheerness was the functional reason that I started lululemon in 1998. And, amid this uproar, the conversations of other big quality issues that I had previously brought forward evaporated entirely.

Around this same time, we received an email from Lucy Lee Helm, general counsel for Starbucks. I was a carbon-copy recipient of the e-mail, as was Michael Casey. The letter was addressed to Christine, and summarized Starbucks's concerns about a recent interview Christine had given with ABC's Katie Couric only a few weeks earlier:

Dear Christine,

On behalf of Starbucks, I want to express our deep concern about your troubling comments on the "Breaking the Glass Ceiling" segment of the nationally syndicated Katie Couric television show. What we heard you say about Starbucks personnel practices, and your own career opportunities with Starbucks, are disparaging and simply untrue.

During the course of your interview with Ms. Couric, you described your experiences at Starbucks and, specifically, that the company gave you jobs that "nobody else knew how to do" and that the company "tried to sideline you when you had children." You described one experience in which you perceived you were treated differently than a male colleague and agreed with Ms. Couric that that was a "fairly typical moment" in your Starbucks experience. Your comments imply that your considerable success at the company was somehow limited based upon your gender.

This characterization is not only inaccurate and untruthful but disparaging of Starbucks and its partners. Starbucks appreciates your many contributions during your employment with the company but frankly you, too, were provided with significant opportunities. Indeed, you progressed significantly in your career at Starbucks over 20 years, from administrative assistant to senior executive levels. You had many leadership roles and received opportunities for learning and advancement across the organization. To suggest that Starbucks somehow mistreated you or failed to accommodate your schedule because of your gender is a serious distortion of the record and one that does a great disservice to Starbucks, its partners, and its legacy of progressive personnel practices. And it does not accurately reflect the career path you achieved at Starbucks, which you have successfully leveraged to "catapult" to an impressive position at lululemon.

Starbucks would prefer to avoid a debate or dispute with you over your statements. But we cannot allow inaccurate, misleading and frankly disparaging comments about the company, its partners, and its human resource practices to go unanswered.

Sincerely,

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<sup>6</sup> Kim Bhasin, "Lululemon Supplier Fires Back: Those Recalled Yoga Pants Were Not 'Problematic,'" *Business Insider*, March 19, 2013, [www.businessinsider.com/lululemon-supplier-see-through-yoga-pants2013-3](http://www.businessinsider.com/lululemon-supplier-see-through-yoga-pants2013-3).

Lucy Lee Helm

Executive Vice President, General Counsel and Secretary

cc: Howard Schultz

Dennis J. Wilson

Michael Casey<sup>7</sup>

With Michael Casey as one recipient of the letter, I thought the support for Christine would finally collapse. After all, the number one job of a board is to hire a CEO and ensure a CEO succession pipeline is in place. I think the Board was afraid that firing the CEO would draw publicity that would adversely affect lululemon's short-term share price and the directors' reputations.

A meeting was held in Sydney, Australia. At the end of the meeting, the Board asked me to come back to Canada to try to help fix the problems. With our Chief Product Officer gone, the lululemon product team also phoned my wife Shannon asking her to come back and help.

Asking us to come back was the Board's directive to Christine. She was to make space for us in the company because of all the challenges they were facing. Shannon and I agreed right away. We would absolutely go back. We were lululemon's biggest cheerleaders – we always will be.

Christine then provided the directors with a document that set out the terms of my return in an attempt to protect her job and to keep me at arm's length. That document is as follows:

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<sup>7</sup> Author's personal records, April 2, 2013, letter from Lucy Lee Helm to Christine Day (cc: Michael Casey, Chip Wilson, Howard Schultz)



**Founder Operating Principles** DRAFT **July 16, 2013**

As a Founder, Chip's critical role is to advise and support the culture of the company and educate on the original intent of the brand, product and operating principles. Accordingly, Chip will provide advice to members of the Company's senior management team as set forth below and as requested from time to time by the Company's Chief Executive Officer.

1.0 Chip will share "Original Intent" vision, history and operating principles with key hires.

WHY: to ensure the values and principles that make lululemon unique and successful are not lost/diluted as we grow and add more people.

1.1 The CEO's admin will support Chip by scheduling all contact with Company employees.

1.2 Chip will lead two "Original Intent" sessions, which will be held in the Kitsilano Science Centre, for key executive hires (directors and above) and the product floor new hires.

1.3 Grouse Grind with Chip for product floor high potentials.

1.4 Chip will be invited to attend Annual Leadership Conference.

2.0 Chip will provide input for long term vision and ideation by attending 1x a year "White Space" workshop.

WHY: Ensure creative eye and ideation from the way Chip sees the world has a constructive process for input and consideration.

2.1 This workshop will be scheduled as part of the Strategic Planning process.

3.0 Other than as set forth in these Founder Operating Principles, Chip's contact with Company employees will only be to gather information necessary to fulfill his duties as a member of the Board of Directors and will be coordinated with the CEO. As with all outside Directors, Chip will not give direction to Company employees during any of these meetings, such direction will be provided only by the full Board and to the CEO.

WHY: The CEO is accountable to the full Board, and responsible for translating direction to be consistent with the long-term vision and strategy of the company, hiring and developing the senior team, setting priorities, allocating resources, and managing risk and performance.

3.1 Chip will provide feedback on product and operations 1x a week on Mondays, and such information will be as input and feedback rather than direction. It will be sent to the office of the CEO and reviewed at senior team meetings as appropriate. The CEO will be responsible for determining the implementation of the input and feedback, as appropriate.

3.2 Chip's ideas and opportunities for Product are appreciated Quarterly, 30 days before the Vision/Strategic Alignment quarterly session. They can be sent to the EVP, Design and Merchandising with a copy to the CEO. This is input and either the CEO or the EVP, Design and Merchandising will acknowledge Chip's input but will not be required to act on this input.

3.3 Upon the request of the CEO or members of the management team who report directly to the CEO, Chip can provide input and advice around specific questions/issues. This will be input only and not treated as direction by the CEO or such members of the management team.

4.0 Non-Executive Chairman – in his capacity as non-executive Chairman of the Board, Chip serves as a member of the Board of Directors of the Company with the same obligations and responsibilities as the other Board members. There is no participation in the day-to-day operations of the Company or in vision and strategy outside of meetings of the Board unless invited by the CEO or as noted in 2.0.

WHY: The responsibility of the Board is to supervise and direct the management of the Company in the interest and for the benefit of the Company's stockholders. As a non-executive Chairman of the Board, Chip's role is to preside at all meetings of the stockholders and the directors and to otherwise support the full Board, the CEO, and the strategy of the Company, and to govern in the best interest of all of our stockholders. Other than presiding at Board and stockholder meetings, the Chairman has the same responsibilities and weight as all other directors.

5.0 Respecting the role and responsibilities of the CEO and senior team.

WHY: The Board has delegated to the CEO, working with the other executive officers of the Company, the authority and responsibility for managing the business of the Company in a manner consistent with the standards of the Company, and in accordance with any specific plans, instructions or directions of the Board. As it is management's job to run the business of the Company and it is the Board's job to decide whether the outcomes are satisfactory, the CEO is responsible for the strategy, operations and performance of the Company. The development and execution the Vision and Strategic plan requires deep technical expertise and cross-functional integration. The CEO reports to and is ultimately

accountable to the full Board for this performance and has to work closely with the senior team to hold them accountable.

- 5.1 All visits to the office by Chip will be scheduled through the office of the CEO and approved at the discretion of the CEO. When employees initiate contact with Chip that results in a visit to the office, a courtesy call to the CEO's admin will be appreciated.
- 5.2 No direction will be given by Chip to any member of the management team.
- 5.3 Staff and management will be held accountable by the CEO for all decisions made, including those made on the advice or input of Chip.
- 5.4 These "Founders Operating Principles" will be reviewed annually by the Board.

## ***Returning to Vancouver***

Once we were back on the ground, it only took us a few weeks before we'd found out everything we needed to know.

Through a period of 30 years, I had collected samples of clothing from all over the world. Each garment had a special button, zipper, or technical apparel solution. These were samples we used to visually inspire designers. The library of samples could have easily filled a museum. But when we went to design the next season's line, I discovered that a large portion of the best samples had disappeared. I told Marti Morfitt as Chair of the audit committee that we had a major theft issue, but she was unable to look me in the eye as she said the issue wasn't important enough for the audit committee. Our hearts sank when we realized Christine had sold 95 percent of the samples to create space while we had been in Australia.

Still, it was good to be back. I don't think we were alone in feeling that way. Legacy people – those who truly understood the company – were happy to see us, and we were so glad to see them. The design team was excited for the business to be potentially design-led, not merchant-led, once again.

"I was focused on keeping the business going," says Michelle Armstrong, "so I didn't even notice the circumstances that brought Chip and Shannon home early. My team and I were incredibly grateful when they came into the office to support us. Our merchandising team was so excited to learn the original Operating Principles from Chip, as many of them were new to the company and had not grown up with him leading the product team. Shannon had an incredible talent for giving feedback in meetings, and her sense of taste and perspective were highly-valued."

Deanne Schweitzer says: "When we called Chip and told him we had a massive quality issue in our signature fabrics, I assume he felt that his company was being fucked up and he needed to get back ASAP and fix it. We had also gone from a culture of responsibility and accountability to a lot of finger-pointing.

"I was in a new role for the company at the time, SVP of womens. When Chip and Shannon came into the office, I personally welcomed their expertise. They were both attending our design meetings and grounding us in what made a lululemon product. Shannon would also attend fittings with the designers,

which was just as valuable. The designers loved her perspective, and I loved the extra set of eyes.

“Prior to their sabbatical, Chip had written Operating Principles for the company. Many people had never worked with him before, and they were thrilled when he presented all the Operating Principles. The Product team felt energized after those presentations.

“None of this went over well with Christine. As an executive at the time, I felt the tension between Chip and Christine when Chip returned. Without saying anything, I also felt I was placed on an unspoken ‘Chip team.’ It was a stressful time.”

“It was very clear that upper management was not happy to have Chip and Shannon back on the scene,” says Jill Chatwood. “This was the beginning of the end for Christine. There was an awkward divide because you were on Chip’s team or Christine’s team and you really didn’t get to decide which team you were on. The division at the top caused fractures within the product team. The environment was tense, with direction and redirection occurring daily.”

A few days later, in mid-April 2013, I had a conversation with Christine herself. I had no plan going into this conversation. It was just five o’clock in the evening, the end of the workday, and she and I were in her office. I was just trying to re-establish a working relationship with her. As I saw it, we needed to clear the air.

In some ways, this difficult, cut-the-shit conversation had been a long time coming. We had once had a good working relationship, where we’d both brought different strengths to the table. But a lot had changed since then, and the time had come to clear the air.

Finally, I looked at her and said, “Christine, you put a lot of good things in place for lululemon, but you never had a vision for the company. Other than a three-year operational, strategic plan, who are we? We’ve got competition growing every day – how are we different from them?”

I summed up by saying, “In my mind, you’re a world-class chief *operations* officer. But you’re a terrible CEO.”

She cried and turned away – a reaction I thought was unprofessional and seemed fake. I disengaged and went home. To be frank, I wasn’t sure I believed her emotions. I thought she’d cried wolf one too many times whenever pressure was being put on her.

The next day, Christine announced her resignation to the Board.

## CHAPTER 28

# DAMAGE CONTROL

### *The CEO Resigns*

Christine's statement that she wanted out came as a big surprise to the Board. Succession planning had not been considered, and the Board ultimately convinced Christine not to resign and to stay on – at least for an interim period – avoiding any public announcement that would have caused further jitters to an already fragile Wall Street while enabling the Board to quietly begin a CEO search.

Had she been removed immediately, I believe the company could have rebounded from the quality issues quickly, but the Board wasn't willing to take that chance.

I thought Delaney Schweitzer was ready to be the CEO. We just had to hire a world class COO to support her brilliance. The Board did not agree.

Another possible solution would have been to make me interim CEO, as it seemed we were in the same situation as when Bob Meers went AWOL. When Howard Schultz returned to Starbucks, the analysts and Wall Street were all aghast, since by their metric-driven standards, Howard was unsophisticated and didn't know what he was doing. The same went for me, apparently. The Board was scared of Wall Street's possible reaction to the return of an opinionated founder.

Either way, the Board was in trouble, and they knew it. Because the directors' reputations were on the line, they bent over backwards for Christine until they could fill the gap.

The situation did not improve, and ultimately, Christine tendered her resignation to the Board in June at the time of the first-quarter conference call.

"This was a personal decision of mine<sup>1</sup>," was Christine's own brief statement about her resignation. A few months later, in an interview with Fortune, Christine said she left lululemon because her vision, hadn't matched mine, and that I loved disruption and clash<sup>2</sup>.

Christine committed to stay on until the Board found a successor, but this would prove difficult as she'd also put word out on the street that I was a challenging person to work with.

In its present form, I knew lululemon could not take advantage of the next two to five years, which would likely see the most dramatic change in the way people dressed in the history of the world. The

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1 Shaw, Hollie. "Lululemon Shares Plunge as CEO Christine Day to Step Down." *Financial Post*, 10 June 2013, [business.financialpost.com/news/retail-marketing/lululemon-chief-christine-day-to-step-down](http://business.financialpost.com/news/retail-marketing/lululemon-chief-christine-day-to-step-down).

2 "Ex-Lululemon CEO on Why She Left the Company." *Fortune*, *Fortune*, [fortune.com/2014/12/03/lululemon-ceo/](http://fortune.com/2014/12/03/lululemon-ceo/).

company did not have a succession pipeline in place for the top 5 executives, and it had not invested in infrastructure.

The morning of Christine's announcement, the stock was close to an all-time high, then the stock fell 10-15 percent. As a large shareholder, I was only able to sell lululemon shares with a 10B-5-1 trust account, which would allow me to tell a broker which shares I wanted to sell, at what price and at what volume, a year in advance. I was always bullish on lululemon and I didn't need the money, so I always set my target price high. As luck would have it, the trustee implemented a small sale just prior to Christine's announcement. Optically, it looked like I was selling the stock with inside information. Michael Casey was visibly upset I had not told him I had sold, and I think blamed me for making lululemon look bad. A legal case ensued for which I was absolutely cleared.

I cannot remember how much I sold that morning, but assume my sales amounted to \$40 million. To Michael Casey, the amount seemed like a lot of money - but to me, it was negligible in relation to my wealth. My incremental small sales over a long period were so inconsequential I had never checked, and I wouldn't have asked until the trust period had expired.

### ***Innovation Revisited***

When we were living in Australia, Shannon had developed a couple of design ideas, based on a fabric called *technical cashmere*. The concept of this fabric was to design clothing that felt like cashmere but performed like athletic apparel.

Shannon and I had both found ourselves preferring to wear softer fabrics when we were not working out. Shannon's dream was to put cashmere-based fabric into a hot washing machine and dryer without shrinkage or visible pilling for everyday wear. We wanted to wear clothing that felt luxurious but could endure the same five-year quality standards we had developed for athletic apparel.

This could have supported an exciting new lululemon extension and was the exact innovation the company needed. Lululemon had had no innovation since 2010, and competition was taking a toll. In August 2013, via correspondence with Deanne Schweitzer (VP Design and Creation), Shannon offered lululemon her technical cashmere fabric. A revolutionary innovation like that had the potential to add \$2 billion alone to the stock value.

The only major concern Shannon had was that design might accept the fabric from her – only to have directors or the CEO scrap it and shelve it. Shannon thought she'd better cover herself, and in her correspondence with Deanne, she said she wanted to reserve the right to use the fabric if lululemon wasn't going to.

### ***New Designs Not Welcome***

In October, Shannon received a reply from Christine. She thanked Shannon for assisting lululemon's product design on a "volunteer basis." She then went on to say that Shannon's continued work with Cirqq Designs (the company Shannon had incorporated to protect her intellectual property) could lead to a conflict of interest with lululemon.

"We do not feel it is appropriate for you to continue your volunteer work with lululemon and we hereby confirm the termination of any such arrangement," Christine added.<sup>3</sup>

So, not only did Christine *not* want innovation or Shannon's new fabric or designs, but she was also effectively firing Shannon from her volunteer position. If that wasn't bad enough, it appeared there

<sup>3</sup> Author's personal records, October 16, 2013, correspondence from Christine Day to Shannon Wilson

was a thinly veiled threat about the usage of designs or any of lululemon's intellectual properties. Given that Christine had resigned months prior, it was frustrating to us that she still had this kind of control.

A week later, Shannon crafted a response, with input from our lawyers. She expressed regret that anything she was doing could be construed as a conflict of interest.

Shannon also emphasized how – in addition to her volunteering in design – she had offered to give lululemon the right to use Cirqq's new fabric, without any cost or obligation. An offer which Christine turned down.

"Our family has the most to gain from any benefit that I can give to lululemon," Shannon added, "and the most to lose by anything I could do to hurt it."<sup>4</sup> As I said before, every dollar lululemon went up or down affected us \$40 million. Only someone with an ulterior motive might suggest that Shannon was in a conflict of interest.

In Shannon's own words: "That whole time was quite emotional because there were people in the business that were so great, and still wanted the business to be great, and I think people were really excited when Chip came back to help. I think we were sad because there was a noticeable shift in the business. A shift away from the culture, and people were disappointed. They were disappointed that lululemon had this mark against it in terms of the quality."

### ***Not the Only Wilsons***

It wasn't only Shannon and I who were no longer welcome at lululemon. My son, JJ, was affected as well. In 2012, JJ had been hired in marketing at a menswear company called Wings + Horns. This had been a dream job for him, and it had allowed him to build an identity of his own. "I loved my job at Wings + Horns," JJ recalls. "I'd created something for myself separate from lululemon and the Wilson family name."

Not long after starting this dream job, JJ was asked to come back to lululemon to work on the Men's Design team. Lululemon's ethos had emanated from our earliest connections with yoga.

The original male yogis were often small and slight. As lululemon had been using women's fabrics, the style and feel had been more feminine. In 2008, we broke out of this mold. We were confident men's apparel was the next big business, and we knew we could get mens sales to \$1 billion by 2011. (In the end, it would take lululemon until 2020 to hit \$1 billion in mens business.)

Because our head of product wasn't familiar with the men's market, she didn't know how to build the foundation for exponential growth. I maintained that lululemon's men's business needed to become ultra-masculine. I had asked the Head of Brand to focus on professional ice hockey and rugby teams as our new focus. We needed to align the men's market with sports we knew well and in which we could be authentic. I asked for a design head from a West Coast surf, mountain, or snowboard company as our head of men's product – somebody that understood men and would drive masculinity at all levels.

Instead, the head of product had hired a fashion-focused men's design director from New York. This was the opposite of what was needed. The result was an inappropriate product that was too fashion-oriented and technically deficient. It didn't capture the attention of that ultra-masculine market, and as a result, lululemon lost five years of men's growth and billions of dollars in market capitalization.

This was the state of the men's design team when JJ was asked to come aboard. It was difficult for him to say no to this opportunity, so he accepted out of loyalty to the company.

As JJ says: "I had left my dream job to go back to lululemon, a company I would have done anything for, only a year later to be told by HR that, 'You, as a member of the Wilson family, are no longer allowed to be a part of this.'"

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<sup>4</sup> Author's personal records, October 23, 2013, correspondence from Shannon Wilson to Christine Day

## CHAPTER 29

# THE INTERVIEW

### *A Mindfulness Concept*

With Shannon and I both removed once again from the day-to-day management of lululemon, we now had more time to focus on launching a new initiative based on one-minute mindfulness exercises. Shannon and I sought to develop a free digital platform offering training to individuals, schools, and companies. We were wealthy, creative people with no creative outlet, and we wanted to do something more for the world.

A Bloomberg interview was set for November 5, 2013, at their New York studio. The show was *Street Smart*, a business analysis and commentary program. The anchor was Trish Regan, an experienced journalist who'd appeared on CNBC, CBS, and Fox, among others.

As was expected, the interview on November 5, 2013, started with Trish Regan asking us to define mindfulness.

Then came the switch.

"I want to segue into another story," Trish said. "You're the founder [of lululemon], you're a former designer . . . what's going on with the pants?"<sup>1</sup>

My initial response was to focus on the unique challenges of producing a technical fabric. "When you push technology," I replied, "something's going to happen every now and then."<sup>2</sup>

Trish pressed a little harder, asking me about complaints of pilling on the fabric.

My reply: "There has always been pilling. The thing is that women will wear seat belts that don't work, or they'll wear a purse that doesn't work, or quite frankly some women's bodies just actually don't work for it."

Trish: "They don't work for the pant?"

Me: "No, they don't work for some women's bodies."<sup>3</sup>

I knew from working in the stores that something about our perfect fit hadn't been working and I couldn't put my finger on it. I didn't say that in the moment, but after the social media backlash from this comment, I had an "aha" moment.

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<sup>1</sup> <https://www.throughlinegroup.com/2013/11/12/lululemon-founder-to-women-your-thighs-are-too-fat/>

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*



Women had been buying our Luon pants not just for athletics, but as a compression garment to shape their bodies, like Spanx. But lululemon pants, and Luon, specifically, were designed for athletic use, not compression.

Women wanted to reframe their bodies while also training and sweating to improve their bodies. I could sense something was happening to the integrity of the pants, but the real information was emerging slowly and only after women had owned the pants for six months or more.

