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### Athleta B Corporation Case Study

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## B Corporation Case Study

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### Abstract

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As a B Corporation, Athleta has the unique challenge of identifying a competitive strategy that will guide the company to success in the highly competitive athleisure market while also remaining consistent with its mission, vision, and values and supporting its parent company, Gap Inc. This case study was developed to evaluate this challenge through internal and external analysis of the company and to encourage readers to consider Athleta's future priorities as the company undergoes changes in strategic leadership. The case study begins with a brief overview of the competitive landscape of the Athleisure market and a review of the history of Athleta before diving into the company's positioning in the market as a company that values sustainability and female empowerment. Athleta's focus on inclusive sizing, sustainability, partnerships with female athletes, and customer engagement provide strong tools for the company to differentiate itself from competitors. These strengths will be critical for Athleta to utilize in the future as it seeks to become a leading Athleisure brand and a strong brand in Gap Inc.'s portfolio.

**Key Terms:** external analysis; mission, vision, and values; strategic leadership; competitive strategy

### Learning Objectives

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1. Evaluate how a firm's external industry environment and internal goals and values affect its positioning within the market.
2. Consider how a firm's target market informs its vision, mission, values, and competitive strategy.
3. Consider how a firm can remain consistent with its values while shifting its competitive strategy to better serve its target market.

*Megan Chaffey, Vivian Jacobitz, Ariel Levi, Leah Olson, and Nicole Serpico, students of the Jeffrey S. Raikes School of Computer Science and Management, prepared this case. This case was developed solely to serve as a tool for class discussion and is not intended to serve as an endorsement, source of primary data, or illustration of effective or ineffective management.*

# Athleisure Market

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The emerging athleisure market provides casual clothing that consumers can wear for both exercise and everyday use. It breaks the barriers of the apparel industry by providing an option that consumers can wear throughout their day, whether they are at the yoga studio or the office. Unlike many fleeting clothing trends, athleisure has found a long-term niche in the apparel industry, comprising 24% of industry sales in 2018 (Driver, 2018). In 2021, the global athleisure market reached a value of nearly \$307 billion, and it was expected to grow at a rate of 8.9% from 2022 to 2030 (“Athleisure Market Size,” 2022). The athleisure market’s rapid growth has drawn many competitors to the market to capitalize on this new opportunity. These competitors include large athletic apparel companies like Nike, newer brands like Outdoor Voices, and general merchandise retailers like Target.

## Overview of Athleta

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### History

Founded in 1998, Athleta began as a brand for women’s athletic apparel sold exclusively online and in catalogs (“About Athleta,” 2022; Clifford, 2011). In 2008, Gap Inc. acquired the company, adding Athleta to its family of brands (“About Athleta,” 2022). Athleta opened its first physical location in Mill Valley, California, in 2011 to better compete with Lululemon Athletica, which at the time reported in-store purchases driving 90% of its sales (Clifford, 2011). The competition between these two rivals further intensified in 2021 when Athleta expanded into Canada, where Lululemon was founded. Today, Athleta operates over 200 stores across the U.S. and Canada (“About Athleta,” 2022).

In 2018, Athleta was recognized as a Certified B Corporation for meeting high standards of performance, accountability, and transparency (“Sustainability Standards,” n.d.). This certification makes Gap one of the largest publicly traded retail corporations with a B Corp subsidiary apparel brand (Gap Inc., 2023b, p. 2). Since achieving B Corp status, Athleta has made numerous investments in social and environmental sustainability.

### Mission and Values

Athleta’s business goals and strategy is shaped by its mission “to ignite the limitless potential of all women and girls” (“Our Core Values,” n.d.). In following this mission, Athleta strives to remain true to its three values:

1. “People & Planet”: Using its power as a business to serve people and the environment

2. “Inclusive Community”: Creating products for all women regardless of age, race, ethnicity, identity, size, or abilities
3. “Women for Women”: Involving women prominently in the design process to ensure the company can create the best products for women

## Gap Inc.

Gap Inc. is the largest specialty apparel company in the U.S. The company comprises a large portfolio of brands, including Old Navy, Gap, Banana Republic, and Athleta (Gap Inc., 2023b, p. 1). Though the company has historically been a major player in the apparel industry, it has struggled to compete with rapidly changing fashion trends. Gap Inc.’s shares are down more than 19% over the past 12 months, and the company has not found a new permanent CEO since Sonia Syngal departed in July 2022 (Kapner, 2023).

