



One Positive Trend at Lululemon: Online Sales

Description

By Christine Conway

When **Lululemon** (TSX:LLL, Nasdaq: LULU) reported its second-quarter performance, the growth of one segment of its business stood out to me. Direct-to-consumer revenue increased 39% as compared to the second quarter of 2012. In fact, the increase in e-commerce is a trend that has been going strong for a number of years.

Quarter	Direct-to-Consumer Revenue	Percentage of Total Revenue	Increase Over Previous Year's Q2
Q2 2013	\$49.4 million	14.3%	39%
Q2 2012	\$35.4 million	12.5%	91%
Q2 2011	\$18.6 million	8.8%	93%

While the irony of sitting at home on your couch purchasing yoga/athletics apparel is not lost, Lululemon's online business is flourishing. So much so that it's needed to build a new facility. In the second quarter, pen was put to paper to build a new distribution centre.

The new centre

The distribution centre, Lululemon's second in the U.S., will be located in Columbus, Ohio. The location was chosen to provide two-day delivery service for online purchases. The facility will be well-stocked to supply new product and replenish to the company's stores in North America, which means less delay getting stock on the floor.

Of course, the real estate, inventory, and new systems (purchase order management and new warehouse management system) required an upfront investment. Management has forecasted estimated total capital expenditures to be between \$100-\$110 million for fiscal 2013 — a company-wide figure that includes not just the centre but new stores, renovations to existing stores, IT projects, and more. But by exiting Q2 with \$610.3 million in cash and cash equivalents, Lululemon's pocketbook is more than able to handle its expansion plans.

An online community

Lululemon is trying to strengthen its online presence through its new online community called “Hey Lululemon.” It was launched this quarter.

The site is designed like an online forum, where anyone can sign up and post comments and questions to Lululemon designers, developers, and other staff. The site is organized by category so that feedback can be given on men’s and women’s products as well as accessories and anything else that comes to mind.

Lululemon is using it as a tool to foster a greater level of trust and loyalty among its customers by making its team available and providing a safe place for feedback, both good and bad. It’s a smart strategy — customers will be more likely to voice their concerns and remain loyal if someone is listening and resolves their issues when they are dissatisfied. Users will also get exclusive behind-the-scenes updates.

Final thoughts

As we’ve seen, the e-commerce portion of Lululemon’s business has gained steam over the last few years. From the new distribution centre to the online community, Lululemon’s focus on expanding its e-commerce division should create better-satisfied customers and put emphasis on a segment of its business that has lower overhead costs, and as a result, higher profit margins.

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Christine Conway does not hold shares in any of the above mentioned companies.

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Date

2025/07/02

Date Created

2013/09/23

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