So, when asked why lululemon pants pill, I considered my own market research. I had studying every person's body and clothing for as far back as I could remember. I had a lifetime of gathered information. I hear fabric crinkle. I feel other people's bad quality clothing, and I feel sorry for people wearing stiff, uncomfortable fabric. I smell the odour from polyester fabrics. I cringe at hiked-up pants, poor-fitting bras or plumber's butt. I understand the correlation between every athlete's body and the millimetre of fabric required to make every type of fabric work.

I calculate the exact perfect athletic garment for each body, and then I correlate it to the average, so that I can make and sell the greatest quantity to the most people. I cross-reference the cost of fabric per body, and I determine if there are enough consumers of that body type to design a style and make enough pieces to make money. I assess the cost of marketing to each segment group, for which there could be 40 billion permutations and combinations.

With the pilling, what I eventually discovered was that some customers were buying the pants two to four sizes smaller than necessary, with body-shaping in mind. The pants still looked great, but there was more stress being placed on the fabric and seams than what we'd originally designed it for. If enough stress is placed on any object, fractures can occur.

When Trish Regan tried to pigeonhole our exchange by saying, "Interesting, not every woman can wear a lululemon yoga pant," I immediately replied, "No, I think they can. I just think it's how you use it."<sup>4</sup> I thought this clarified my remarks.

Shannon and I left the studio feeling good. It wasn't until the next morning that I knew there was real trouble. Bloomberg's editors had spliced and diced the footage into something out of reality TV. Trish Regan exemplified what I considered the "false front" of the media. Perhaps Trish had been in survival mode and was facing terrible ratings. Similar to Roger Ayles' Fox News approach, media competition had become so fierce that if Bloomberg didn't create news, they couldn't differentiate themselves in the media marketplace. What was simple had been made scandalous.

From the Bloomberg moment on, nothing would be the same. My comments were the antithesis of everything I stood for and of everything the women of lululemon and I had built. The ramifications for the company, for my family and for everyone involved were catastrophic.

I made a mistake and I was going to pay heavily for it. The tendency to throw stones and lash out at an easy target has gained momentum in recent years. For those who have judged me on this comment alone and deemed me an irresponsible loose cannon, I would say they are not the 32-year-old highly educated, media savvy, athletic person for whom lululemon was created.

## CHAPTER 30

# POST-TRUTH

### *Sensationalism*

One media blunder - that's all it took. One media blunder and a lifetime of dedication to health, fun, longevity and women was out the window. With that one sound bite, I was ruined. I chose the words that I did, and in doing so, I'd created an opportunity for the CEO and the Board to shift the conversation away from their part in the quality issue and over to the "wildcard founder," who was sinking the ship.

I didn't know what to do. I didn't blog, have a website or any kind of social media presence at that time. I was ignorant of how to use social media tools to connect directly with the Super Girl unencumbered by the filter of traditional media or the lululemon PR machine being directed by Christine. What was happening was eye-opening. As Ayn Rand said, "I can ignore reality, but I cannot ignore the consequences of ignoring reality."

A new game was being played, and I was unknowingly sitting in the stands.

The one silver lining of the Bloomberg interview was the discovery that women wanted athletic compression tights to shape their bodies. I communicated this idea to David Mussafer at the board level. The lululemon product team did superb work and perfected a new fabric. They densified the fabric thread count and stitches per inch on seams. In my opinion, this solved the pilling issue and allowed women to buy their true size.

The other foundational design change created from this awakening was that lululemon started making the high-rise pant to mimic the girdle, and tummy tucking functionality of Spanx. It was easy to see that as lululemon's core market increased from a fit 22-year-old to a 35-year-old over the course of our 15 years in business, a high rise gave women the confidence to wear the pant in public. As a merchandiser of many styles of pants, lululemon had been making only high rise and was clearly missing at least one critical low-rise style. I knew this because I would see super fit women like spin instructors rolling down their waistbands because the doubling of fabric when bending over at the waist was too hot and unfunctional.

### *The Board Meeting*

The December 2013 quarterly Board meeting took place in Vancouver at our head office. Even though

I'd gone through my usual routine of setting the agenda, it was only at the beginning of the meeting that I saw an item had been added – some kind of report put forward by Christine Day about the Bloomberg interview. It was a last-minute addition, written in under the *Other Business* category. I wasn't sure what to make of it, but I knew it couldn't be good.

The meeting was called to order. We went through the routine items, and then came this Bloomberg report. Christine had worked hard on it. She'd brought in an outside consultant (at a cost of \$30,000 to \$40,000) and put six internal lululemon staff to work to create a statistically-heavy report (numbers and statistics being the Board's first language) about how I had become a detriment to the company.

Although I'd been caught off-guard by Christine's presentation, I didn't immediately feel threatened. I believed the Board was smart enough to see through what she was doing. When the presentation was finished, and I finally had an opportunity to respond, I asked them how they'd conducted their statistical analysis, what kind of people they'd surveyed to conclude I was a detriment to the company. The answer from Christine and her outside consultant was that they'd surveyed a broad group of demographics across North America. A few thousand people in total.

In all lululemon's branding and design, in everything we did, our focus was virtually one person: The Super Girl. In my opinion, there was no need to ask a broad group of demographics about what they thought.

"You're telling me," I said, "that you're actually surveying people who may not even like our company or even care about our products, and you're having them drive the decision-making process for that 32-year-old customer?"

I intended this as a rhetorical question, to demonstrate the problems in the analysis.

Not that it mattered. This was the end of 2013, a time when social media was coming into its own. The directors used online comments as the way to run the business, and Christine had her opportunity to prove I was who she portrayed me to be. The outcome of the meeting was the decision to remove me as chairman. Michael Casey would take my place.

As the vote unfolded, I didn't know what to say. All I could think of was that the Board was making a bad decision based on bad information. We were a brand product company, and the person they were replacing me with as chairman was someone who feared reinvestment and bold decisions and had failed at maintaining CEO oversight.

This was a recipe for disaster. Was this what they wanted to do? I guess they wanted to get me out of the picture, and they needed an "official" way in which to do it.

The Bloomberg interview gave the Board the ability to reframe me as the weird uncle that the family had to put up with but wished it didn't have to. Reframing me in public provided a diversion for poor governance, poor quality, and declining stock value.

Despite the previous disagreements we'd had, I thought when it came down to it, the Board would react in the same way the Super Girl did and think, "This is one sentence out of hundreds of interviews this guy has done; one line taken way out of context."

"The way lululemon handled Chip's Bloomberg interview was deplorable," says Jenna Hills. "Or better put, the way the company *didn't* handle the uproar was. We didn't stand for him. I certainly didn't say or do enough. Fear won that battle, and it put a lid on the potential of leaders all over the world. Suddenly, there was an intolerance for making mistakes. Not to mention that it gave rise for all the haters to hate."

I didn't get angry or emotional at that meeting. I knew if I got emotional it would not help me. But I was perplexed. Something had happened, and I didn't understand what it was. I also felt powerless and sad. Sad for the shareholders, but more so for the employees.

After the meeting was over, I went home, and I talked to Shannon.

Lululemon's official statement was that I had resigned as chairman of the Board.

It was at this time that the history and culture of lululemon went mainstream. Store managers were

no longer in control of their window creativity for fear of social media backlash. The full Manifesto was eliminated from the website, and the story of how the company was named became a liability. The transformational leaders created out of our development program were too vocal and too strong to fit into a company now run by fear. Many great employees were asked to leave or quit, and the institutional knowledge and intelligence of the company dropped significantly.

As one would see in many Netflix shows, the bad guys had to offer up a scapegoat to the public to throw the scent off their incompetence. The directors knew that because they had stopped reinvesting in the company and the competition was hot on our heels, there would be hard years ahead. The directors needed to show the public that I was the reason behind the next terrible 5 years so that they could survive and make themselves look good.

## CHAPTER 31

# THE NEXT CEO

### *The Search for the Replacement*

By the end of 2013, traffic and sales trends were decelerating exponentially. Operating lululemon with no one from Vancouver on the Board or at the management level was like running Brooks Brothers from an Ashram in Big Sur. That's how I felt as the board began looking for Christine Day's replacement. The Board was under immense pressure to announce a new CEO. They had failed at their number one job of ensuring succession, but at this moment, that was beside the point.

With the little power I had left, I was adamant that the upper levels of management would return to our foundational concepts. This meant our new CEO would have to fully understand how our culture ensured our best-in-the-world metrics.

One possible contender for the CEO role was Jerry Stritzke, who'd joined the lululemon Board of Directors in 2012. Jerry had a background with Coach, Inc. and Victoria's Secret, which gave him much of the operational experience we required. Jerry and five lululemon people attended a course in Vancouver called "Creating a Leader" run by Werner Erhard and Michael Jensen. Jensen had joined the faculty of the Harvard Business School in 1985, founding what is now the negotiations, organizations, and markets unit. I believe Erhard and Jensen's world-class, three-page document on integrity should be framed and hung in every home and office (the document is available as an Appendix at the end of this book).

Ultimately, Jerry felt that his Christian beliefs conflicted with the leadership-based concepts of Erhard and Jensen. The conflict for Jerry was so severe that he'd quit the seminar two days early. As far as the employees and I were concerned, this eliminated him from being our next CEO even though he might have been great. The Board thought I was nuts, but I knew the employees needed the right cultural fit after two CEO-operators.

Again, I put forward Delaney Schweitzer, but the Board had little interest in a CEO who might be perceived as a "Chip ally." Sadly, Delaney didn't stand a chance.

Finally, after 13 candidates had either declined or been rejected, the CEO head-hunter delivered a wildcard candidate. Laurent Potdevin seemed like an average candidate to take over a public company of this size.

We'd already put him through two interviews, but his appointment to CEO seemed a foregone conclusion with absolutely no one else in the pipeline. The pressure was immense for the Board to announce

a new CEO.

I clarified that I wanted Laurent to take the Landmark course before he started with us.

With Laurent, I wanted to know upfront if he would fit with lululemon's unique culture.

"We'll make sure he does the course," the Board assured me. "It'll be one of the first things he does when he comes on."

Until Laurent had committed to guided transformational development as part of due diligence and onboarding, I wouldn't vote for him. Eventually, I was confronted by the Board. "Look, Chip, if you don't agree with the rest of the Board, then it's going to be all of us against you, and we're going to vote him in anyway." I didn't want the optics of having a new CEO voted in by a divided Board, so I acquiesced. This was a very dumb move on my part and I will always regret it.

### ***Reaching Out***

Laurent Potdevin was appointed CEO of lululemon in December 2013 – one full year after Christine's initial resignation. Despite all the difficulties that had occurred with our previous CEO, I wanted to hit the reset button, work collaboratively, and set Laurent up for success with lululemon. Not long after he'd started, I invited him over to my house to show him why the business model and philosophy were so powerful and distinctive from the competitors.

After a short while, I realized he just wasn't engaged. I got the sense he wasn't interested in anything I was saying. There was no real exchange of knowledge, and I felt lululemon was in for a rough time as it seemed he had no fundamental base to lead a cultural company. His character seemed conflicted, and he didn't appear to be a leader to himself, let alone capable of being a leader to others.

After Laurent left my house, I realized this was one more nail in the coffin. In an earlier time, having someone so blatantly dismiss the business philosophy might have been a devastating feeling. At this point, I just felt tired.

Laurent ultimately attended the Landmark Forum seminar, given he'd promised the Board he would go, but I am confident he went only out of obligation and was not receptive to the learnings that were offered to him. Later, on "advice" from the head of HR, he eliminated the course from lululemon's people development plan altogether and did not provide a substitute. Since then, I've come to believe the culture of lululemon is living on the fumes of its past. To newer employees, the culture appears great in comparison to other companies, but lululemon was built to be in a class of its own.

### ***Kit and Ace and the New Dynamic***

My family, at least, had moved on from 2013, and from lululemon. Early 2014 saw the beginning of Kit and Ace.

Shannon had ideas and designs for T-shirts, partly inspired by the technical cashmere she'd conceptualized a year or two earlier. As Shannon says: "We really started it as a hobby...I thought, well, why don't I just hire a few people. I'll get another designer, and I'll bring along a fabric person, and we'll probably need somebody to help us with some logistics, and we'll work in the heritage building."

It was all simple and straightforward.

"This was about the size of the business I wanted to have," Shannon says. "Just one shop, getting the assortment right."

As Kit and Ace got started, my son JJ also became prominently involved with it. He had been raised with Westbeach, and then when lululemon started, he'd always worked in the stores. From there he got a retail business degree from Ryerson University in Toronto, had spent a summer at Advent International in

their retail department, and lastly, had returned to lululemon in 2014.

JJ was also the perfect age to understand the new social media and e-commerce landscape, so Shannon brought him on as a partner working on that part of the brand. I was proud to see it working as a true family business.

Dinner table discussions revolved around lululemon and Kit and Ace, but I had a lot to think about on my own.

### ***Introspection***

Was I being a leader? Was I creating a future that would otherwise not have occurred? Was I giving before the expectation of return? Were my internal struggles about my vision (elevating the world from mediocrity to greatness) at odds with the new lululemon? Was I the weird uncle to be kept quiet? What was my commitment to employees and family? Was my identity as a person too wrapped up in the identity of lululemon? Could I recreate myself to live something other than the life I felt born to live? Was I in choice?

Big questions.

### ***Taking Action***

I knew if I blamed other people, I lost the power to change a situation. Blaming does nothing to shift a power balance. A rule I've always adhered to is: if I ever complain twice about something, I either must act or shut up. The time had come for me to apply this rule to my present situation with lululemon.

For starters, I'd never taken the time to write the story of lululemon. Under new management, lululemon's PR and social media machines were reframing the company's foundations and my history. Often with social media, once anything is documented on a digital platform, it may as well be true.

Now that I had "resigned" as chairman, the dynamic had changed. I could make it my mission to hold the lululemon Board and upper management accountable for its appalling performance since 2011. And although streetnic apparel and stock markets had grown exponentially, even by as late as January 2018, lululemon was still valued at the same amount it had been valued five years prior. This lost growth would forever keep lululemon at half the value it could have been.

The company was no longer an agent for change or as a social experiment, but maybe, just maybe, that could be fixed. I thought investors would want to know how lululemon could again recreate the world of technical apparel.

The challenge that I encountered was that the lululemon shareholder base was primarily comprised of financial institutions who would sell if the company didn't fit into their short-term growth parameters. Institutions will not work to change the rules of how directors are elected. Activists gain little from agitating as the company does just well enough to not be worth the effort, and it cannot be broken up into smaller, more profitable entities.

Lululemon's governance structure doesn't allow shareholders to change the directors as fast as the world changes. This has created nepotism and a "leave it be" mentality. A principal foundation of lululemon culture had been to view everything as though "nothing works." Within this context, we never rested on our laurels, and we were willing to abandon what looked good to perfect a better future.

## CHAPTER 32

# POURING MY HEART INTO IT

### *The Perfect Espresso*

In the late '90s, after I'd sold Westbeach, Howard Schultz's book, *Pour Your Heart Into It*, was an inspiration for culture and expansion of the small-box retailer. Now, amid my difficulties with the Board and upper management of lululemon, I was inspired by Schultz once again.

Back in 2007, Schultz had emailed a memo to his company's executives. In it, he wrote, "Over the past 10 years, in order to achieve the growth, development, and scale necessary to go from less than 1,000 stores to 13,000 stores and beyond, we have had to make a series of decisions that, in retrospect, have led to the watering down of the Starbucks experience, and, what some might call the commoditization of our brand."<sup>1</sup>

Throughout the rest of the email, Schultz decried what had happened to Starbucks as they'd endured their own literal watering-down. "[We] desperately need to look into the mirror and realize it's time to get back to the core and make the changes necessary to evoke the heritage, the tradition, and the passion that we all have for the true Starbucks experience," Schultz added.<sup>2</sup>

Schultz was eight years into a hiatus from Starbucks when he wrote that memo to the leadership. Not long after, he was reinstated as CEO, and since then, the turnaround at Starbucks has been dramatic. In February 2008, over 7,000 Starbucks stores in the United States closed for half a day (at the cost of \$6 million in revenue) so that baristas could be retrained on brewing a perfect espresso.

### *What Happens to a Design-Led Company Over Time?*

The downfall of public companies occurs because of something I call the "Great to Good Phenomenon."

If a company is pushing the creative envelope, once every 12 quarters, something in design or brand will not go right. It is the outer edges of the envelope that develop a high margin business, creates brand value and differentiates a company.

<sup>1</sup> Howard Shultz, memo to Jim Donald, February 14, 2007, as published on Starbucks Gossip, [starbucks\\_gossip.typepad.com/\\_/2007/02/starbucks\\_chair\\_2.html](http://starbucks_gossip.typepad.com/_/2007/02/starbucks_chair_2.html).

<sup>2</sup> *Ibid.*



When the underperforming twelfth quarter comes, as it inevitably does, design puts out a line that doesn't meet projections. And when design fails, then better-spoken, better-educated, and less emotional operators/merchants (who are bonused on projections) get permission from an operational CEO to take charge. The so-called voice of reason takes over because operators deem themselves smarter than creative people, who they consider unreliable. Operators can back their position because lower sales can be proven with metrics. Creative cannot prove in advance that next season will be better.

The "voice of reason" in a public company is based on the financial team, which is responsible for reporting on promised numbers to analysts. Finance ensures product buyers are bonused on one-year margin projections. Both finance and buyers are therefore incentivized to be risk averse.

Operators naturally step up because they want power, even if subconsciously. If the CEO cannot protect creativity, the company becomes an old, commodity retail company run by fear of failure.

Public companies become mediocre because non-creative operators wait on the sidelines saying, "I told you so." Given a lengthy enough timeline, these operators will eventually be correct. If neither the CEO nor the board understands creative, then they won't know how to hire, manage or protect creative. They become uncomfortable with creative projects, much like I would be uncomfortable overseeing technology or logistics projects.

A CEO-operator who doesn't want to take the public wrath of short-term failure will tell stock analysts "everything is now under control." But that control easily kills the reason the company was differentiated, by killing differentiation itself. If a public company is going to survive, the solution is for either the CEO or the chairman or chairwoman of the board to be a champion for the creative process.

I wish I'd known then how to communicate this concept to those directors who drove the same route to work every day.

The problem is, once power has been taken from design and brand, it is never given back. After the power shifts from creative to operations, creative teams are given metric parameters from which they can never escape.

The "voice of reason" creates fear of failure, resulting in stability, then mediocrity, and then a commodity product. A commodity product means lower margins and dropping sales.

As the company stops performing due to lack of innovative product or bland marketing, operators blame design and brand for not elevating the company from the onslaught of competitive pressures. Inevitably, the best creative people exit the company, as great people are not fulfilled by fear-based management or a metric-driven CEO. Especially a CEO who blames his or her subordinates, or fears having to explain a bad quarter.

After the operators take over a creative company, the company has a default future it doesn't know how to get out of.

Adidas was one of these companies that fell from greatness to good. It became so metric-driven in the '80's and '90's and '00's that creativity collapsed as did the value of the company. Because Adidas couldn't internally create "creativity", it went external and made a partnership with Stella McCartney. This partnership infused Adidas with a new look and started what is now known as "collaboration". In my opinion, a company that needs to reach out for collaboration has failed at developing and running the essence of its business (notwithstanding the business model used by designers leveraging the drawing power of social media to elevate and cross-promote their brand).

### ***Looking to Advent***

David Mussafer explained to me that Christine had made no money during her time at Starbucks. At lululemon, she was given three-year short-term options with no incentive to add value for the long run. With a great company like lululemon, she took the opportunity to cut the expenses of quality, people, and

product, and then raise prices. These actions did not affect short-term value as our world-class brand would stay strong for years . . . even as its cultural foundation was crumbling.

Lululemon's 2014 shareholders' annual general meeting (AGM) was coming up, and three Board member positions were coming up for re-election. Maybe this would be the opportunity to make the changes we needed.

### ***The 2014 AGM and Strategic Voting***

At this point, I turned to a book called *Boards That Lead*, by Ram Charan and Dennis Carey, published by Harvard Business Review Press. In chapter four, Charan and Carey say: "In our experience, as many as half of Fortune 500 companies have one or two dysfunctional directors.... It becomes a drain for everyone involved – except the dysfunctional director."<sup>3</sup>

The chapter adds that these kinds of directors too often refer to what their own companies have done and that the best course of action for dealing with them is to remove them from the board. Not an easy process, Charan and Carey acknowledge, "since few directors readily exit on their own accord."<sup>4</sup>

Still, these are wise words. Of the three director positions up for re-election that summer, one belonged to Michael Casey, the new chairman of the Board, and one belonged to RoAnn Costin.

Both RoAnn Costin and Tom Stemberg were direct investors in a Boston-based company called City Sports, which was a vertical-retail yoga clothing company in outright competition with lululemon. I had raised my concerns about this, but this only made me an enemy of Tom Stemberg.

The core of the lululemon Board was comprised of Tom Stemberg's business associates. The legal opinion the Board received was: "You can have people on the Board that have a conflict of interest if the Board *knows* it's a conflict of interest, and if they agree that it's not going to affect the value of the company adversely."

In 2014, Tom Stemberg wasn't up for re-election, but RoAnn was.

I released a public statement saying I would use my majority shares to vote against Michael and RoAnn's re-elections, and I encouraged other shareholders to do the same.

As part of my statement, I said, "I am concerned that the Board is not aligned with the core values of product and innovation on which lululemon was founded and on which the company thrived." I added that for far too long we'd been focused on short-term profits at the expense of long-term vision and value.

As of July 2014, our stocks had hit a low of \$36 a share.

### ***All-time Low***

In 2014, the lululemon stock was weak. There was no new blood coming on to the Board, and because the stock was continuing to drop and there was Board volatility, lululemon couldn't attract quality directors.

I could see no upside for lululemon in its present form. I thought the only way forward was to sell half my shares (and, effectively, two Board seats) to Advent and shake up the directors.

I was convinced by Advent to sell them my shares because they told me they would come in and do a director review. Their opinion was the same as mine. Lululemon had too many old, ineffective directors. Advent's strategy was to come in as new directors and then do an "independent" assessment of the Board. This assessment, they said, would create a "nice" way of approaching three to four of the directors

<sup>3</sup> Ram Charan and Dennis Carey, *Boards That Lead: When to Take Charge, When to Partner, and When to Stay out of the Way*, page 62. Harvard Business Review Press, 2014.

<sup>4</sup> *Ibid*, page 71.

and asking them to step down. They said this was the elegant way to handle the situation.

In August 2014, I sold half of my shares to Advent International.

Advent had completed its original investment in lululemon back in mid-2009 and hadn't been involved since, but now they seemed happy to reinvest. They knew that when the stock was crumbling, their investment would bring stability and an instant increase to share value. I was counting on it.

At any rate, as of August 11, it was done.

Advent also offered to buy Kit and Ace, and I agreed it was a good idea. However, it wasn't my company to speak for, and after the Advent deal was done, Shannon, who owned Kit and Ace, said no to their offer. "The timing didn't seem right. There was a lot of flux at lululemon, and they had already told me very clearly, they didn't want the idea. Kit and Ace had been open only a few months. I felt responsible to the people who had come on board at Kit and Ace and was unsure of their future with a possible change of ownership." I supported her decision.

### **Competition and Conflict**

"Life is a rip-off when you expect to get what you want.

Life works when you choose what you got.

Actually what you got is what you chose.

To move on, choose it."

### **Werner Erhard**

Meanwhile, Kit and Ace's growth brought speculation that it was poised to compete with lululemon. The Financial Post said, "[while] Kit and Ace is still in its infancy, it will probably appeal to a core segment of lululemon consumers."<sup>5</sup>

Kit and Ace used natural fibres, while lululemon used synthetic. Lululemon was made for sweat and for working out, and Kit and Ace was made for those same people who wanted technical apparel that they could wear to the office.

Besides, as they'd done with mindfulness, lululemon had already taken a pass on the technical cashmere and the designs that formed the foundation of Kit and Ace. Lululemon's *real* competition was represented in the billion-dollar opportunities to compete properly against Nike, Adidas, and Under Armour.

Unfortunately, lululemon's Board of Directors had a different take on the situation. I discovered this at a Board meeting in late 2014. Before the meeting started, David Mussafer took me out in the hall, telling me there was something I needed to know.

"The Board is going to set up a special committee to run the company," David said. He explained this "special committee" would consist of all directors except me. The "official" Board meeting would last about two minutes, then the special committee would take over. Since I would not be part of that committee, I wouldn't be needed after the first two minutes were up. They weren't kicking me off the Board, David explained, but they were making me 100 percent ineffective.

The reason they gave was Kit and Ace.

As the Board saw it, my connection to Kit and Ace constituted a conflict of interest. Obviously, I found this ridiculous. To call it a conflict of interest when Tom Stemberg and RoAnn Costin were investors and on the Board of a direct lululemon knockoff only added to the insanity.

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<sup>5</sup> Reuters, "As Lululemon Seeks to Recover, Founder Chip Wilson's Family Bets on Casual Luxury with Kit and Ace Venture," *Financial Post*, October 28, 2014, [business.financialpost.com/news/retail-marketing/as-lululemon-seeks-to-recover-founder-chip-wilsons-family-bets-on-casual-luxury-with-kit-and-ace-venture](http://business.financialpost.com/news/retail-marketing/as-lululemon-seeks-to-recover-founder-chip-wilsons-family-bets-on-casual-luxury-with-kit-and-ace-venture).

Advent didn't help me either. They seemed disappointed that Shannon hadn't agreed to sell Kit and Ace to them when they'd offered. They said they lost face with their investors. With my part of the meeting over, David said, "Chip's going to be leaving now." And that was that.

I was clear that the issue was not my conflict with Kit and Ace but everything to do with Tom and RoAnn's conflict with City Sports and the reputations of other directors who were willing to throw lululemon under the bus to protect themselves.

I realized I needed to get off the Board altogether. Trying to resolve things internally hadn't worked and might never work. Staying on the Board would be the same as being complicit in bad leadership. I left the Board, and my one seat remained empty.

Advent's so-called "independent study" on board composition showed that I was, in fact, the person the directors believed did not work nicely with other directors, and no changes were made. Unbeknownst to the Board, I also had an independent assessment done that proposed the removal of five board members for conflict of interest and for not having the expertise needed to be a director of a global apparel company. I now believe Advent worked out a deal with lululemon directors prior to buying 50 percent of my position, to remove me from the Board.

It is clear to me now that Advent created a Trojan Horse to remove me. When I offered to sell them half my shares to come in and help me change over the Board, it was in their best interest to work with the existing board. My presence on the Board wouldn't work for their short-term PE interest, as my long-term views would conflict with their need for short-term gains. Advent needed board control and passive, uniformed institutional shareholders to fulfill their strategy.

### **On Steve Jobs**

From what I have read and seen about the ousting of Steve Jobs from Apple, it appears to me that Steve wanted to set a psychological price for the Mac so every savvy person on the planet would buy it. Steve knew the market and the psychology of the consumer - his board did not. Steve was tossed out of Apple. I now know how Steve felt.

### **Reinventing Myself**

With Advent's two seats on the Board, I felt like progress had been made amongst the directors, but the Board now lacked diversity. It lacked a single director who understood the industry, culture, or vision. Lululemon was missing the pieces that would return the company to greatness.

There is a story in Matthew Syed's *Black Box Thinking* about a keen engineer who observed a specific pattern of bullet holes in planes making it back from bombing Germany in WWII. To save weight, he only reinforced the vulnerable areas, as revealed by bullet hole patterns (for instance, there would be more bullet holes on the wings and less on the belly of the plane). The pattern was also sent to a mathematical group in New York that was specially formed to solve military issues. They wrote back to recommend the engineer only cover areas with *no* bullet holes because planes hit where there were no holes were the ones that crashed<sup>6</sup>.

I sensed that the directors, like that WWII engineer, were only covering the bullet holes – in other words, reinforcing the vulnerabilities as they perceived them – whereas I was focused on what would bring down the whole plane.

I believed I could have more effect on the future of the company from outside the Board than I could inside, and I knew it was a waiting game. Back in 2012, I had foreseen what the five-year future of the

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<sup>6</sup> Matthew Syed, *Black Box Thinking, The Surprising Truth About Success* (Perigee/Penguin Group, 2015)

company was likely to be – a steady decline in value in comparison to the stock market and other athletic companies. Now, unfortunately, I just had to wait until I could demonstrate that decline using metrics the Board would understand.

## CHAPTER 33

# THE NEXT THREE YEARS

### *The Remaining 15 Percent*

I no longer had any official involvement with lululemon, but I still owned 15 percent and was its single largest individual shareholder. To be responsible to myself, the shareholders, and my family, I believed there had to be something I could do for the company. I wanted lululemon to achieve its full potential and regain its ability to elevate the world from mediocrity to greatness.

I wanted the business to function well, I wanted David Mussafer and Steve Collins to bring direction to the Board, and I even wanted Laurent Potdevin to succeed as CEO.

After selling to Advent in March of 2014, the share price had fluctuated wildly. The Board had believed lululemon's issues were a function of growth, rather than culture and people development. The directors implemented more metrics because the company was losing its most knowledgeable people at such a staggering rate that they had been forced to operate by command and control.

Many of the core people had left, or were leaving. "We hit a few problems," says Delaney Schweitzer, "Quality issues, et cetera, and the company and Board got scared and wanted to change things to play safe and take away some of the special things about lululemon to become more of a typical retailer. It became obvious in 2014 that the Board always felt external talent needed to be brought into senior roles at lululemon. My ultimate reason for leaving was that maintaining the unique culture and the brand essence of lululemon was less important to the Board than managing the short-term earnings."

"I gave my notice on May 1, 2015," says Deanne Schweitzer. "My sister had also given notice. I wasn't being challenged any longer, and my whole body told me I couldn't do it anymore."

As Michelle Armstrong recalls, "I was VP of womens and accessories global merchandising. But it had gotten to a point where there were too many people at the senior leadership level who never understood why we did what we did and didn't appreciate what made us unique and successful. I felt like I could fight for our old way of doing things, but I might be fighting for the next 10 years, and I wouldn't win. Or I could bow out while I was still optimistic about the company.

"Just before I resigned, I thought, 'Lululemon looks like every other retailer out there now.' I think it's all out of fear. The risks we used to take in breaking the retail model, and breaking the way products load to a store, and breaking the way you build a line plan, and doing it the way we felt was best for the Guest . . . it was just a different way of working. But people sometimes think "different" is bad. Or unsafe. And I

think we just slowly became like every other organization. I was sad to see it happen. It didn't need to be that way."

Worse yet, it appeared quality people did not seem to want to work for lululemon, and Laurent was hiring disgruntled Nike people. As with Christine, Laurent was not a leader who could teach and develop people below him so the law of attraction worked the opposite way. Nike people brought constructs opposite to those on which lululemon was built. Laurent was building a wholesale management team for a vertical model. Two different models in one company would only stop the flywheel. It was the blind leading the blind.

As George Tsogas, the former VP of Global Logistics and International Distribution, observes, "The Board had hired a CEO that was not a cultural fit, hence why all of Chip's cultural programs were removed from the business to enhance bottom lines for short-term gain. This risked the formula that made lululemon so great to begin with."

### **Virtual AGMs**

I could not buy or sell lululemon shares without issuing a press release, and I chose not to attend lululemon's 2015 AGM. I wrote letters, and I asked insightful questions at successive AGMs; questions I believed if the Board discussed and answered could have added billions to lululemon's value.

In their brilliance, the Board instituted virtual AGMs in 2016, which enabled the Chairmen, Michael Casey and David Mussafer, to pre-screen questions. Obviously, by not asking a question that had been posed by a shareholder, they were deciding not to answer all shareholders. When lululemon's Chairmen allowed integrity to lapse, it was no wonder the company was unable to attract a CEO of integrity.

If vision, brand, people development, and innovation could be measured the same way as financial auditing, lululemon would be knee-deep in litigation.

Before the 2017 AGM, Glenn Murphy and David Mussafer, as co-chairmen reached out to talk to me. I did not wholly trust David because in my view, he had conspired with Michael Casey not to answer my 2016 virtual AGM questions. I did not know Glenn Murphy well, but he was separately incentivized by Advent and therefore definitely not independent. I had to wonder if their desire to talk to me before the 2017 AGM was another way to silence me (during a long stretch of underperformance and with another lousy CEO at the helm). I concluded a private conversation would not be fruitful. How could I know what Glenn and David would say was a lie and what was the truth?

The reason I dropped off the Board was that I had no internal credibility after the Christine Day era. I made the decision to step down so I could use the public forum to expose the Board's poor long-term performance, archaic governance practices, and lack of integrity. It seemed to me I could continue to be more effective outside of the Board than from within.

In retrospect, I could have met David and Glenn, but my failure at lululemon was the result of trusting conflicted directors. Both David and Glenn were driven by short-term gain and would say whatever they needed to say to convince me of their long-term vision. I had already seen lululemon's long-term interests sold out by Advent when they incentivized Bob Meers to build too many US stores too quickly in 2007 and 2008.

In turn, I chose not to trust them (using that critical distinction between *deciding* and *choosing*). I had no emotion around my choice. I understood I was of two minds. One was as the emotional founder and deepest lover of lululemon. The other as the long-term business investor. I had come to realize that I needed to think like an investor.

Can I get over this now? Certainly. I can choose to be a collaborator and work with a team. I believe I am much smarter about people and their motivations than I was as a neophyte board person. I also know enough to understand most directors do not know very much about the actual workings of the company.

As a result, I don't necessarily have to defer to ideas that were learned from another business. There is marginal correlation between other companies and a vertical technical apparel company like lululemon.

It is a sad world in the public realm when the largest and most informed shareholder can be ignored at virtual AGMs so the directors can save face. It's a sad world when the SEC will not enforce the one time each year that shareholders have a right to question operations.

My questions for the 2016 and 2017 AGMs were ignored and went unanswered. They were direct and pointed out the core issues at lululemon – but, of course, they also pointed out director incompetence and therefore, were embarrassing. However, they were also questions that as a board member, I would have posed and had answered which could have added billions to lululemon's market capitalization.

To the Board's credit, changes to directorship were made in 2017, resulting in a big shift. These included bringing in Jon McNeill from Lyft, Tricia Glynn from Advent, my nominee Kathryn Henry, and Glenn Murphy, the former CEO of the Gap. Glenn was brought in as co-chairman as an obvious backup to a problematic CEO. Michael Casey was removed as chairman (although, as of this writing, he remains on the Board).

At the 2018 virtual AGM, I submitted three questions and one further question was sent in by another shareholder. Glenn Murphy, as co-chairman with David Mussafer, answered one of my questions and the one from the other shareholder. He then went on to say, "We only received two questions, two questions are all we have." Glenn blatantly lied to the shareholders.

Obviously, if Glenn could lie at such a public forum, I would have to assume anything he says is a lie. Since other board members knew Glenn was lying, one can only surmise they too could not be trusted. (Make your own assessment by listening to the 2019 Annual General Meeting, including the answers to shareholders' questions at the end of this book and on [chipwilson.com](http://chipwilson.com).)

### ***Proof of Board Incompetence***

In an article for the *New York Times* (published, oddly enough, just days before lululemon's first virtual AGM), corporate law professor Steven Davidoff Solomon bluntly stated that virtual shareholder meetings are "a bad idea as it lets a company deal with troublesome shareholders and their often-uncomfortable questions, since the people running the meeting can privately view and manage shareholder questions without broadcasting to other attendees."<sup>1</sup> Solomon talks about virtual AGMs where the shareholder Q&A portion is handpicked, and how the Council of Institutional Investors staunchly opposes virtual AGMs.

I could never convince the Board of how poorly the company was being run, especially from 2011 to 2017. The only possible metric to prove the non-quantifiable aspects of the business (brand, product, and culture) is a five-year graph comparing lululemon to a basket of athletic companies and the stock market. From January 1, 2013 to January 1, 2018, lululemon stock grew from \$74.02 to \$79.69. This was an annualized return of 1.49 percent. Other stats for the same period were 16.98 percent for athletic competitors (Under Armour, Nike, and Adidas), and 18.95 percent for the NASDAQ.

Put another way, if you had invested \$100 over that same period (January 1, 2013 to January 1, 2018) you would have profited \$8 from lululemon. Conversely, that same \$100 investment would have netted you an average of \$119 from lululemon's athletic competitors and \$138 from the NASDAQ.

As lululemon missed out on the most significant five-year growth in the technical apparel industry, one can extrapolate on its value going forward. People think lululemon performed phenomenally well from 2018 to 2021, but it's important to note that this increase was based on a very low starting number to begin with as lululemon stock value had been stagnant for five years. Any increase over a small

<sup>1</sup> Steven Davidoff Solomon, "Online Shareholders' Meetings Lower Costs, but Also Interaction," *The New York Times*, June 1, 2016, [https://www.nytimes.com/2016/06/01/business/dealbook/online-shareholder-meetings-lower-costs-but-also-interaction.html?emc=edit\\_dbkpm\\_20160531&nl=%3Fn1%3Ddlbk&nid=51768508&r=0](https://www.nytimes.com/2016/06/01/business/dealbook/online-shareholder-meetings-lower-costs-but-also-interaction.html?emc=edit_dbkpm_20160531&nl=%3Fn1%3Ddlbk&nid=51768508&r=0).



number looks like a large percentage increase. Had lululemon continued its meteoric rise from 2011, lululemon's increased valuation to 2021 would have been only average. Consequently, even though lululemon's current value in early 2021 is \$41 billion USD, one could say lululemon will always be worth half of what it could have been. And yet, I surmise the Board will ensure accolades, plaques, and speeches will be made for those directors (Marti Morfitt, Glenn Murphy, Michael Casey, Emily White, David Mussafer, etc.) who were responsible for the massive loss. Of course, he who wins the war gets to write the history.

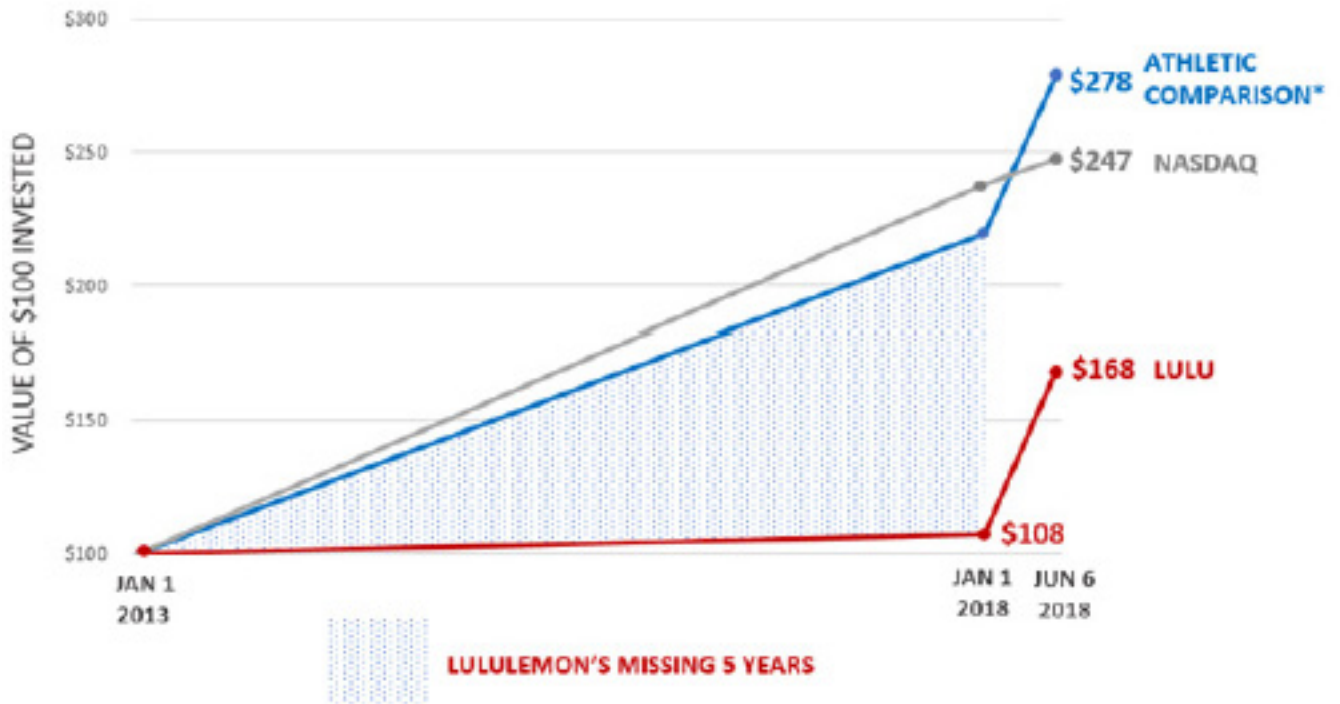
Many people find it incredulous that when asked about the \$45 billion value of lululemon in 2021, I say it should be worth double. My point here is that Jeff Bezos refused to give in to analysts who wanted Amazon to stop investing and to start showing a profit. Had Bezos stopped investing in Amazon's growth, it would be worth half its present \$1.4 trillion dollar value and people would still think it was a great company. In the same way, lululemon's directors failed its investors for five years and will only ever be worth half its possible market capitalization *ad infinitum*. To be clear, people who think lululemon fulfilled on its potential simply cannot fathom all the possibilities of what could have been.

Had lululemon advertised at the right time, moved into mindfulness, bought into 50 percent of their production capacity, gone global in 2011 (especially in China), maintained its people development platform and fulfilled on men's being a billion dollar business by 2015, lululemon would have been a \$100 billion dollar business by 2020.

Knowing lululemon was in for a long term flat or declining stock value in 2013, I was conflicted about what to do with my lululemon stock. I was best to sell and invest elsewhere, but if I sold stock, I would incur a massive 25 percent tax bill. My founder's stock sale would have instigated a mandatory public announcement, which would have scared other shareholders, who in turn would have sold, and thereby sent the share price down. It's the worst situation and definitely something private equity firms don't want founders to know about.

No one understood the athletic businesses as well as I did. What was tremendously ironic during the 2013 to 2017 years was that because I understood the business so well, I made money by buying and selling Under Armour and Nike at opportunistic times. Imagine the founder of lululemon investing in competitors because he had lost belief in the directors and CEO of the business he had founded.

### LULULEMON ANALYTICS: The 5-Year Graph



\* ATHLETIC COMPARISON = (NIKE, UA, ADIDAS )

## **Stock Value Increase**

A rising tide lifts all boats. The last half of 2017 to the end of 2020 created one of the biggest stock value increases in North American history. If one were to look at lululemon's performance over only these thirty months, it would be seen as amazing. Inside of a longer time frame however, it could only be seen as good.

One would ask, was lululemon's increase in market capitalization a result of the long-term strategy by the Board of Directors or was it the result of other mitigating factors, such as:

1. Investors determined lululemon would survive the Amazon effect.
2. The directors implemented a massive stock buy-back, pushing the stock price up.
3. The American economy was on fire and consumer spending was at record rates.
4. The Federal Government reduced corporate taxes to near-record lows in instant above-projection profits. The low tax rate attracted international investors to US stocks, creating unprecedented demand.
5. My strategy, to change board dynamics to infuse lululemon with new directors with the goal of replacing its inappropriate CEO, worked.
6. The fundamentals upon which the lululemon business model were based are still alive and working well, and lululemon naturally emerged from of a five-year hole.
7. Under Armour went through a collapse in early 2017 and other athletic companies took market share. The share value of all athletic companies rose dramatically in these 30 months.

## **Imagine This**

If the directors of a public board were mostly visionaries and creative brand or product people, the company would have tremendous brand presence and provide innovative, high-margin products. This type of one-sided director will have trouble getting the product to market and counting money in an appropriate way. A "creative" board provides a value multiplier of one. Conversely, if a board is comprised of operators and financial experts, the company will excel at counting its money, but will have no context for the effect on sales and profits that an innovative product and differentiated brand strategy could have. This type of board also provides a multiplier of one to the management and company value.

However, if creative product people and financial operators could appreciate the intelligence that each contributes, the company would see a synergistic multiplier of three.

In February 2018, a rise in lululemon's stock created a PR opportunity for lululemon to "let go" of

its CEO, Laurent Potdevin, without triggering instability in share value or embarrassing its directors. By that time, eight years had passed since the Board of Directors failed to fulfill its number one job of ensuring appropriate leadership and a leadership pipeline. Running lululemon without a CEO that the company could command and deserve cost the company \$18 billion in value in my educated opinion.

Glenn Murphy, as Chairman, publicly stated that lululemon was committed to finding a CEO who was a cultural fit. To find that cultural fit, I feared that the Board would simply redefine the culture. They could change the culture to suit the needs of their star candidate, and then support that change by claiming that the culture needs to evolve as the company grows.

The challenge is that culture needs to be embraced from the top down - everyone needs to be aligned.

Letting go of Laurent provided lululemon with a great opportunity. Lululemon needed an athlete who understood the nuances of the West Coast culture as the CEO – a person who understood how to physically push through barriers.

In many ways, lululemon has created its own way to survive, just as individuals do. In lululemon's case, it decided to survive by not rocking the boat, not risking and never sticking its neck out. What lululemon received from this survival mechanism was incremental growth with no bumps. Operating this way ensured there was no need to engage with fringe social media, litigation was minimized, and institutional shareholders were not shaken. To outsiders, it looked as though lululemon had adult supervision.

On the other hand, there is a lot lululemon did not get from its survival mechanism. It didn't get entrepreneurial-inspired employees or new top talent who were looking to be mentored by superior management. It did not get the opportunity to learn from mistakes and adjust accordingly. Lululemon did not get breakout ideas because they were deemed too risky. In short, the company is simply "good" and under the Chairmanship of former Gap CEO Glenn Murphy, I couldn't imagine lululemon becoming all it could be.

## **Employees**

Integrity starts at the top. I look forward to a time when the directors and employees have the same standard for integrity. If the last three chairmen of the Board can disclaim, avoid, and reframe questions of a shareholder at a virtual AGM, then they can and will do the same to their employees.

The employees know this. This is how a lack of integrity works. A good result cannot come from unethical actions. Thus, lululemon's directors could choose integrity as a way to better profits while doing the right thing for employees and customers.

One of my reasons for writing this book is my deep commitment to the employees who built lululemon and contributed to the creation of an extraordinary and unique company and culture. It's important that they understand how directors in a public company are often unable to see, and unfortunately, are almost never interested in the reasons these employees came to the company in the first place. I know the employees of lululemon may not get the whole picture. Perhaps too much time has passed. Perhaps the poor leadership has onboarded too many people at the head office level who do not have the context to know what "great" is. Few are left with the knowledge to train new people, enshrine the Operating Principles or promote the culture.

Employees deserve to understand the level of influence directors have over the culture and integrity of a company. They should also have the opportunity to experience the possibilities that are created when a board aggressively supports and nurtures the culture of that company. Employees deserve to know the difference between a vision based on metrics set out for Wall Street and a vision based on ideas

set out to change the world.

## ***Diversity and PR***

There will be media who want to ignore long-term stock returns, but these are the very media that support inconsequential short-term gains through meaningless press coverage. I think it would be prudent for the Board to spend an hour discussing and reflecting on the lost five years so that history will not repeat itself.

Our shareholders, employees, and Guests suffered, but they will never know what was possible. Lululemon has the ability to deliver innovation to Guests before they know they want it and provide the intangible gifts which long-term thinking allows – gifts that build competitive moats, build brand, create superior margins, and keep extraordinary people motivated. It would be incredible to see lululemon expand its business with its billion dollars in cash rather than continuing to buy back stock. Buying back stock is a last resort of the unimaginative.

Just as short-term parties have played their strategies to profit from lululemon, this book is my request for the Board to consider growth-minded directors who take a different route to work each day. Directors who can shrug off sensationalized media and listen only for what is important to our iconic customer. Directors who will hire and incentivize management for the long run.

Attracting the right diversity of directors is an arduous job, as creative people or visionaries do not want to participate when trailblazing ideas are dampened. The best solution is to figure out how to attract creative people, crazy enough to be public company board directors. They could be the creative founders of companies lululemon may acquire. It is well documented that public companies with founders produce significantly more value than those who do not.

I have reframed my interpretation of directors and top management. I now consider these people as entrepreneurs who are doing all they can to build their personal brand and wealth. They create their wealth not by creating a concept of their own but by knowing when and how to piggyback on others. So, a founder's job is to funnel the directors self-interested, entrepreneurial drive for the good of the company. Governance and financial parameters must go hand in hand with directors and top management.

My success in life has come from my appreciation of those who think differently from my growth mindset. In today's world of social media, I may be considered to be a liability, but the pendulum may shift back to people wanting authenticity instead of a protected PR shield. To find gaps in the marketplace, I am continually challenging the status quo of society, politics, relationships, and apparel. Part of my process is to think out loud. Those attached to the status quo may not always agree with me.

Lululemon directors may continue to defend their oversight of the company because this story will not enhance their short-term interests. As you might imagine, I have no close friends at Coke, Pepsi, within the NY fashion media, Wall Street analysts, nor the lululemon board of directors. It is in their best interest to ensure this book does not succeed as it conflicts with their reputations and profits. These entities have massive PR machines which, within the realm of conspiracy theories, are incentivised to undermine this book.

In many ways, this is a great system. Lululemon directors enhance their reputations, the PR consultants get paid to write stories the directors want, business reporters use these PR stories, and the media outlets get low-cost content. It's win-win - unless you care about the truth.

I want the conclusions in this book to reset the lululemon foundation, however, change takes time, patience, and investment. If employees had acted in the same manner as lululemon's directors, they would have been fired. As I've already demonstrated, lululemon's governance model protects the direc-

tors from the level of accountability to which they hold employees. This self-perpetuating mediocrity risks putting the company into another dark period. The years of 2013 to 2018 were only a setback for lululemon. It was a failure from which to learn.

In July 2018, lululemon announced Calvin McDonald as its new CEO. What is exciting about Calvin is that he is an athlete, and this could be a great start of a new era.

### ***2021 and beyond***

I urge lululemon employees to be careful around the directors. They are slippery and deceptive and will pretend to support you and to back you up. The lululemon directors have succeeded in life by being political survivors and liars. Beware of any plaque put up in the hallways celebrating “long term” directors. If anything is put up on the office walls, it should be to recognize and celebrate failures so the same mistakes do not occur again. Unfortunately, the law of attraction will kick in and the current directors will attract subsequent directors who will support status quo.

In May of 2019, lululemon announced that my representative on the board, Kathryn Henry, would become a lululemon appointee and would stop being my representative. This was a long time coming as Kathryn knew the board had declined to answer my AGM questions and was implicit in Glenn Murphy’s lie to the shareholders in the 2019 AGM. Like most people who claim to have integrity, Kathryn was adamant she was a person of integrity until she was faced with a real dilemma. Kathryn knew I would remove her as my board representative for failing to do her job to ensure all shareholders’ questions were answered and if answered, then, properly answered.

In May of 2019, lululemon stripped me of my board seat for not adhering to my agreement with Advent and the board. This was an agreement that was put in place to curb unfounded attacks on the directors and company. The agreement allows me to make business observations and comment as I see fit. The board has taken the position that I am in violation of the agreement and so we will litigate in August of 2021. This will be a terrible waste of shareholders’ money. I cannot envision myself on the lululemon board ever again due to my investments in multiple other athletic companies. However, members of my family may want to hold a board seat and add their own value.

In summary, the board first marginalized me from the board by setting up a separate sub-committee due to their conflicted interpretation of my son and wife running Kit and Ace. When I stepped off the board in February of 2015, I did so to free myself to ask questions of governance and business direction at AGMs. In reaction, the board instituted virtual AGMs. In these virtual meetings, the board cherry-picked the questions they wanted to answer, and what they did answer had little relevance to the questions. Then, Glenn Murphy lied to shareholders during the 2019 AGM.

So, I would assert that, given my commitment to lululemon’s success and to change the archaic board structure, I was met with a preponderance of evidence of deception and lies. Lies and deception made from a need for personal survival. I have a right to go public and to write this book as the only conduit remaining to ensure lululemon does not slide into becoming the next GAP.

I am still lululemon’s single largest shareholder and I remain a cheerleader for its success.

### ***Everything I Touch Turns to Gold (70 % of the Time)***

In 2019, our family sold Kit and Ace to its employees as I had failed in my goal to build a billion-dollar

company in five years. In my failure to succeed at this goal, I had brought division and mistrust inside of my family. I lost a lot of money. However, my family now works well together, and we know what very few others do - we have knowledge of what to do or avoid when trying to build a billion-dollar company in five years.

I spent 20 non-profitable years working on my Westbeach MBA to attain critical knowledge to build lululemon. Our family learned three critical bottlenecks in failing to build a billion-dollar company in five years:

1. Before getting into business with family members, have a clear governance structure for accountability. There has to be only one person with the final say.
2. Culture does not have time to grow organically. Build a fast-growth company with only a few employees, contract out everything viable, and use Artificial Intelligence, Virtual Reality and Augmented Reality.
3. Too much money thrown at growth diminishes employees' abilities to creatively solve problems. Constricted money flow actually produces a stronger company.

***Many poker games are won by knowing when to fold the cards.***

The future I want to create is a company with integrity at the top. A company where public quarterly meetings are truthful, and the CEO can answer questions without fear of short-term ramifications. A company where leaders create leaders. A company with a diverse board that appreciates both fixed and growth mindsets. A company where athletes drive brand, product, and innovation. My dream of being a partner in the world's number one technical apparel and running shoe company led by people development is very attainable. That company is Amer Sports, and I get up every day excited to support whenever requested to do so.

Good is the enemy of great<sup>1</sup>.

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<sup>1</sup> *Ibid*

## EPILOGUE

# MY RESPONSIBILITY

### *My Personal Outlook*

If you want to understand the cultural structure that made lululemon a great company, I encourage you to read the book *Legacy* by James Kerr about New Zealand's All Blacks rugby team – a team commonly known as one of the most successful sporting teams of all time. At times while reading about this team, I thought I was reading about lululemon. I even came across quotes from the very books that set the linguistic abstraction for lululemon.

I have a passion for mentoring people between the ages of 20 and 40. Certain concepts, when shared early enough in life, can help people to grow exponentially. (I wish some of the greatest learnings in my life had happened in my 20s rather than my 40s!) When I'm thanked for what I've provided to younger people's lives, families, communities, and businesses, I respond that they too will be my age one day and will be thanked in the same way if they pay it forward.

My dream would be for the business model I envisioned for lululemon to become a template for new businesses. As I review the culture, purpose and operating model of successful companies built since 2010, I notice many similarities. Perhaps "elevating the world from mediocrity to greatness", combined with six degrees of separation, has affected the world more than I know.

A recent podcast on "How I Built This" with Guy Raz on NPR and "Athleisure" on the Netflix series "Explained", have helped me tell the lululemon story, but short clips don't tell the whole story, since editing and bias can get key messaging wrong. I've found over the years that journalists can't help but perpetuate the sensationalism of my 2013 Bloomberg interview.

I have taken the time to continue to be the best in the world at technical clothing. I am currently reading my third selection of 100 business/biography books to further hone my skills. I love going to Abundance 360 conferences set up by Peter Diamandis (X-Prize and Singularity University) to hear about the future of converging innovation.



# THE ONGOING STATE OF THE ATHLETIC INDUSTRY

I wrote the following article about the state of the industry in 2018, and I will follow this up at the end of the article with my thoughts for 2021 and beyond.

**“The Outlook for Athletic Apparel”** by Chip Wilson

Retail Insider, June 12, 2018

*In the 1990s, athletic competitors were Nike, Adidas, Puma and Reebok and the focus was all on shoes. Reebok owned the women’s “step up” market and could have become the dominant player, but they bet the farm on the competitive men’s sponsorship model and failed. They were then bought by Adidas, which had world dominance in soccer (especially as their younger German brother, Puma, fell behind). Adidas used Reebok as a vehicle to win the American non-soccer market.*

*Understanding logos is an important part of understanding the differentiation in the athletic market by sex, age and income. When I was young, I wanted t-shirts with big logos. I wanted other people to understand who I was, and because I was inarticulate and insecure, the logos presented my image and talked for me. I hoped my logo marketing would have the girls think I was cool. As I grew older and became more confident, I no longer needed the large logos. At the same time, I stopped growing and I could afford better quality clothing that lasted longer. I didn’t want disposable t-shirts and I wanted discreet logos. I wanted my clothing to match the quality of person I thought myself to be.*

*This insight influenced how I developed my companies. In my initial three businesses of surf, skate and snowboarding, the target market was 14-18-year-old boys. Logos were large and necessary. In the 90’s much of Nike’s and GAP profit came from large logoed t-shirts. In 1997 this trend came to an end leaving many Nike retailers with unsellable inventory.*

*Until 2006, athletic companies focused on low margin shoes. They were not apparel people and cloth-*

ing was just an afterthought. They did not understand that athletic clothing provided higher margin and larger sales than shoes. The first forays into apparel from Nike, Adidas and Puma were for the most part non-functional and non-technical. Later on, Under Armour exploded onto the scene by exploiting a market gap in men's football technical tops ("first-layer" shirts worn underneath uniforms) and building an entire business around it. Under Armour peaked when it raised money to fund its sponsorship wholesale model. Like Nike, they used the sponsorship model of paying athletes to endorse its products. Because Under Armour used a large logo format for branding, the product appealed primarily to teenage boys and insecure older men who wanted to look "in the know". It hasn't mattered that Under Armour sponsorships seemed "bought" as the wearers of Under Armour product were not sophisticated enough to care.

Nike applied the same model in its apparel but used a smaller logo and placed it on the left breast – in the same spot as knockoff corporate golf shirts. Because Nike was more discreet, it sold product to a more sophisticated buyer than Under Armour. Nike's big sponsorships "appeared" to be more authentic as their partnered athletes wanted to use the product.

I've always believed that savvy consumers see through the bought loyalty of sponsorships. Indeed, the more sophisticated the buyer is, the more likely they are to appreciate true garment technology rather than celebrity endorsements. At the end of the day, savvy consumers desire a product with superior quality and a smaller logo. The athletic companies are fortunate because consumers give them permission to use their logos on clothing a person can wear anyplace, anytime.

Adidas lost ground in the early 2000's as their purchase of Reebok did not pan out. Nike, meanwhile, continued a very long and successful push into the world's number one sport (soccer), while also driving aggressive shoe innovation. For a while, it appeared as though Adidas had lost its mojo and Nike would dominate the shoe market. However, Adidas had the foresight to start a joint venture partnership in China, which resulted in thousands of Adidas-branded stores well before competitors.

In 2014, Adidas successfully reintroduced retro shoes and quickly followed up with more innovation. Overall, Adidas had among the best athletic stock value increases in 2017. I'm interested if they can leverage their future with a new foundation.

In the early 2000's Adidas had very little creativity inside the company, so the company made a strategic move in 2005 into a "collaboration" with Y-3 and then Stella McCartney. Adidas basically contracted out what they were not good at and have continued down this lower margin path. Puma made a brief comeback in the mid 2000's when it was bought by a Hollywood producer who strategically placed Puma product in movies. He bought low and sold high and Puma has floundered ever since.

The biggest innovation and market opportunity came with lululemon. In 1998, we invented the 'street-nic' (street technical) market and the technical vertical apparel business. Not only did lululemon have zero competition in the women's athletic apparel market, but the women's market was twice the size of the men's business. As a bonus, the vertical model was far more profitable than the wholesale business as lululemon eliminated the wholesale middleman and did not use low profit shoes as an entry point to sell the apparel. Lululemon was started in 1998 and hit the ground running, since I already had 18 years of prior vertical retail experience that spanned from design to manufacturing to bricks and mortar.

*There are numerous reasons why the wholesale model for athletic apparel is flawed. The established wholesale companies are forced to make a minimal viable product because they share their profits with the retailers. The athletic wholesale companies make samples to show buyers far 6 months advance of store delivery and the entire design to store process takes 18 months. Even worse, retailer buyers dictate to the designers what they will buy so innovation and creativity is directed by third party merchants. These merchants usually don't work in the store and direct designers on information gleaned from last year's sales metrics. The tail wags the dog. Wholesale buyers consistently weaken the brand power of a manufacturer by buying last year's best-selling commodity products with low less risk. Low risk buys make for easier financial planning. Low risk buying also makes for a boring product with little innovation.*

*By contrast, lululemon was beholden to nobody with a mandate to make a better-quality product at a better price than a wholesaler. Because lululemon had no one to show samples to, the turnaround from design to store floor only takes 9 months – amazing for technical fabrics. Lululemon became a fast “design to store” operation. Wholesalers with less margin are forced to follow lululemon's forward designs with a product of less quality. For example, the wholesalers use inexpensive Polyester and lululemon uses expensive Nylon. Polyester holds in stink and nylon does not.*

*Wholesale has another huge downside. Nike and Under Armour suffered tremendously in 2016 with the bankruptcy of Sports Authority. Not only did the wholesale companies not get paid, but they were stuck with massive amounts of inventory in production for future deliveries, which they could not ship to a non-existent Sports Authority. Nike and Under Armour worked to unload this inventory at low margins through entire 2017. Wholesalers sales dropped, inventory increased, and available cash dried up. Under Armour's bonds were classed as junk and Under Armour's market cap dropped from 18 billion in 2016 to 5 billion in 2017.*

*Lululemon is in full control of its cash flow as it gets paid each day by its brand stores and e-commerce. In 2012-2013, the lululemon board and CEO stopped reinvesting in the foundations of the company and were unable to take advantage of what was the biggest change in the way people dressed in the history of the world. Lululemon's leadership operated for quarterly reporting and was blind to future exponential growth and it lost its leadership position in apparel. Lululemon let the analysts into its front yard then into the living room, then the kitchen and then into bed. Analysts knew everything about the company except what made the company great, and what made it money.*

*In 2017, after getting the crap kicked out of it with the bankruptcy of Sports Authority, Nike has announced its deal with the devil (Amazon) to move its excess inventory. This move would normally be seen as a brand killer, but Nike used Amazon for one year and then ended the partnership once the excess inventory was sold. Nike has declared it will have only 40 quality wholesale retailers by the end of 2018. Going forward, Nike has made the tough decision to change its business model away from wholesale. Its stock is fairly valued, and I would invest in Nike as I believe it to be a better performer than market average.*

*On the surface, Nike's new model does not rid it of wholesale pricing markups. Nike must align wholesale offline pricing with online pricing, as its online pricing cannot undercut its wholesale accounts. If it undercuts the wholesalers the partnership collapses. This leaves Nike open to a competitor who does not have to support wholesale pricing markups and can develop a better product at a better price than Nike.*

*However, I am sure Nike will produce a different styled and priced product for online to create a dual-brand pricing model. Nike has enough global presence to use its mega stores as marketing centres, while leveraging ecommerce channels to champion lower prices as part of a long-term plan to diminish competition and ultimately improve profits. An uniformed analyst will punish Nike for lowering margins as it morphs into a new business model.*

*Meanwhile, lululemon is introducing shoes made by another company into its mix. A brick-and-mortar shoe store usually has a large back room and a small front display area, whereas apparel is the opposite. I suspect lululemon is testing shoes and has prearranged a deal to buy the shoe company after testing. Lululemon is using its large brick-and-mortar presence to show shoes for ecommerce, but not stock them in the stores. The APL shoes which lululemon now carries do not have the technical advantage required to authentically enter the market. This is like Starbucks selling high volume, poor quality food without understanding that food quality is subconsciously correlated to coffee quality.*

*Lululemon has the possibility of reimagining its retail footprint as ecommerce showrooms for not just shoes but for apparel. It could show five times the number of styles and ship direct from a single Asian warehouse to the global customer and minimize duties and shipping costs to the final consumer.*

*Under Armour is developing e-commerce only stores in China as a way of circumventing the wholesale model as they go internationally. This will be a brilliant international strategy if it works. A pure ecommerce play will net higher margins than lululemon's brick-and-mortar model, which has to account for retail overhead in the pricing of its goods. However, Under Armour will also have to support its global wholesale pricing in China, which minimizes the effectiveness of its ecommerce play.*

*I suspect that lululemon does not have the courage nor the vision to lower margin and reflect the natural shift to a lower-cost but more profitable pure ecommerce model. Why? Because uninformed analysts would panic over short-term lower margins and guide investors away from the stock. If the analysts are scared, then so is the lululemon board, even though their mandate is to drive long-term value.*

*No real 'streetnic' competitor to lululemon has emerged yet. But just like lululemon developed a better business model than the wholesale (because it eliminated the wholesale middleman and delivered a better-quality product at a better price), a pure online competitor can do as well. The problem is that pure online competitors seem unable to grow their brand or attain critical mass of shoppers to buy pure ecommerce without some bricks and mortar retail. Customers need to know the fit or quality before confidently shopping online – this is forcing pure ecommerce players to open retail showrooms as a branding expense.*

*Ecommerce play works phenomenally well for lululemon, because it has enough global presence for consumers to understand its quality and sizing proposition. In addition, stretch fabrics made with 12-25% lycra have a forgiving fit and generate far fewer returns – among the lowest in the world of apparel. Furthermore, because Vancouver has a significant Asian population, it already understands sizing for the crucial Asian market.*

*Athletic apparel doesn't emerge out of a vacuum. The physical location of a company is critical in recruitment, retention, culture, etc. Under Armour is in an uninspiring city of Baltimore and has a high*

employee turnover – especially in creative departments. Adidas has the same challenges, because of its remote rural location in Germany. Nike is in Portland, which is a very cool city but not international, and its fashion plate is fundamentally conservative mid-America. The athletic arm of the Gap, Athleta, is based in San Francisco, but it is merchant-run and not design-led, and past sales metrics leads its buyer to select apparel for the low price, low quality, non-athletic poser market.

Lululemon has the optimal physical location – Vancouver is international in outlook and operates business on the same day as its Asian retail and manufacturing business. The city also has a large population of athletes and creatives, including expats from Europe and Asia who bring global experience and a distinct sense of style. Unfortunately for lululemon, the board tends to overlook these resources, instead preferring to hire fashion and wholesale executives from the very companies lululemon does not want to be.

Lululemon and Adidas have a large competitive disadvantage to Nike and Under Armour as maternity leave is one-year in Canada and Europe. Lululemon's core employee is the same age as its core consumer, a 32-year-old female athlete. As 95% of lululemon's designers are females, most of which take one year maternity leave with each of two children, it is crucial for lululemon to hire 6 months ahead of the curve with a superbly strong pipeline. But the pipeline investment has been lapsing. The extra wage expense created by a longer people development pipeline does not work for maximizing short-term public financial reporting. The loss of intellectual capital and high turnover due to the lack of strategic planning around this issue has cost lululemon over 200 million dollars in market value each year.

Embracing a global sensibility can give lululemon an edge as it continues its international push. This global mentality is second nature to European companies like Adidas, which have always thought beyond their borders. Nike has been around long enough to be global and, like lululemon, had its quality roots in Japan. Plus, Nike's success in the soccer realm has only increased its international credibility. Under Armour, by contrast, has a firmly American identity—rooted in American football and American male athletes. This appeal does not necessarily translate internationally.

By contrast, the lululemon model—centered not around sponsorship but around a real community of brand loyalists—works internationally and is more authentic, self-generating and longer-lasting. The community model will continue to win the long-term brand hearts of customers. Lululemon currently boasts strategy but little vision, which limits its potential. Specifically, there's a great deal of talk of innovation for the analysts and press, but I see very little true progress.

When Nike develops innovation like flyknit (the lightweight, high-strength shoe fabric), the world knows about it. This elevates the Nike brand, and their entire product line can demand a higher margin. Lululemon, by contrast, has focused too heavily on short-term fashion, rather than long-term technology, to stimulate sales.

From 2013-2015, being unable to trade in lululemon stock without upsetting the market, I invested in Nike and Under Armour, precisely as they were ramping up for a massive growth curve. I did very well with these stocks, but not well enough to offset losses from my sizable, 30% position in lululemon, as the company continued to lose market share and value. I did well to sell Nike and Under Armour before the Sports Authority bankruptcy – not because I was smart, but because I believed e-commerce would take market

share away from wholesale retailers caught in a commodity game.

*I think Adidas has a good foundation and now can leap forward. With Nike leaving its wholesale accounts, Adidas could do very well filling the gap. However, the Sports Authority bankruptcy lesson will hang heavily on Adidas. Adidas massive presence in China will prove to be more profitable as the income level of the Chinese continue to rise.*

*Under Armour stock price has risen from the grave in 2018 and is rising in 2018 with all other retailers who have proven to analysts they can thrive in the new world of ecommerce. This is one company I believe doesn't have a solid brand foundation, as its teen market and apprehensive adult market is finicky. Under Armour's entry into low-end department stores like Kohl's to replace its Sports Authority sales is a short-term fix for long-term brand pain. The stock is too risky for me.*

*Lululemon's market value is marginally higher than it was five years ago in 2013. In comparison to the overall stock market gains and the massive growth in the industry, it lost its leadership position due to lack of reinvestment and is worth billions less than its potential. Nonetheless, it still has the best business model if a perfect combination of ecommerce and brick-and-mortar plays out.*

*Lululemon's biggest opportunity is taking advantage of high vacancy rates to renegotiate its leases at a 30% discount over the next three years. With these savings, lululemon can continue to make brick-and-mortar super profitable and drive brand like no other athletic company. Lululemon is five years late when it comes to expansion into global markets, and it is doing one billion less in its men's business than it should. However, competitors are also not changing fast enough and lululemon has far more opportunity than it realizes. Lululemon will easily add another 20% to its value in 2018 despite its heavily weighted Private Equity ownership that is poised to sell down its position. Given my experience with Private Equity, I imagine short-term decisions might be occurring to boost short-term stock value to allow Private Equity to sell down.*

*Everyone, including me, is wondering how Amazon will affect the 'streetnic' market. I am careful not to be one of those people who said no one will want a home computer. Technical apparel is a different business than disposable streetwear. The technical apparel business is driven by people who design mountain gear where clothing must work for survival. To eat, live and breathe the technical business, a leader must be an athlete who envisions apparel as a bridge to solve all of life's problems. This fanaticism drives quality, brand value and higher margin. I think Amazon and Alibaba will only win the non-commodity 'streetnic' market by buying brands where the owner is incentivized to continue being a technical problem solver.*

*In late 2017, I was asked to meet lululemon's Creative Director who told me he was thinking of leaving lululemon because financial metrics were inhibiting design. I met him with two of his team members and he showed me his design vision for lululemon. At the end of the meeting, I told him his presentation was the same one lululemon documented twenty years earlier. It is apparent lululemon prioritized fashion designers and fired athletic designers. Lululemon is generally not innovating but only adding fashion to past innovations. This inevitably leads to a low-margin commodity fashion business. The board has strengthened lululemon's back-end to provide for superb operational stability. But if the number one creative hire is twenty years too late to the party, something is wrong. Lululemon lacks leadership with the ability to interview and hire superior creative people to differentiate its westcoast branding position. When Private*

*Equity controls an innovative product company, their route to increase value is usually to buy innovation. When buying innovation, they should arrange for the founder to join the board or management. So, look for lululemon to start buying brands to increase value.*

*Under Armour made some terrible investments in digital technology in 2016. I am personally anti “built in digital apparel technology”. Digital garments feel uncomfortable and I observe people think health metrics are a great idea for forty-five days and then stop using them. People don’t want to think that hard.*

*When I was seven years old my dad told me that an electronic gadget would flex over my wrist and it would control my life. I overheard Steve Wozniak say the only thing he hated about the iPhone was the bulk in his pocket. The “life control wrist monitor” will run our lives. It will prick our skin to access fluids. It will monitor bodily functions and compare personal data to big data and provide a daily synopsis of possible issues with solutions. It will also book virtual appointments with an appropriate health specialist.*

*I believe the future of apparel will be a single stretch, form-fitting Star Trek outfit (like Olympic athletes) which, due to 3D printing technology, will fit everyone perfectly. I will own only one garment and I will wear it every day for 18 hours a day. Fabric technology will be embedded, and the garment will not stink or stain. It will flex perfectly to the body and control temperature with flexible vent holes or twisting fibres. I will choose the cosmetics of the outfit from one of the hundreds of AI-inspired app designs displayed on my eyeglasses. My body-forming stretch outfit will instantly change colour or print as quickly and efficiently as an octopus with nine distributed brains camouflages itself.*

*That is my created future for apparel—and today’s smartphone and technical apparel companies are poised to be at the forefront of this revolution.*

# CHINA AND THE FUTURE OF TECHNICAL APPAREL

This book is not so much the lululemon story as it is the history of athleisure – or as I call it, “street technical” (streetnic). Athleisure is a default term that New York fashion media used in the hopes they could claim authority over the single biggest change in how people dressed in the history of the world...a change the fashion media missed out on. Street technical apparel, which began in 1979, is still in its infancy 40+ years later. I believe true technical apparel – that is, fashion that is not just made to look technical – will continue to save us time and assist mankind in performing to our greatest potential.

After experiencing the exponential growth of lululemon from its founding in 1998, I also kept my eye on another brand across the water in North Vancouver: Arc'teryx. Almost since its inception, Arc'teryx held the title of the world's best technical outdoor jacket brand. Ironically, it seemed to have gotten this reputation almost by accident.

Arc'teryx got their start by making the world's best “life or death” climbing harnesses, before deciding to go into apparel. In their ignorance of how to make apparel, Arc'teryx did what they knew best – they made outdoor jackets like they made climbing harnesses. The designs were overbuilt, with military-level quality control. The construction was superior to previous jacket construction and was consequently very expensive.

However, living in Vancouver and snowboarding at the nearby ski resort of Whistler, I noticed that mountain guides were almost all exclusively wearing Arc'teryx jackets. Arc'teryx had exactly the same design ethos as lululemon, but from a different context. I remember thinking that if I could buy Arc'teryx and implement lululemon's innovative retail formula, Arc'teryx could be just as valuable as lululemon.

Every couple of years from 2004 onwards, I returned to the idea of buying Arc'teryx. But lululemon was a rocket ship. We could barely hire and develop people fast enough to keep up with the demands of the business we had...we couldn't possibly take on Arc'teryx, too. It was one of life's great opportunities but one I was outwardly resigned to letting go of.

Finally, in 2018, though I still owned 22 percent of lululemon, I decided to return to my plan of actively acquiring Arc'teryx. I hired an investment banker to investigate a bid.

Arc'teryx had been sold a few years earlier to a sporting goods conglomerate out of Helsinki, Finland, called Amer Sports. In addition to Arc'teryx, Amer owned a number of other impressive global brands including Salomon in France, Atomic Skis in Austria, Peak Performance in Sweden, and Wilson Sports in Chicago, to name a few. However, I knew Arc'teryx could not fulfill its potential with its ultra-conservative approach to business.

Amer tangled their public financials in a way that made it hard to evaluate, and consequently difficult to take over. But after 30 years in the apparel business, I can observe a store for 10 minutes and estimate



what yearly sales and profit are with less than a 5 percent margin of error. I knew Arc'teryx still had great upside from within the crowded group of Amer brands.

I became more and more excited about getting involved.

The size of the deal was going to be over US\$5 billion. I knew I did not have the expertise to succeed alone in a deal as complex as the one that was proposed. I determined I would need to find a world class private equity firm and a partner in China. Unbeknownst to me, the same week I was working on my offer, an offer to acquire Amer came in from a consortium that consisted of Anta Sports, the Chinese leader in sportswear and athletic shoes; FountainVest Partners, a private equity firm from Hong Kong; and Tencent Holdings, a Chinese multinational investment holding conglomerate. Together, they'd made a bid at US\$40/share, or US\$5.9 billion.

My due diligence on these companies told me they were phenomenal.

Anta Sports in particular, interested me. The company had soared past its competitors in 2020 to become the dominant sportswear player in China, with 11,000 wholesale Anta stores and 1,500 Fila stores. The 48-year-old leader of Anta, Ding Shizhong, and his family had built the company from the ground up as an athletic shoe brand before acquiring Fila's China operations and subsequently expanding their sportswear offering. I was encouraged that Anta understood vertical retailing and I was sure they knew just how lucrative the direct-to-consumer business model could be.

Building on those strengths, FountainVest was led by an experienced ex-Goldman Sachs team with an impressive resume of deals. This deal would be their biggest.

I was disappointed that the consortium had reached Amer before I had heard of their plans; however, the players in the consortium were a dream team. I thought that perhaps I could participate as a partner and that they would see value in my experience, location, and understanding of the Vancouver technical apparel market.

It seemed possible to me that Anta was making their move to become a global company and that the Amer deal would be the first step in that direction. I believed that the accelerated success of Amer brands was possible if backed by the retail machine Anta was running in China. Why? By 2018, I had travelled to, partnered with, and produced products in China for over 30 years. I have observed China's massive changes and determined that China has a distinct advantage. In fact, I believe that China's greatest strength is what Western liberal democracies typically consider to be China's greatest weakness: valuing group identity over individual identity. China's government and public company governance structures appear to allow for quicker decision-making. China's decisions are weighted towards the good of the whole, with less emphasis placed on minority interests or on pressure from a minority of voices on social media. I believe that quick decision-making may be the number one differentiator in the midst of the world's fast-paced digital revolution.

In the end, I became a 20 percent partner in the Amer deal. I also invested \$100 million USD in Anta to become a 0.06 percent shareholder. In 2021, Anta and lululemon are valued at \$52 billion and \$41 billion USD, respectively. Lululemon briefly passed Adidas in value in 2020 and, extrapolating to the end of 2023, lululemon will permanently pass Adidas; however, Anta will surpass both Adidas and lululemon.

Now at the age of 65, my sole job is to support and expand upon the vision of Chairman Ding as the leader of our consortium. In this role, I get the opportunity to think critically about organizational structure and to help find great people to build out our team. My excitement comes from believing that Amer creates the greatest possibility to elevate the lives of 20 and 30-year-olds via transformational development inside the athletic business. This is what I was meant to do.

As I edit this in early 2021, we are emerging from the COVID-19 virus crisis. Global retailers have struggled and while ecommerce sales have skyrocketed, they have not come close to making up for the loss in store sales. What is clear to me is that Euro luxury and fast fashion, as we know them, will likely continue to die over the next two to three years and e-comm only companies from China with econo-

my-of-scale pricing will become the new Zaras of the world.

As during the world wars of the last century, people will lack the funds to be frivolous. I believe health, longevity, athletics and spending time outdoors will become even more important. It is obvious to me that functional, comfortable, stylish, quality athletic brands will take a great leap forward to the detriment of disposable fashion apparel.

I foresee a great leap forward for bricks and mortar retail. The economics of running a retail store prior to the COVID pandemic was barely break-even. E-commerce had taken the guts from retail stores, and then the COVID-19 pandemic delivered the knock-down punch. However, retail stores are highly economic at half the rent, especially when stores can run their e-commerce business from the same location. Bricks and mortar shopping provides the brand essence for online purchasing. Retail stores can provide the tactile feel and olfactory sensations and can confirm sizing so customers can buy off e-commerce with confidence, which in turn reduces the number of product returns.

## MUSINGS

### *Sustainability*

The problem with sustainability is every brand and every person on social media has a different definition. The word “sustainability” is now so overused as to be irrelevant. Sustainability is at a stage where companies need to define their version and then give it a distinct brand moniker.

Because lululemon is from the home of Greenpeace and has a nickname of “Lotus Land”, recycling has always been “normal”. In 1998 we used recycled polyester and had recycling bins in our stores for staff and customers. This may seem normal now but it sure wasn’t in 1998.

Because anyone in social media can attack a brand based on a writer’s definition of sustainability, a brand cannot win. What is important is to stand for something. I wanted to get to the core issue, and to me sustainability revolved around our people doing the right thing. With 20,000 employees and a global business, someone is always going to find something that the company is doing wrong, in their opinion. At lululemon the strategy was to develop great individuals and give them a framework of purpose, values, linguistic abstraction and our code to make decisions.

# FAQS

There is a great deal of information and background detail that, in the interests of time and pacing, were not included in the preceding story. These FAQs are but a few of what I am often asked. However, I believe these details may be of interest either to an entrepreneur running her or his own business, or to the reader, who may simply want to know more about the history of lululemon athletica.

## **What are you doing now?**

I define retirement as being able to get up in the morning and do whatever I want. This often includes work. In this sense, my work fulfills my business purpose of “elevating the lives of 20 and 30-year-olds with transformational development via the technical apparel and shoe market”. I am thrilled to own 20 percent of the Amer Sports group, as well as my investments in lululemon, Zwift and FIGS. My long-term blue-chip holdings are in real estate in Vancouver, B.C. and Seattle, Washington. I’ve applied the same muse premise to real estate that I did with clothing design. Our Low Tide Properties real estate team takes functional buildings in run-down areas and makes them beautiful and attractive to 32-year-old professionals.

My present life allows me to be not only creative, but also to devote a lot of time to my family. I do parking patrol at the school that my three youngest sons attend. And, I do all the presentations and talks the school asks me to do – usually on business or entrepreneurship or Dragon’s Den-style projects.

The most fun I have is coaching my twins’ flag football team but this has been halted by COVID (which, I will say, is a real bummer).

I have a type of muscular dystrophy (FSD) and have invested in and am a director of Facio Therapies, which is researching and developing treatments for this disorder.

I am in my third “life learning session”, during which I will read or listen to one hundred new business, development, biographical or experimental fiction novels each year. I am out to consistently re-create who I am.

I am committed to doubling the value of all my investments every five years.

My family has more wealth than is possible to fathom. We want to leave the world with a lasting legacy. Our two priorities are:

1. To raise wonderful children who can choose to be positive influences on the world.

2. Our family devotes much of our philanthropic efforts to purchasing land and donating it to park conservatories to forever be preserved as park land. I am forever thankful to those who came before me who donated parks for all to enjoy. My family is dedicated to the idea of movement and the joy it brings to people. We enhance parks with outdoor art but ensure art does not interfere with nature's beauty.

### Could lululemon have started anywhere other than in Vancouver?

To be blunt, no. Jared Diamond's Pulitzer Prize-winning book *Guns, Germs and Steel* discusses how modern civilization came to be. As I remember it, the premise of the book is that man started somewhere in Africa and moved north with grains that could be easily grown using beasts of burden. Civilization exploded east through Asia and west to France. Then after a long period, Europeans conquered central and South America with germs (smallpox, etc.) and a few steel guns. The upper East Coast of North America was populated, but due to the lack of hearty grains and beasts of burden, man's movement west was very slow. Vancouver, on the north-west coast of North America, may well be the youngest major city in the world.

Vancouver was a lumber, mineral, and fishing mecca, and these industries dominated an industrialized waterfront. When the World's Fair came to Vancouver in 1986, Vancouver had a massive, underdeveloped waterfront. City planning, as a concept, had just emerged, and Vancouver was a blank canvas surrounded by snow-capped mountains and an ocean with hundreds of near-by islands. The government developed the waterfront into biking and running paths to meet the demands of a population that commuted differently due to its temperate rain forest climate that rarely dips below freezing.

Vancouver became Canada's hippy city, parallel to all that had happened in San Francisco in the 1970s. This lifestyle included the drug culture, communes and the surf & skateboard lifestyle.

Vancouver created its own version of the self-development culture that came complete with Vietnam draft dodgers. The underground discarded retroactive, traditional medicine in lieu of a proactive approach. They wanted to find out why people got sick in the first place.

Every civilization creates its own functional form of apparel to match climate and culture. The unspoken psychology of Vancouver is one of work-to-play. A Vancouverite is always ready to take off work when the snow is deep, the wind is blowing, and the sun is shining.

Living here, we're able to access Vancouver's wondrous natural environment, so dressing in a suit and tie seems arduous, archaic, and time-consuming. The business culture of Vancouver is overwhelmingly made up of small entrepreneurial ventures with only a few major head offices. Nowadays, it seems the only people in suits are those who once worked for East Coast conglomerates. West Coast business owners prioritize identifying with their sport when choosing how to dress.

In 1966, Whistler Mountain, the world's number one ski resort, opened ninety-minutes north of Vancouver, and its summer glacier became the world centre for snowboarding. Squamish, thirty minutes north of Vancouver, was tagged as the outdoor capital of Canada. Westbeach, lululemon, Mountain Equipment Co-Op and Arc'teryx, whose clothing transitions from sport to the street, began a technical sports apparel boom.

There's a joke that in any bar in Vancouver you can sit down next to someone who claims to have founded Greenpeace. After the World Fair in 1986 ("Expo '86), Vancouver was "discovered" because of its beauty and favorable weather and soon came to be known as "Hollywood North", Canada's gateway to Asia, and the world's most diverse livable city.

The American tech companies, eager to employ foreign workers who could not get past American immigration officers, set up major offices in Vancouver, and the tech look couldn't be distinguished from the laid back Vancouver athletic look.

In 1990, the North Shore of Vancouver became known as the birthplace of world-class mountain biking. The history and legacy of trail building on the North Shore are remarkable. Arguably “The Shore” has inspired and evolved more aspects of mountain biking than any other area in the world.

In 1998, lululemon emerged as a personal development company largely due to the fact that it was the intersection of everything West Coast. It epitomizes Vancouver. Lululemon’s branding is based on a “social experiment” to fight social health injustices. Lululemon’s stance against the food marketing machines endears it to its Guests. We produced technical athletic apparel while pursuing the idea of “What makes a person great?” as the way to superior profits.

Vancouver has continued its own self-development. In 2000, Vancouver set a goal to become the greenest city in the world. In 2010, the City hosted the winter Olympics and since 2011, has been the home of the TED Conference.

### **Why was integrity so important to lululemon?**

I have been so concerned with integrity because I am so inconsistent with it. I continue to talk about integrity as a way to keep myself in integrity. I learned to define integrity as “doing what I say I will do when I say I will do it, in the expected way.” This was the adopted definition at lululemon up to 2013.

What I have observed in most companies is that each individual believes they have integrity, but each person also has a different definition of it. Therefore, there really is no integrity. With one definition of integrity for lululemon, we all knew what we meant.

### **Why was personal development so important to lululemon?**

A runner’s high, which occurs after thirty-five-minutes of aerobic activity, creates naturally-occurring dopamine. The reason drugs are fun is that they dim our past from our thoughts. Future thought is only possible from past experiences, and if we have no past, then we have no future. The only thing left is the present. In the present, we are free to create our lives unconstrained by the past. We have a blank slate, as though we woke up in the hospital from a car crash with amnesia.

Living in the moment allowed lululemon to constantly re-create itself because it never got stuck continuing a process or design just because it worked. As we could re-create designs, business processes, and ourselves daily, we lived into our future, not from our past.

A decade ago, Oprah Winfrey hosted Eckhart Tolle on her show to talk about his book *The Power of Now*. I laughed while reading this book because Eckhart is from Vancouver, and I think he attended the Landmark Forum then wrote a book about it. So, millions of people have read *The Power of Now* and, therefore, understand the context of the Landmark Forum, which is based on “giving without expectation” and “choosing the present from a created future.” The ideas are not necessarily Eckhart’s or Landmark’s, but are rather an amalgamation of hundreds of books, philosophies, and scientific research. What was missing, however, was the concept that there are benefits to taking the Landmark course with one hundred other people. When participating with a large group of people, one comes to understand that every person’s brain is built in the same way. Our brain deceives itself to protect us in the act of survival. No single person is special.

### **What were the contents of the lululemon library that created the common culture?**

The library was the recommended reading at lululemon, plus a couple of more recent additions that I felt were important to include. The list is divided into two ‘libraries,’ reflecting the intended order of reading:

YEAR ONE

1. *Good to Great*, by Jim Collins
2. *The 7 Habits of Highly Effective People*, by Stephen Covey
3. *Psychology of Achievement*, by Brian Tracy
4. *The Goal*, by Eliyahu M. Goldratt
5. *The E-Myth*, by Michael E. Gerber

YEAR TWO

1. *The Tipping Point*, by Malcolm Gladwell
2. *Why We Buy*, by Paco Underhill
3. *Execution*, by Larry Bossidy and Ram Charan
4. *Atlas Shrugged*, by Ayn Rand

**What were the linguistic abstractions that allowed for one common language at lululemon?**

**ACT:** A way of being that was shaped in early childhood. There is a moment perceived as “a period of survival” during which a child’s parents are unavailable to “rescue” them. The child survives through a particular way of being (funny, dominant, blaming, competitive, quiet, etc.), and not being aware of the ability to “choose” (like choosing to be happy or sad when waking up), the child continues to default to this one way of acting, even as an adult.

**BEING AUTHENTIC ABOUT BEING INAUTHENTIC:** Being open and undefended about who a person is and how they protect themselves, so they are coachable in moments where they revert to their Act.

**BEING CAUSE IN THE MATTER:** Choosing to take action on the court rather than complaining in the stands.

**BEING PRESENT:** The most powerful way of being. Fully choosing to eliminate the past as though one had amnesia. If there is no past, then there is no future, and all one has is the present. The

present is where we are free from social, parental, or self-imposed conditions, and where we can choose to create our present from the future.

**BY-WHEN DATE:** The date on which a project or task is promised to be completed.

**CHOICE:** A decision made that is free from complication from past experiences and from social, parental, or self-imposed restrictions.

**CLEARING THE PAST:** When someone's mind is fully focused on something else, it inhibits the person from listening. The "something else" must be discussed (cleared) for effective communication to occur. There is no point wasting time talking to someone who is incapable of listening. The power in communication always lies with the listener.

**COMMITTED LISTENING:** Listening without obligation to act while paying attention to both verbal and non-verbal communication.

**COMMITTED SPEAKING:** Communication that includes by-when dates and conditions of satisfaction.

**COMPLAINT:** A way of speaking in which the speaker has an underlying, unidentified commitment to their position. If their commitment can be identified, the person can take action to move through their complaint.

**CONDITION OF SATISFACTION:** An action or criteria against which completion can be measured.

**CREATING THE PRESENT FROM THE FUTURE:** Creating options informed by our past, not constrained by it.

**GIVING WITHOUT EXPECTATION OF RETURN:** (This is the premise lululemon was based on.) The highest form of being is giving to others with no strings attached. Our lives will be amazing because, through the law of attraction, we will attract like-minded people into our lives.

**HEDGEHOG CONCEPT:** The intersection of three circles is where a business finds success. These three circles are (1) our passion, (2) what we are best in the world at, and (3) our economic engine. (from Good to Great, by Jim Collins).

**LAW OF ATTRACTION:** We attract people into our lives who reflect our same values and who act according to those values.

**LOOKING GOOD:** pretending to be someone who we are not, in order to be protective of our ego.



**MISSION:** The functional application of a vision.

**RACKETS:** A recurring way of speaking (complaining) in which the speaker is unwilling to take responsibility for the situation and unwilling to take action to resolve the situation.

**TALKING INTO THE LISTENING:** Within a conversation, each person's position is based primarily on how they were raised and their life's experiences. For a conversation to be effective, the person speaking must consider the filter through which the listener hears.

**TIPPING POINT:** The moment in which the brand conviction of a group of consumers is so strong it emanates to the entire population as a desire to belong.

**TRIBE:** A group of people who, when exposed to a brand, take it on as their own. By nature, tribe members communicate, blog, and live life on a level playing field. There is a shared excitement and deep understanding of other people's experience. A tribe is small at the start and is not mainstream (e.g. surf/skate/snowboarding/yoga).

**VALUES:** The framework people use for decision making.

**VISION:** An unreachable goal and a statement of "giving without expectation or return" that elevates people to be more than they know how to be.

**WINNING FORMULA:** A declaration of who we are that was created in a moment when we decided who we could never be (i.e. "I will never be the President of this company, but I am a fantastic Vice President.").

**TIME IS PRECIOUS:** Our every action or communication respects another person's imminent death.

**MANIFESTO:** A collection of thoughts that comprise the soul of the brand.

### **What is the law of attraction as it pertains to lululemon?**

The theory was that making the absolute best quality product would attract high-quality employees who would only work for a company that produces quality products. The superior quality and service would attract a quality customer who valued their time, was too smart to be sold to, and could not afford to waste time returning deficient products.

The combination of these produces best-in-the-world profits, which then attracts best-in-class private equity firms, directors, investment bankers, and public investors.

### **How did lululemon think about corporate social responsibility?**

In 2004, our general manager, Darrell Kopke, brought in a group of consultants to discuss corporate social responsibility (CSR) standards. After listening, I rejected their proposal, as some of them were too far behind with how we were running our business. I believed the lululemon people development program outshone CSR foundations.

My belief was that training people in integrity and responsibility would enable them to make the best decisions based on lululemon's vision, mission, and values. I believed too many rules from external consultants would handcuff a smart person from doing the right thing.

For me, the basic tenet of CSR dictates that a quality product cannot be made without developed employees and happy factory workers. We considered family life, wages, and even lighting in the workplace. We also considered that what Asian factory workers desire is far different than what North American media or socialists think the workers want. The only way to have incredible factory quality is to treat the workers well – from their point of view. This is what sets great companies apart from mediocre ones.

### **I know who Ocean is, but who is Duke?**

Ocean was the name we gave our thirty-two-year-old highly-educated, professional, condo-owning, well-travelled, marketing savvy, athletic, fashionable muse. Duke is the name Shannon and I gave our son in 2003 as we were looking for the iconic male to define the lululemon masculine muse. This is what I wrote at the time:

"Duke does not have to talk about himself. He has confidence in himself as a good person, and he is smart enough to know others will do the talking for him – good or bad. Duke does not want to win with performance-enhancing drugs because he competes against his own set of morals and goals. Overwhelmingly, he wants to have a nice family, a great business, and decent friends. He doesn't want to die early or walk poorly because of sports injuries in old age. He is a decent person that wins by helping others with no expectation of return. Those he has helped speak highly of him, and they are willing to drop anything to be part of his team. People will give him business because he has integrity and is humble. He does not dance in the end zones.

Duke's sport is old English Rugby played with a Canadian or Swedish hockey mentality. He is an "aw, shucks" type of guy, much like Steve Nash (NBA) or Markus Naslund (NHL). He is not the biggest nor the fastest, but he is the smartest. He leads his teammates by example and never talks about himself.

Think of the English notion of fair play. Think of rugby players, old-school hockey players, and competitive swimmers. Lululemon must show Duke doing these sports as it differentiates us from Nike and Under Armour.

We must think about what it is to be a Vancouver male. We know hockey and rugby better than the rest of North America. The lululemon male is defined by cooperation, athleticism, and teamwork."

### **How did you handle sizing for athletes and the lululemon target market?**

The way apparel is sized is another make-or-break quality issue for many companies. Let's start with the example of Nike shoes in the year 2000. I wear a size 14 shoe. Nike makes an extra set of lace eyelets for a size 14 shoe compared to the number they would for a size 8. However, the same lace length is used in the size 8 and size 14 shoe alike, and the lace is not long enough to go through the extra eyelets of a size 14. For many years, whenever I bought Nike shoes, I had to go somewhere else to buy longer laces – things like this happen in clothing design and manufacture.

When most apparel companies are making their template sample of a garment, they'll make it out of their bestselling size. For men, that might be a 34-inch waist, and for women, that's often a size 6. Once

they've got the garment to fit perfectly on the model, pattern makers grade the size 6 down to size 0 and up to size 12. My method is to build samples for size 0 and 12 and grade inwards to the best-selling size.

### **What was the theory behind lululemon logoing?**

My theory is that subtle logoing has real value in that it connects the quality of the garment to the quality of the person. The logo should be discreet enough to be able to walk into a restaurant unnoticed but not so subtle as to not be seen. I wanted the garment to be so beautiful that other people would want to look hard to determine the brand. I believed no guest should look in the mirror and see a logo, so I placed the lululemon logo along the sides or on the back of the garments.

Lululemon's first big selling pant (the "groove pant") had a low-slung fabric belt sewn into the pant. The fabric strip mimicked the low-slung hippie belt women wore in the seventies. The belt was sexy because, as a woman moved, the belt would accentuate the movement of her hips. Because the weave of the fabric smoothed out a woman's imperfections and because the diamond crotch gusset eliminated camel toe, the pants became acceptable to wear outside the studio.

I made the logo reflective because I connected reflectivity to athletics and function.

The Scuba Hoodie was the first time I blew up the stylized "A" from inside the circle of the logo and used it as a design feature on the front of tops. We took this idea into tech tops and tanks. The placement of the logo was discreet because we sewed it into the garment and only the seam line showed. The unknown effect at the time was that it enhanced a woman's natural body shape. I liked this because it was exactly what European fashion had done for women for decades.

Women's long hair covered the logo at the nape of the neck, so we placed the logo on the lower left hip. The logo placement was thought of in response to how stores were built. The logo, hang tag and any specific pocketing or apparel feature was always put on the left side, so the customer knew exactly where to look. When the customer looked for the price and size, they subconsciously saw special features and the logo. Too often, I see special apparel features put on the opposite side of the hang tag, and the customer does not equate the value of the garment to the price.

For men, the logo on the top could be in the middle of the back near the neck because men do not, for the most part, have long hair. Although it was a subtle differentiator from the competition, I wanted some logoing on the front of tops. In the surf industry, surf shorts always had three rows of stitching because crouching when surfing puts tremendous pressure on butt seams. I equated three-row stitching with quality, so, in snowboarding, I started using three bar tacks to reinforce all corners of pocketing. I then took this into lululemon pants. I loved the quality look of the three bar tacks so much that I decided to use it as the front logoing on men's shirts. The bar tacks on the left side also help me quickly determine which side of the shirt is the front and which is the back.

One of my favourite inventions is the rip out label inside the back of the garment where most companies put a heavy, sharp, scratchy logo tag. If there is one thing that drives me crazy, it's a stiff label with a sharp corner digging into my neck. Fashion people may put up with this, but not athletes. Athletes shouldn't have to think about their clothing. It should just perform.

### **How was the original Luon fabric developed?**

Getting the iconic lululemon pant fabric just right was a challenge. I had developed a thicker version of the fabric at Westbeach as the first layer of women's snowboarding pants. The primary downfall of Lycra was the expense of the fibre.

Lycra-infused fabric was used by dance companies, but they used skinny patterns when cutting fabric to save money. When stretched far enough, the fabric would appear shiny, transparent, and cheap.

I saw solving this problem as a challenge.

So, I used four times the standard amount of Lycra and cut patterns wider. I peached the fabric so microscopic hairs would stick up, thereby providing a cottony feel and eliminating the plastic feel of synthetic fabrics. With this synthetic fabric, I could build in anti-stink and moisture wicking properties. I also wanted to eliminate rashing, which is arguably the top issue with athletic garments.

I cannot, for the life of me, recall where I learned about flat seaming, but this process eliminated threads and seams that would rub on skin. Seams, I decided, had no place between the legs, under the arms or anywhere there was excessive movement. The stitch would be visible, even colourful, and used to enhance body shape – yet another innovation.

Gore-Tex had, by then, solidified its name in outerwear even though there were dozens of comparable fabrics in the marketplace. The name Gore-Tex was synonymous with technical outerwear and it inspired me to trademark my fabric.

I branded the fabric “Luon” (lululemon-nylon). It wasn’t long before competitors were asking fabric mills for Luon, which was a great compliment. Once they asked the fabric price, they realized, as wholesalers they couldn’t come close to matching lululemon sell-price. This was our first moat to competition. Competitors didn’t know that I cut and preshrunk the fabric in hot water and then a hot dryer. An athlete could buy our clothing, sweat in it, wash it in hot water, dry it on a hot setting, and the garment would remain the same for 5 years. This was a process that was very difficult to replicate unless the competitors could replicate the lululemon business model.

### **What defined brand for lululemon?**

In old-school wholesale financial statements, brand is categorized under what is spent on traditional media or, in today’s e-commerce world, the cost of acquisition of a single customer. These costs are easy for finance people to wrap their minds around and slot into the right place. Management and directors want to see the relationship between brand spend and sales. In most wholesale brand companies, the rule of thumb is 10 percent of sales are allocated to brand spend. At lululemon, the amount was 2 percent because our brand costs were embedded in other departments.

Because brand costs were hidden in random areas of the company it was easy for financial experts to eliminate that which differentiated lululemon the most. These hidden brand costs were:

- Thirty percent of retail leasing costs to locate stores in the right place to drive brand awareness for e-commerce (meaning customers understood quality, fit and tactile feel to be able to buy multiple items more frequently on ecommerce).
- Design meetings to authentically connect the sales support centre (head office) with the customer. These meetings require 20 percent more designers, design labour costs and travel.
- Hiring and paying highly-educated salespeople to be Educators.
- Developing reusable shopping bags that promoted lululemon’s futuristic stance on health and longevity.
- Creating quality garments to last five years.

- Choosing to hire and train inexperienced executives who were athletes over the hiring of experienced executives who were non-athletic.
- Hiring executives six months before they were required full-time and having them work part-time in the store. Brand value was enhanced as employees evaluated the new hire to ensure a cultural fit.
- Stores and ecommerce designed for speed of shopping, not for fashion outfitting. This values guests' time and subconsciously attaches a value to the brand.
- Transformational development and ongoing goal-setting training of employees.

### How do you know if branding is working or not?

1. We measured every brand initiative against two things:
2. We spent money on marketing and branding only if people would go to coffee and talk about what we did. We believed the best return on investment was to give a pair of pants to an athlete and then budget time and money to follow up with the athlete to obtain feedback to give that feedback directly to design. A high-end athlete who is part of the solution is very inexpensive and 100 percent authentic. If it cost us \$200 to reach one person who influenced two hundred others, then the return was unbeatable.

### Why do we rarely see discounting at lululemon?

The six-step quarterly meltdown meeting (described in an FAQ below) ensured the right product was being delivered at the right time. The key is to order only 80 percent of what the demand for a product is, and then use a quick-turn production team to chase best sellers and turn old product into new product.

We never put rolling racks in the store to subconsciously indicate that the items hanging on them were discounted, except for a period between December 26th and January 10th. I believe all shoppers forgive brands for discounting during this period.

Lululemon's operating procedures revolved around constricted purchasing of product to have zero goods available for sale. Our buying methods were 98 percent effective, but we did have excess goods when we bought too much of a size, colour, or style. I wanted the website to say, "we bought too much," instead of, "sale," or "discount." "Sale" and "discount" were two words banned at lululemon.

### Can you give us examples of the operating principles designed to make a vertical apparel business work?

In 1996, I read a simple concept book called, *The E-Myth*, by Michael E. Gerber. The learnings from this book were critical to lululemon's success. *The E-Myth* explains to the uninitiated that although it appears entrepreneurs are in control of their lives, nothing could be further from the truth. Most entrepreneurs are growing personally and business-wise at an exponential rate. There is no time for vacation,

reflection, or reinvention of their concept.

The E-Myth theory is that a business be set up as a franchise with all processes documented so an entrepreneur can get hit by a bus or go on holiday and the company continues without a hitch.

When I first started lululemon, I hadn't thought about franchising, but I was very keen on having a company run as though I could have the time to think about the future. I documented every company operation, from people development to finance, design buying, logistics, store size, and location. I documented how the store was to be set up, from the ratio of cash registers to change rooms, to the quantity of inventory. The final book of lululemon's operating principles was a testament to twenty years of mistakes and unproven ideas.

As a result, when we chose to grow fast, we flew with few stumbling blocks. The operating principles guided new employees, short term employees filling in for maternity leaves, and people being promoted into new positions.

We were okay with people making mistakes, but one objective of the operating principles was to ensure we wouldn't make them twice.

The following are a sample of the operating principles (OP) (I have over three hundred) that were critical in guiding our rocket ship trajectory. My next book will outline the entire set.

**Sample OP 1:** Every piece of lululemon clothing must be able to be put through a hot water wash and a hot dryer and continue to look new for five years.

WHY? Athletes are busy, and they may want to wear the same clothing the next day. A hot wash and dry is quick and kills bacteria. As part of our quality guarantee, we promise clothing will not shrink more than 2 percent after being washed hot water and dried in a hot dryer.

HISTORY: Before lululemon, people would buy garments one to two sizes too big, so after a wash, the garments would fit. We decided to make clothing that would continue to look exactly the way it did on the day it was purchased five years later.

**Sample OP 2:** All invoices are paid in seven days.

WHY? The worst thing that can happen to us is not to get delivery of product on time. The first company to pay the factories gets the first delivery, the best seamstresses and tailors, and access to the best technology, all of which is critical to quality-control and innovation.

HISTORY: With Westbeach, I never had enough money to pay on time. As a result, I often got delivery last, the least experienced seamstresses and tailors and was the last to be offered innovation.

**Sample OP 3:** Every dollar a garment is discounted takes \$10 off the company's value.

WHY? Guests subconsciously attach more value to full-priced garments and correlate full price to a strong brand.

HISTORY: Customers are trained by merchandisers (who are incentivized by short-term bonuses) to wait for sales and these customers psychologically discount the value of the brand.

**Sample OP 4:** We value our customers' time as though they are making \$100/hour.

WHY? We assume our Guests make \$100 an hour, and if they are delayed fifteen minutes due to lineups and other delays, they subconsciously add \$25 to the purchase price.

HISTORY: observation and gut feeling

**Sample OP 5: SPRINGERIZE!** Take all unsold winter pants and make them into crops and shorts and resell them in the spring. Take all dark-coloured long sleeve shirts, hem them into short-sleeve shirts and screen on a bright graphic.

WHY? To create a business model with zero discounting.

HISTORY: This is arduous and a great business practice. Once we started operating this way we made more margin and profits with less inventory.

**Sample OP 6:** When naming a new fabric or functional design, budget the required dollars to trademark the name and logo worldwide.

WHY? To create a competitive moat by owning the name, design, or technology.

HISTORY: I noticed that even though there were thirty great fabrics in the world, Gore-Tex owned the outerwear fabric business by trademarking the name of their fabric.

**Sample OP 7:** Retail stores must stock enough inventory for a Guest who is driving thirty minutes to the store to have an 80 percent chance of getting what they want (a version of this also applies to e-commerce).

WHY? Subconsciously, a customer will shop more often where they can maximize their time. If a customer cannot find what they want quickly, they are likely to leave and even less likely to return. As this guest experience is repeated, fewer customers will return and the number of visitors declines. A store that is busy is a store more people enter, much in the same way people are attracted to a busy restaurant. Critical mass of inventory will bring more people to the store and consequently, attract new customers that may have otherwise walked by. It is key to be prepared with full inventory so that the store stays busy and customers return.

**Sample OP 8:** Essential Oils. Essential oils are always to be present, and fresh flowers must be delivered to the store weekly.

WHY? The Guests subconsciously want to stay in a place that appeals to all of their senses. A pleasant aroma makes everyone happier.

HISTORY: This story is in the book. One day, my yellow lab, Bagels, tripped and spilled essential oils over a part of the rug in the store. This turned out to be a stroke of good fortune: the amazing smell lasted for eighteen months, and customers loved the aroma.

### How often do you do yoga?

My yoga practice was very consistent from 1997 to 2007, when I had back surgery. Yoga was the ultimate challenge. But, at thirty-two, I found out I had facioscapulohumeral muscular dystrophy (FSHD). FSHD comes with an exaggerated curvature of the lower spine, back problems, minimal upper body strength, and poor balance. I stopped being able to do downward dog because I have no triceps and consequently cannot do a push-up. Any yoga but Bikram is near-impossible for me. However, my legs have compensated, and I have replaced yoga with mountain hiking.

### Which books have been the most influential in your life and are on your essential reading/listening list for 2021?

1. *Catch 22*, by Joseph Heller

2. *Atlas Shrugged*, by Ayn Rand
3. *Good to Great*, by Jim Collins
4. *The 7 Habits of Highly Effective People*, by Dr. Stephen R. Covey
5. *The Goal*, by Eliyahu Goldratt
6. *The Psychology of Achievement*, by Brian Tracy
7. *The Tipping Point*, by Malcolm Gladwell
8. *The Prince*, by Machiavelli
9. *Black Box Thinking: The Surprising Truth about Success – And Why Some People Never Learn from Their Mistakes*, by Matthew Syed
10. *10% Happier: How I Tamed the Voice in My Head, Reduced Stress Without Losing My Edge, and Found Self-Help That Actually Works—A True Story*, by Dan Harris
11. *After On: A Novel of Silicon Valley*, by Rob Reid
12. *“How I Built This”*, by Guy Raz (NPR podcast series)
13. *Middlesex*, by Jeffrey Eugenides
14. *The E-Myth*, by Michael E. Gerber
15. *The Potato Factory*, by Bryce Courtney
16. *Guns, Germs, and Steel*, by Jared Diamond
17. *Tinker, Tailor, Soldier, Spy*, by John le Carré
18. *The Lord of the Rings*, by J.R.R. Tolkien
19. *The Fountainhead*, by Ayn Rand



20. *The Magic Strings of Frankie Presto*, by Mitch Albom

21. *Disunited Nations*, by Peter Zeihan

22. *Out of the Gobi*, by Weijain Shan

23. *Legacy*, by James Kerr

24. *Endurance*, by Alfred Lansing

25. *The Long Walk*, by Slavomir Rawicz

### **Do you have any new manifesto sayings for the side of the lululemon reusable shopping bags?**

“Brains are designed for human survival. For the most part, the brain isn’t concerned with living a phenomenal life, only for survival. The human being must consciously choose to override the brain to live a great life.”

“The brain is not necessarily correct about 80 percent of the time. We give the brain a bit of an idea, and it fills in the blanks.”

“If I wasn’t concerned for my survival, what would I dedicate my life to?”

“I know what is going to happen because I start in the future and work backwards.”

“Integrity is not right or wrong. It just gives workability and performance.”

“The game of life is not looking good for others; the game is making life work.”

“The individual is a drop of water, and the family is the whole ocean.”

“Everyone learns differently, and I must find out what is important to other people. It is the key to having people want to work with me.”

### **What was so different about lululemon’s design strategy?**

Lululemon was never about the “enhancement” of women’s bodies. We never wanted to fool anyone. We were not a Spanx-like product that was made to shape bodies, and we didn’t pad bras to create an illusion (except for in the Japan market). Lululemon was about being a real authentic human being. We were comfortable with all bodies. This core belief came from a life of competitive swimming, Olympic clothing, and triathlon, where functional tight stretch apparel is a necessity for competition.

The mission statement of “providing people with the components to live a longer, healthier, more fun life” dictated that lululemon was in the longevity business. The mission statement provided designers with a guiding light towards:

1. Athletic performance
2. Function before fashion (or more to the point, function is the fashion)

As lululemon grew exponentially through the second half of the 2000s, finding the right designers became an interesting process.

Big businesses and other large organizations – say, sports franchises – seem to always have three people on top who produce more than the five thousand people below them. This equation is a weird version of Pareto Principle where, instead of 20 percent delivering 80 percent, it's more like 3 percent delivering 97 percent. With designers, I found there was usually one designer who could create consistently more than twenty others.

To me, that one super-talented designer brought more value to lululemon than a CFO or head of HR. With financial, administrative, and managerial people, systems are in place where specific roles are quantifiable. It's the opposite for designers, even those who have gone to design schools.

Taking it a step further, designers must re-create four to eight times a year and the best ones can do it effortlessly.

We would find the best designers by setting up labs. In these labs, the idea was to observe multiple designers to see who could consistently re-create. After a designer proved her or himself to have special abilities the designer would be offered employment at the SSC (store support centre).

### **What is the real story behind offshore sewing factories?**

To make a quality product, employees in sewing factories must be at the top of their game. Food, lighting, and pay must all be superior to make a superior product. For the most part, the best factories in the world are in Asia, and the worst factories are in North America. The Asian factories are new and designed to produce large quantities with the latest and best machines. The factories in North America are, for the most part, old and dingy.

Sewing factories are the primary drivers to bring countries out of poverty by moving into countries with low-cost labour, high unemployment, and low standards of living. Sewing factories are the first to leave a country when poverty is no longer an issue.

In my early days in China in the 1980s and 1990, most sewers came from impoverished West China to work on the East Coast factories. These women were leaving their homes and families behind, and their goal was to work for five hard years and then go back home and start a business of their own. They wanted to work twelve to fourteen hours a day, seven days a week. Human rights activists used social media to voice their opinion on what they thought working conditions should be. Often, this worked against what the workers wanted. The result is women would work eight hours in one factory, and then walk across the street to work six hours in another.

There is a vast difference between high-quality technical garments and fast fashion cotton garments. Athletic apparel must function, but fast fashion only has to look good on social media platforms for one night. Sewers learn their trade in low-cost sewing factories, and, as they become more proficient, they move to technical factories where quality-control and working conditions are superior. New sewers must start somewhere and are happy to have any job that allows them to bring money to their families.

No one wants to see child labour, but if a child is not meant for school as often happens in North America, I would prefer to see that child learn a skill, work in a factory, and earn money, rather than wasting away doing nothing. In areas of poverty, we must allow anyone who can and wants to work to be employed. Human rights activists cannot understand the dire straits some families are in and just how happy they are to have any opportunity. All incentives possible must be given to factory owners who are willing to risk setting up in an impoverished part of the world where there is little electricity or transportation. These factory owners will only risk it if they can get inexpensive labour.

After WWII, Japan, Taiwan, and South Korea exported finished garments and were paid in foreign dollars. With foreign dollars, they paid taxes to build foundational infrastructure. China took one billion

people out of poverty in the last twenty years with low-cost labour. China's previous one-child policy has created a demographic that does not have their parents' drive to succeed. They have two parents and four grandparents babying them and have never been forced to compete for attention with siblings. This has the effect of pushing wages in China too high for many apparel manufacturers' low cost clothing production. Consequently, low-cost labour has now moved to Vietnam, Cambodia, and Ethiopia.

**Can you give us an outline of what the meltdown meetings were and why they differentiated a vertical company from a wholesale company?**

To be a truly design-led company, I knew we had to do things much differently than they were done in wholesale. The vertical retail model works on a nine-month calendar, which let us be a year or even two years ahead of our wholesalers since we didn't have to make samples and show them to middlemen or fashion magazines. This led to developing something we called 'the quarterly meltdown meeting,' which became the single most important meeting at lululemon because it set the direction for every other department.

In descending order, our line plan was built based on a series of rankings from the sales of the last quarter. Each new ranking was built onto the ones listed before it:

1. Inside each category (i.e. pants), we ranked styles by percentages sold from best to worst.
2. We readjusted rankings by what could have sold if we had perfect inventory delivered at the perfect time.
3. We readjusted again based on what could have sold if we had perfect styles (i.e. the right number of styles in the perfect length, width, or fit).
4. Then we'd readjust the rankings again, using new or old styles to use up any excess liability fabrics or trims. All excess fabric had to be used up in the next season's line plan.
5. From there, we'd readjust to show how a future-focused design team would rearrange the ranking based on their knowledge from working in the stores, leading design meetings, forecasting books, and competitor's designs. The styles that went or remained were determined by the head of design and not the buyer. This is a control system. Before the era of lululemon, a buyer was incentivized to order what worked the previous season (buyers are naturally risk-averse and beholden to finance, wants what is best for accurate financial reporting but not what is best for long-term demand). A design-led team might eliminate a good-selling item because the style negatively affects long-term brand value.
6. Finally, we'd readjust the list to show what the production manager would change given fabric, factory bottlenecks, import duties, or opportunities. What if there is only enough fabric for four styles but the line plan asks for fifteen? Which factories are easy to work with? Which mills can guarantee fabric delivery?

We looked for bottlenecks. For instance, if the factory was using a new sewing technique with few sewers trained in that technique, or few machines that could do it, then there was no point in making

many styles using that method. The goal of the meltdown meeting was to deliver product to the warehouse fifteen days before it was required in the stores.

There were also various opportunities to consider. A mill might say they could make one great fabric and a lot of it at a really low price because they have excess raw materials. Or a factory may have six lines of sewers who are underemployed because of low demand for specific machines or sewing techniques. The factory with unused capacity can offer a great price.

The meltdown meeting dictated how our line plan was developed, by taking the right amount of past and future information and combining it with what we knew about bottlenecks. There would only be a handful of people in these meetings – the merchant, the designer, the head of product, the CEO and three to five bright store Educators who could give instant validity to this creative process.

### **What was lululemon's initial real estate strategy?**

Starbucks and lululemon had the same customer. Our customers were willing to pay three times the going rate for better quality. The real estate strategy was simple. Go into every city and build in the same order as the first three Starbucks. Eventually, Whole Foods moved in near our store locations, and then Apple became our neighbour as well.

### **How did the invention of the pop-up stores come to be?**

We fell into pop-up stores purely by accident. We had small, inexpensive studios in Toronto and Vancouver that were break-even within three months. The best part was that people were coming to us, and this meant we were really connecting with the community.

We would open for three days out of the week and, on the other two, our staff would lead yoga and running classes or hold design meetings. Most importantly, they would research which products our customers liked and where they most wanted to see us open another store. It didn't even matter where we stationed these pop-up stores – on the second floor of a building, on the seventh floor, or in a back alley. What mattered was that people knew our products, knew they were helping us get them the perfect product for their community and knew we were coming.

Nothing about lululemon's ability to reinvent retail was traditional because we didn't know how any other retail company operated. We built a fundamental model for success based on the sales results of small pop-up stores. The sales gave us perfect confidence to spend up to a million dollars to open larger stores. We could recover the build-out costs of stores in eighteen months' time.

The economic crisis of 2008 created a perfect time to develop pop-ups. We didn't want to risk investing a million dollars into a single store when pop-up stores cost us virtually nothing. At worst, a pop-up store broke even. It was the perfect time to develop the market by opening three hundred pop-up stores. We would keep them open for a few years and, if we chose not to pursue opening a larger store, no harm, no foul, the pop-up had cost us next to nothing.

From the data of these three hundred stores, we could determine which pop-ups would fail and which would rise to the top and become our next retail stores. That test, combined with tracking where most of our e-commerce sales were coming from, helped us better understand the lululemon market.

Around this time, I wanted to open pop-ups in Europe. I understood that market quite well, having conducted business there for Westbeach. Why not scatter around sixty to eighty pop-up stores? It didn't matter if we made money from them or not. We had money in the bank, and we had orders with factories we couldn't cancel as the fabric was already purchased. Given the way the economy was behaving, we had excess inventory and nothing to lose and everything to gain. Whatever sold in Europe could easily pay the salaries of the twenty-two-year-olds fresh out of university who were working in our pop up stores.

The board wasn't on side – especially Tom Stemberg, who had opened a Staples in Germany that performed terribly. But that was an expensive big-box store, and I was talking about something small that was certain to break-even. The success of these pop-ups would cement us as first-to-market and set the brand forever. All we had to do was start somewhere.

The board was nervous, and we settled on opening a few pop-ups in the U.S. From my experience in the surf, skate, and snowboarding business, I could feel the competition in the athletic apparel industry coming like a tsunami. It wasn't even a matter of keeping competitors at bay; it was a matter of taking advantage of this multi-billion-dollar opportunity that was occurring despite the economy. People were radically changing the way they dressed and this was 10 years prior to the COVID pandemic of 2020/21.

**What concepts or inventions could be attributed to you?**

As a technical designer, there is much that I am proud of having contributed to the world:

1. Triathlete clothing (1979)
2. Technical apparel vertical retail model (1979)
3. The “streetnic” movement (1979)
4. Prohibiting smoking in a retail store (1980)
5. Reversible shorts (1981)
6. Long surf shorts (1981)
7. Dual-front chest zippers on jackets to allow for intake-outtake venting and airflow (1989)
8. Vent zippers on inner thighs in snowboard pants (1990)
9. Pop-up stores (1991)
10. Zipper guards at the top of the zipper to solve for neck rashing (1991)
11. Gator clips on snowboard pants to solve for powder climb into in boots (1991)
12. Sleeve thumbholes to solve for sleeves riding up and for warmth (1992)
13. Chest pockets for cell phones to ensure the wearer could access their phone in two rings (1994)

14. Free in-store hemming to solve for perfect long pants made for taller girls (1998)
15. Flat seaming in stretch pants to solve for rashing (1998)
16. Yoga pant (Groove Pant) featured in the MoMA in 2017 (1998)
17. Matte look in yoga pants to solve for “lightbulb butt” (1998)
18. Diamond gusseted crotch in women’s yoga pants to solve for camel toe (1998)
19. Luon 12 percent Lycra fabric to solve for transparency of women’s tights (1998)
20. Rip out fabric content labels (1999)
21. Removal of inner-thigh seams to eliminate rashing in running shorts (2002)
22. Silver threads sewn into first-layer tops to eliminate bacterial stink (2005)
23. Mindfulness model for business (2012)
24. Denser, thinner threads in athletic tights to solve for athletic compression without pilling (2013)
25. Retail stores with half-flush toilets and recycling (2000)

#### **Who were the honorees of “The Holder of The Flame” award at lululemon?**

This award was given to employees who stood for the vision, mission and values of lululemon; those who understood and could easily communicate the linguistic abstraction. The winner of the award was someone who would uphold the development program of transformational development and goal-setting.

Since the Award’s inaugural year in 2009, several winners were instrumental in lululemon’s story. Some notable winners included: Susanne Conrad, Shannon Wilson, Eric Petersen, Chloe-Gow Jarrett, Bree Stanlake, Erin Westelman, Delaney Schweitzer, Deanne Schweitzer, Parker Pearson, Jenna Hills, Marina Hui, Jill Chatwood, Katie Cotter, Bonnie Fung, Carla Anderson, Jesper Nilsson, Cassandra Sze, Carolyn Manning, Celeste Burgoyne (Keeley), Julie Ball, Shannon Savage, and Ben Savage.

#### **What were some of lululemon’s key philosophies?**

Lululemon was a social movement as a philosophy.

We did not understand, contemplate or spend time on women’s inequality, pay, diversity, sustain-

ability and inclusion. In 1997, we believed these were things of the past and we operated as such. Our philosophy was to be futuristic and create the present from the future.

We were not in the wellness business; we were in the mediocrity to greatness business.

Transformational self-development created a company of people who required no extrinsic motivation. Employees became intrinsically motivated to elevate the world by spreading our development system.

We gave no discounts to celebrities.

Digital is exponentially changing the world. Businesses used to morph slowly from one business model to another. This stopped being an option in 2005. Lululemon had to keep the cash flow from one old model (yoga) while investing in the new business of running, mindfulness, or technical street apparel. To have two ideas running at the same time required a higher overhead than the old model. If two models weren't operating in parallel, the competition would eventually catch up – which it did.

### **What was it like at lululemon following the murder of Jayna Murray in 2011?**

2011 was a uniquely challenging year. It was also punctuated by a terrible human tragedy that struck one of our US stores. On March 12, just after eight o'clock in the morning, police arrived at the lululemon store on Bethesda Row in Bethesda, Maryland. There, they found one employee, Jayna Murray, brutally murdered. Another employee, Brittany Norwood, was still alive after having survived an apparent robbery-turned-homicide.

I met Jayna just a few months prior to her death. She was a wonderful and authentic person; as a father, I couldn't imagine the anguish and heartbreak her parents were experiencing.

The day wore on, and the surviving employee told police that two masked men had broken in, sexually assaulted her, killed Jayna in a horrific way, then left. It was a terrible thing to happen anywhere, but it hit even harder because it was in one of our stores.

Jayna was laid to rest in her home state of Texas a week after her murder. I attended the funeral. There's little good that can be said about a funeral where parents are burying their child – it is my worst nightmare as a father.

Over the next several days, I thought about how we would get our employees through this seemingly random act of violence perpetuated by men. Fear had rippled through the entire lululemon family. Everything we did at lululemon was about making employees feel powerful, self-motivated and part of a community. We contributed to the reward offered to find the two assailants, hoping that their arrest would be a first step toward understanding what had happened.

A week later, the story took a strange turn. Police arrested the surviving lululemon employee – Brittany Norwood – accusing her of having committed Jayna's murder and then staging an elaborate cover-up. It emerged that Brittany had been stealing from the store, something Jayna had discovered. Brittany had previously worked at another lululemon store where she'd also been suspected of stealing. No theft had ever been proven, and, as there were no definite grounds for her dismissal, the legal system would have interminably tied us up in litigation had we fired her.

Instead, Brittany was moved to a store where her actions could be better monitored. On the night of the murder, Jayna confronted Brittany with definitive proof that she'd been stealing, and the confrontation turned violent.

I asked myself if there was anything lululemon could have done better to prevent this. We'd put cash-counting procedures in place and had policies to ensure there were at least two people present. We'd implemented systems to ensure the security and safety of our staff. I just couldn't understand how something like this had happened. Maybe it was a symptom of the world we were living in.

Three-and-a-half months after the murder, the Bethesda store reopened, embracing and showcasing

a theme of love in Jayna's memory. Later that fall, Brittany Norwood's trial lasted six days before she was found guilty of first-degree murder. The jury deliberated for less than an hour. She was sentenced to life in prison.

### **In 2003 lululemon started an organic company called OQOQO. Why did you start it and why did it fail?**

During the mid-nineties, besides being introduced to yoga, I'd also been introduced to a different perspective on the environment. I'd come to see that awareness of human impact on the world would only increase as markets in the developing world strove to attain a similar standard of living as the one we enjoy in Canada and the US.

As I thought about environmental awareness and sustainability, I realized recycling, renewable technologies, and energy conservation would be things more and more people would prioritize. When we opened the first lululemon store, we did things that were unheard of in any business at the time. We installed half-flush toilets, used recycled wood floors, and put recycling bins in the stores. These actions were completely aligned with our yoga-inspired Kitsilano culture.

Then, by 2003, I could feel there was a growing demand for organic, ethically-sourced goods, borne from the same awareness about our impact on the planet. Like surfing, skating, snowboarding, and yoga, I could sense people were being pulled toward something. I wanted to address that demographic, so I began to look at organic clothing, something no one was doing in a large-scale way.

I looked at things like soy, hemp, organic cotton, bamboo, even recycled plastic – all materials which don't use nearly as much land, water, or agrochemicals as cotton. I liked what I saw and decided that organic clothing was something lululemon should get in front of.

We developed some unique fabrics that integrated natural fibres into the new synthetic fabrics we were already using in our apparel. The initial goal was for each garment to be at least 75 percent natural, organic, or sustainable.

We began a line of organic clothing, and once sales proved there was a strong interest in these garments, I decided the idea was strong enough to exist as its own brand. We called it OQOQO (pronounced oh-co-co). Like lululemon, the brand name was fun to say and pleasing to the ear. Also, because the word used Q's not followed by U's, it both looked unique and was easy to trademark. We set up one store near our original lululemon store in Kitsilano.

While we were expanding across Canada and making our first forays into the States, and developing OQOQO as a new brand, we began to find the concept challenging. First, we discovered that many organic fabrics are, in fact, worse for the environment than their non-organic synthetic or natural counterparts because it takes too many chemicals to break the fibre down to make it soft.

In addition, we found the only people willing to buy organic fabrics were very thrifty women who were unwilling to pay for quality. We stopped the whole concept.

The only designers I could get involved in OQOQO were people that loved organics.

Very few people had the design savvy to make organic fabrics cool. Shannon and I knew that OQOQO would succeed if it took organic fabrics and paired them with inorganic elements like zippers and bright colours, things that our target market would want to wear. Try as we might, we could not get designers to bridge the gap between organic fabrics and the lululemon customer.

There was also a logic gap that was beginning to undermine the whole initiative. The original intent for OQOQO was to create great clothing that was better for the environment and more sustainable. Cotton goods, including the organic cotton we were using at OQOQO, lasted around eight months to a year. After that time those items were often tossed out.

As time went on, we found that lululemon clothing, which was chiefly comprised of inorganic ma-



terial, was still looking great and performing perfectly anywhere from six to eight years after it was purchased. To be worthwhile, our OQOQO line would have to be many times more sustainable than typical clothing. It wasn't. Especially when you consider that the chemicals used to break down and dye soy to make it usable as fabric are little better than the chemicals used to grow cotton.

In any case, we had to shut down OQOQO in early 2009. The 2008 financial crisis notwithstanding, part of the problem with getting OQOQO off the ground was timing. As with some other things, whenever we were poised to do an adjunct concept, we would experience an exponential growth spurt in lululemon. We would need all-hands-on-deck to keep pace with the growth. Anything that wasn't part of our core line was too low a priority, and I didn't provide the right incentives to have people spend time on a side development.

As the OQOQO experiment ended, we thought about a spin-off that was both truer to our culture and less likely to fall short of the existing technological limitations. After a brainstorming session with the top thirty-five people in the company, we came up with the idea to develop an athletic line for girls.

Unlike with OQOQO, we would be using the same fabric and the same manufacturers as our lululemon products. We had to figure out how to appeal to this different demographic. We had to think about how we would set up a store and how our Educators would interact with people who probably weren't buying the clothes with their own money. We needed to get a handle on how to make it different from lululemon, while still staying connected to it and sharing the same high standards.

It would not be about yoga. We had to think about what activities it would support. Was it for dancing? Gymnastics? Soccer? Was it going to be for the fourteen-year-old girl, the twelve-year-old girl or the ten-year-old girl?

While we thought about these big questions, I gave the brand a name: Ivivva *athletica*. Like lululemon and OQOQO before it, the name Ivivva had a similar consonance and sounded feminine, vibrant, and alive. Adding "*athletica*" connected it to the brand from whence it came.

Ivivva was a good concept, but not great. The issue with separate men's stores or Ivivva stores is that their consumers shop on weekends and after four o'clock in the afternoon on weekdays. The days are mostly very slow, and this makes it tough to justify retail rents. The solution is to move Ivivva and men's into the larger lululemon stores where shoppers are mostly women who shop for both their husbands and daughters during the day.

Ivivva was created under the assumption that lululemon's men's clothing would be a \$1 billion business by 2012. Management's focus was taken from men and put into the much smaller opportunity of Ivivva, which turned out to be the wrong decision.

### **Is building a company like raising a child?**

With the experience of having five boys, I can easily see the similarities between raising a child and building a business. In both cases, the first two years are dreamy and time moves quickly. Then, there are the terrible twos and then the fucking fours. At six, the children can communicate, play is fun, and the child's (or company's) growth is fascinating.

As the company or child moves into its teens, it starts to flex its independent muscles. Top executives have their own thoughts and visions for the company. An incremental, almost invisible struggle begins between the founder, executives, directors, and advisors. Everybody becomes an expert, and the vision gets watered down.

The eighteen-year-old rebels. It wants to get out from underneath its parents' control. It wants the keys to the car but wants the parent to pay for gas and food. The teenager wants no oversight and has no interest in the loving coaching of the parent. The child simply cannot hear the parent, and the child (or the company) looks to outside influences (or consultants).

The child and the company feel the parent or founder is impeding their progress. The founder feels the company is being led astray by directors (step-parents or other selfish teenagers) who don't care about the long-term health of the teenager. The child is taking drugs for short-term highs and enjoying every minute of it. The company is addicted to quarterly reporting. The step-parents, or directors, know something is wrong but do not have the desire or incentive to act like a parent or a company founder. The parent or founder is depressed because he or she sees so much of the eighteen-year-old's potential going to waste.

The child grows up and begins to appreciate their parents' love and values by their mid-twenties. She or he will interpret their errant and wild university days as a learning, but it is now time to be effective in life. If the company or child does not come back to the founder or parent, it is because of psychological issues, and the company or child rarely survives in a Darwinian world.

### **Have you ever thought about buying lululemon and or taking it private?**

Yes, I have considered it, but I won't. Lululemon has always had a high valuation, and the multiples it would take to buy it back make the possibility too risky. Lululemon cannot be bought and broken up into different entities to provide more value to the purchaser. The staggered board structure only allows three board positions to open up annually, and that, in my opinion, has inhibited a superior bid. I believe a proxy to change governance at lululemon is a non-starter because 70 percent of lululemon is owned by passive equity groups who would rather sell than get involved in an ownership struggle. The passive investors put no pressure on the company to perform or change the board structure. They vote against poor governance by selling their shares which they have done consistently from 2013 to 2017.

### **What allowed competitors to catch up to lululemon?**

The critical juncture came in 2012/13 when non-solid-colour graphic tights came onto the market. All indications in 2010 showed prints to be the future of tights. Small graphic prints on inexpensive polyester pants solved the same issue as lululemon's solid-coloured, nylon Luon fabric. Small graphics hid women's imperfections, and the polyester fabric was a third of the price. Lululemon correctly refused to use polyester fabric because it maintains a bad odour and went against lululemon's quality principles. Lululemon made only one print in the better quality, more expensive nylon. Lululemon needed to make twenty prints to meet demand and not leave the door open to competition.

### **What were your 2014 goals for lululemon?**

In 2014, I wrote out for the board what I thought lululemon's specific goals should be:

By December 31, 2015, \$40 million would be put into "owning" mindfulness in the marketplace.

By December 31, 2016, we would design, make, and sell more styles of sports bras than any other company in the world.

By December 31, 2018, we would have the same sales as Under Armour with double the profit. We would do this by providing a better quality product at a better price. I estimated a \$40 million investment would be necessary to make this happen.

By December 31, 2018, forty percent of our sales will be done through e-commerce.

By December 31, 2019, our men's sales would be 40 percent of sales. We would achieve this through branding, product, and by focusing on "owning" hockey and rugby with technology.

By December 31, 2020, we would put twenty thousand people a year through our transformational employee development program.

By December 31, 2020, we would have a thousand stores worldwide. Of those, four hundred stores would be women/men/livvva combined stores and six hundred would be break-even showrooms.

### Can you share the 2015 ValueEdge report on lululemon's board of directors ?

One of the first things ValueEdge examined was the number of top-level executive departures and determined it was more than that of our peer companies. "Resigning is often an unexpected event which causes more disruption in the business than does a departure due to a retirement or promotion."

The real problem was that lululemon had taken longer than six months to fill these spots, which was simply too long. Further, they were bringing in external people, rather than promoting from within.

This proved something I've already discussed at length – lululemon had no succession plan for its highest levels. Instead of grooming and developing the next CEO internally, the lululemon board was driving people away. They were filling positions with outsiders who could not benefit from our original training and development, and who would further water down what was left of our cultural soup. Much of this, I believed, was due to the nominating and governance committee also headed by Michael Casey.

The ValueEdge report lauded lululemon for finally adopting majority voting for board members, but the staggered board structure was still a big problem. Not voting for each director annually, ValueEdge reported, was preventing shareholders from playing a meaningful part in the director election process. This was stopping the board from being refreshed yearly and was contributing to a lack of board accountability. Again, these were issues I'd been aware of for some time.

The report ended with a list of detailed recommendations. Among them, it was recommended the board get more expertise in clothing retail. The current skillsets of the directors – who mostly came from strictly financial backgrounds – were putting lululemon at a disadvantage, since nobody had experience in brand and product management.

Another recommendation was to openly evaluate the potential conflict of interest presented by directors (namely, RoAnn Costin and the late Tom Stemberg) involved with City Sports.

A third recommendation from ValueEdge was to establish management development and succession plans as a way of addressing our senior executive departures. On that same note, ValueEdge strongly suggested lululemon should "allow for more executive positions to be filled with internal candidates" rather than consistently going with outside people whenever a top spot opened up.

Other recommendations included finding systemic causes for the unusually high number of corporate crises lululemon had faced (water in the soup, perhaps?), de-staggering the board to allow for annual elections of all directors, a comprehensive board evaluation process, and disclosing the rationale for the board management structure – or having a means to make the board account for its actions.

Every one of ValueEdge's findings and recommendations spoke to a multibillion-dollar company willfully lagging behind its competitors and failing to provide best-in-class practices. I was not surprised. ValueEdge's draft report answered my questions and confirmed much of what I'd suspected about the

board.

But by now, my feelings about the board, upper management, and the overall direction of lululemon have moved beyond the quantifiable aspects of the draft report.

## ATTITUDE OF GRATITUDE

At present, I appreciate all that has been accomplished by lululemon and its current and former employees. The world is ready for businesses built on the lululemon philosophy because everyone wins.

I give ultimate thanks to my mom and dad who are in their late-80s and are my mentors in the quest to live 40,000 days.

Thanks to my brother, Brett, who's an inspiration to me, both from an athletic viewpoint and as my first partner in lululemon when we expanded to the US. To my sister, Noel, who's probably one of the best brand marketers in the world and who has worked at lululemon and our other businesses.

Thanks to my lifelong friends Frank Cosman, John Starratt, Mark Polet, Eric Libin, and Frank Troughton. Thanks to Torchy McCarthy who got me a job on the Alaska pipeline and to my step-mom, Cathy, who provided me with 55 free trips anywhere in the world.

Thanks to Josephine Terratiano (and family), my original seamstress at Westbeach.

A heartfelt thank-you also goes to my Westbeach partners Scott Sibley, Richard Mellon, and Marco Allinott.

Thank you to Werner Erhard. Thank you to David Cunningham and everyone at Landmark. Thanks to Treya Klassen and Anurag Gupta.

I'm thankful to Morrow Snowboards for buying out Westbeach. I would never have had the money to start lululemon otherwise. I want to thank Don Steele, who came in as private equity inside of Westbeach.

Thanks to Nancy Herb, the wonderful mother of my eldest two sons.

Thanks also to Dave Halliwell, Jackie Slater, Amrita Sondhi, Amanda Dunsmoor, and Anthony Redpath for being there to get lululemon off the ground.

Thanks to Shannon, my highly intelligent, beautiful wife and the mother to my three youngest boys who did such a phenomenal job as lululemon's second CEO for a year. I'm very thankful for the way she took everything on with such passion and intelligence at a time when lululemon could have gone under multiple times. Shannon is the true partner of which I have always dreamed.

Thanks to the people in the Kitsilano Beach community who came to work at lululemon in the early days on a small salary with only a promise and a passion for athletic clothing: Deanne Schweitzer, Delaney Schweitzer, Eric Petersen, Jenn Barry, Jenna Hills, Eoin Finn, and Fiona Stang, my first yoga teacher.

I want to thank Carla Anderson, Julie Ball, and Karen Wyder from the first Toronto crew. I also want to thank Dave Andru, Bree Stanlake, Michelle Armstrong, and Russ Parker. A heartfelt thanks to George Tsogas, Lori Jane Budd, Jill Chatwood, Erin Westelman and Bonnie Fung.

To the great Americans who believed in our culture: Paige Kerr, our first US store manager; Kerry

Brown, our first US showroom manager; Parker Pearson, who opened the Cow Hollow store and led the Santa Monica store. Thanks to Angela Hartman, Leah Taylor, Celeste Burgoyne, and Carla Anderson.

In Australia, thanks to Alexie O'Brien and David Lawn. In Japan, thanks to Kano Yamanaka.

I want to thank my sister-in-law, Susanne Conrad, who with Lightyear Leadership was instrumental in keeping the culture going at lululemon, even after I left.

Thanks to the lawyers that helped me put my first deal together. Despite not having dual-class shares, I'm thankful for everyone that helped me through that public process. I especially want to thank Jonathan McCullough, John Pitfield, and Tina Swinton who safeguarded my interests.

I also must thank the manufacturers who I love, Frankie, Elky, and Richard Hon from Charter Link. Everyone at Eclat. Kevin Chan in Taiwan. Jeff from Maxport in Vietnam. Amy Hsu at RSI and Dilan Gooneratne and Mahesh Amalean at MAS. Thank you very much.

Thank you to Cowie & Fox who designed the original artwork for the lululemon Manifesto.

I want to thank everybody that has chosen to leave lululemon to pursue their own goals and greatness. You took action, and for that, I am proud of you.

I want to thank the Board of Directors at lululemon. It's been a great experience. I may not agree with you, but the education I've gained has been phenomenal and has given me tools with which I can mentor my children and others.

Thanks go to Darrell Kopke (who was also a key figure at lululemon for many years). Thanks to my EA, Samantha Mullett (amazing!), and to everyone at Hold It All. I know I am missing names of hundreds of people who have helped my life get to where it is. Thanks!

Finally, thanks to my sons, JJ, Brett, Tor, Tag, and Duke. At the time of this writing, my youngest sons are 15 and 17. I feel like I have only days left with them before they'll start pulling away. With JJ and Brett, as they enter their 30's, I hope I can mentor them in their own careers and personal lives. My family is my priority, now as much as ever. I hope my experiences will make you better people. If I have 17,000 days remaining, I want to spend every one of them with you.

In closing, I'll offer this: don't waste a second of your life. You only have 40,000 days to live. The longer you live, the quicker time goes. To a toddler, 10 minutes feels like 10 years. To a 90-year-old man, 10 days feels like half a second. I am honoured you took part of your life to read this book.

Examine who in your life is eating up your precious seconds. Who around you complains but doesn't act?

Ask yourself, "What is my real passion? Where do I thrive? Where can I give the most back to the world?"

We get too hung up on what our social values and morals say we should do, what our parents or friends say we should do. For this reason, I'm always impressed by people who live their own great life.

Peace, love, dove, and Hare Krishna, all you groovy cats.

## **APPENDIX 1**

# **MY GOALS**

# CHIP WILSON

**VISION** We believe in the independent pursuit of passionate and fulfilled lives. We come together as a family to create value and enrich the communities and lives we touch.

## MY GOALS



9 YEARS 2030 BY-WHEN

|          |  |                 |
|----------|--|-----------------|
| PERSONAL | Summer & I live somewhere warm 4 mos of the year with access to great hiking | <b>Dec 2030</b> |
|          | I have a diet and health plan in place that enables me to live to 120.       | <b>Sep 2030</b> |
| CAREER   | Hold it All (HIA) has a value of US\$10b.                                    | <b>Dec 2030</b> |
|          | We have completed all foundational family governance training for G2.        | <b>Dec 2028</b> |
| HEALTH   | I hike the Grouse Grind 3x/week and do a weight workout 4x/week.             | <b>Dec 2030</b> |
|          | Family completes 7-day Mongolian hike. I have seen 40% of all UNESCO sites.  | <b>Dec 2028</b> |

## MY DECLARATION 2030

4 YEARS 2025 BY-WHEN

I create possibilities for people to live longer, healthier and more fun lives.

I own the feeling of being in my flow. I operate best when I am mentoring and developing family and people to create world class operations.

I am 75 at a family thanksgiving dinner with a vibrant family who spend most of their time making fun of me.

|          |   |                 |
|----------|---|-----------------|
| PERSONAL | 2 years of being irresponsible has started with a dinner in Morocco.          | <b>Oct 2023</b> |
|          | Summer and I have spent 2 weeks in India with family / climbed Mt Kilimanjaro | <b>Dec 2025</b> |
| CAREER   | I have completed 2 weird, fun projects a year for a total of 10.              | <b>Dec 2025</b> |
|          | Amer IPO's at US\$25b   | <b>Jan 2025</b> |
| HEALTH   | I am in clinical trials for muscular dystrophy                                | <b>Dec 2024</b> |
|          |   |                 |

## MY VALUES

1 YEAR BY-WHEN

### INTEGRITY

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### CHOICE

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### FAMILY

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|          |   |                 |
|----------|---|-----------------|
| PERSONAL | 20% of my time is prioritized for my sons' queries and mentorship                 | <b>Dec 2021</b> |
|          | I spend 10 days each year with my mom and dad                                     | <b>Dec 2021</b> |
| CAREER   | I evaluate the bench strength at HIA to ensure all new projects can run perfectly | <b>Dec 2021</b> |
|          | The Water Street art project is complete  | <b>Dec 2021</b> |
| HEALTH   | I complete 8 days of walking with family  | <b>Dec 2021</b> |
|          | I have completed a FSHD financing plan  | <b>Dec 2021</b> |



## APPENDIX 2

# INTEGRITY: WITHOUT IT, NOTHING WORKS

By Michael C. Jensen

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### **Integrity, Morality and Ethics, Defined**

**Integrity:** A state or condition of being whole, complete, unbroken, unimpaired, sound, in perfect condition.

**Morality:** In a given society, in a given era of that society, morality is the generally-accepted standards of what is desirable and undesirable; of right and wrong conduct, and what is considered by that society as good or bad behaviour of a person, group or entity.

**Ethics:** In a given group, ethics is the agreed upon standards of what is desirable and undesirable; of right and wrong conduct; of what is considered by that group as good and bad behaviour of a person, group or entity that is a member of the group, and may include defined bases for discipline, including exclusion.

### **Integrity of an Organization, Defined**

An organization (or any human system) is in integrity when:

1. It is whole and complete with respect to its word. This includes that nothing is hidden, no deception, no untruths, no violation of contracts or property rights, etc.
2. That is to say, an organization honours its word:
  - Internally, between members of the organization, and
  - Externally, between the organization and those it deals with.

This includes what is said by or on behalf of the organization to its members as well as outsiders.

### **'One's Word', Defined**

A person's word consists of each of the following:

1. What you said: whatever you have said you will do or will not do, and in the case of do, doing it on time.
2. What you know: whatever you know to do or know not to do, and in the case of do, doing it as you know it is meant to be done and doing it on time, unless you have explicitly said to the contrary.
3. What is expected: whatever you are expected to do or not do (even when not explicitly expressed), and in the case of do, doing it on time, unless you have explicitly said to the contrary.
4. What you say is so: whenever you have given your word to others as to the existence of some thing or some state of the world, your word includes being willing to be held accountable that the others would find your evidence for what you have asserted.
5. What you say you stand for: What you stand for, whether expressed in the form of a declaration made to one or more people, or even to yourself, as well as what you hold yourself out to others as standing for (formally declared or not), is a part of your word.
6. The social moral standards, the group ethical standards and the governmental legal standards of right and wrong, good and bad behaviour, in the society, groups and state in which one enjoys the benefits of membership are also part of one's word unless:
  - a) one has explicitly and publicly expressed an intention to not keep one or more of these standards, and;
  - b) one is willing to bear the costs of refusing to conform to these standards.

### ***Causes of the 'Veil of Invisibility' Around Integrity***

1. **"Integrity is a virtue"** For most people and organizations, integrity exists as a virtue rather than as a necessary condition for performance. When held as a virtue rather than as a factor of production, integrity is easily sacrificed when it appears that a person or organization must do so to succeed. For many people, virtue is valued only to the degree that it engenders the admiration of others, and as such it is easily sacrificed especially when it would not be noticed or can be rationalized. Sacrificing integrity as a virtue seems no different than sacrificing courteousness, or new sinks in the men's room.
2. **Self deception about being out-of-integrity** People are mostly unaware that they have not kept their word. All they see is the 'reason', rationalization or excuse for not keeping their word. In fact,

people systematically deceive themselves about who they have been and what they have done. As Chris Argyris concludes: "Put simply, people consistently act inconsistently, unaware of the contradiction between their espoused theory and their theory-in use, between the way they think they are acting and the way they really act." Because people cannot see their out-of-integrity behaviour, it is impossible for them to see the cause of the unworkability in their lives and organizations – the direct result of their own violations of the Law of Integrity.

3. **The belief that integrity is keeping one's word**The belief that integrity is keeping one's word – period – leaves no way to maintain integrity when this is not possible, or when it is inappropriate, or when one simply chooses not to keep one's word. This leads to concealing not keeping one's word, which adds to the veil of invisibility about the impact of violations of the Law of Integrity.
4. **Fear of acknowledging that you will not be keeping your word**When maintaining your integrity (i.e., acknowledging that you are not going to keep your word and cleaning up the mess that results) appears to you as a threat to be avoided (like it was when you were a child) rather than simply a challenge to be dealt with, you will find it difficult to maintain your integrity. When not keeping their word, most people choose the apparent short-term gain of hiding that they will not keep their word. Thus, out of fear we are blinded to (and therefore mistakenly forfeit) the power and respect that accrues from acknowledging that one will not keep one's word or that one has not kept one's word.
5. **Integrity is not seen as a factor of production**This leads people to make up false causes and unfounded rationalizations as the source(s) of failure, which in turn conceals the violations of the Law of Integrity as the source of the reduction of the opportunity for performance that results in failure.
6. **Not doing a cost/benefit analysis on giving one's word**When giving their word, most people do not consider fully what it will take to keep that word. That is, people do not do a cost / benefit analysis on giving their word. In effect, when giving their word, most people are merely sincere (well-meaning) or placating someone, and don't even think about what it will take to keep their word. Simply put, this failure to do a cost / benefit analysis on giving one's word is irresponsible. Irresponsible giving of one's word is a major source of the mess left in the lives of people and organizations. People generally do not see the giving of their word as: "I am going to make this happen," but if you are not doing this you will be out-of-integrity. Generally people give their word intending to keep it. That is, they are merely sincere. If anything makes it difficult to deliver, then they provide reasons instead of results.
7. **Doing a cost / benefit analysis on honouring one's word**Conversely, people almost universally apply cost/benefit analysis to honouring their word. Treating integrity as a matter of cost / benefit analysis guarantees that you will not be a person of integrity.