Old Navy has historically been Gap Inc.’s highest-performing subsidiary, making up more than half of Gap’s annual revenue and seeing growth every year from 2014 to 2020 (Lee, 2022). However, in recent years, supply chain issues have prevented the company from properly adapting to customer tastes. Gap Inc.’s \$1.1 billion decline in net sales in 2022 resulted primarily from Old Navy, which suffered inventory delays, global supply chain disruptions, and size and assortment imbalances (Gap Inc., 2023b, p. 29). As a result, Gap Inc. cannot rely as strongly on Old Navy’s brand to fuel future growth.

Gap Inc.’s other subsidiaries have faced even greater challenges. Both the mid-tier Gap brand and the more upscale Banana Republic brand have lost favor among consumers. Even during the beginning of the Covid-19 pandemic, when online demand was booming for Gap Inc.’s competitors and its Old Navy and Athleta subsidiaries, online sales of Gap and Banana Republic products decreased (Cheng, 2020). These challenges point to Gap Inc.’s reduced relevance to consumers.

With its brands struggling across the board, Gap Inc. has high expectations for Athleta. While the parent company has been closing many underperforming Gap and Banana Republic stores, it continues to open 20 to 30 Athleta stores each year (Beausoleil, 2021). Gap sees growing Athleta as a key initiative for the company, and it set a goal for Athleta to reach \$2 billion in sales by 2023 (Duprey, 2020).

## Positioning

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### Product Lines

In alignment with its mission “to ignite the limitless potential of all women and girls,” Athleta exclusively sells clothing for women as well as girls ages 6 to 14. Athleta does not offer men’s

apparel, unlike Lululemon and other competitors that have always had men's lines (O'Reilly, 2018). However, Athleta is one of the few athleisure brands to incorporate a girls' line with the introduction of Athleta Girl in 2016 (Gap Inc., 2022, p. 2). The offering of girls' clothing allows Athleta to expand the reach of its mission to the next generation.

For women's clothing lines, Athleta has led the athleisure market in inclusive sizing. In 2021, Athleta expanded its sizing by making 70% of its spring collection available in sizes 1X to 3X; by 2023, it hopes to offer sizes XXS to 3X across all clothing categories. Along with these new sizes, Athleta added size-inclusive mannequins to all of its stores to provide accurate representations of how its clothing fits different shapes and sizes ("Athleta Adds Extended Sizing," 2021). Offering extended sizing in stores and online is critical to Athleta's value of an "Inclusive Community." Furthermore, Athleta involves women in the design process for its new sizing strategy by listening to feedback about their needs and dislikes, exemplifying its "Women for Women" value. As a result of these discussions with consumers, Athleta merchandises extended sizes the same way it does any other size, without a separate plus-sized section of the store. The company also requires its store employees to complete inclusive sizing training that teaches them to better serve customers ("Athleta Adds Extended Sizing," 2021). The shift towards more inclusive sizing allows Athleta to progress towards its mission and differentiate itself from competitors. Lululemon, in contrast, has faced criticism over body shaming and limited sizes for years, and it has been forced to catch up by offering its own extended sizes (Tschinkel, 2020).

## Sustainability

Other companies in the athleisure market, like Lululemon, claim to prioritize sustainability, but Athleta differentiates itself by being the only certified B Corp among athleisure brands. As part of its commitment to environmental protection, Athleta has created proprietary sustainable fabrics from materials like wood-based fibers from "responsibly managed" forests, recycled nylon from textile scraps and trimmings, organic cotton not genetically modified and grown without pesticides, and recycled polyester fibers made from used plastic bottles ("Sustainability Standards," n.d.). By 2019, Athleta made 60% of its materials with sustainable fibers and 85% of its swimwear collection from sustainable fabrics ("60 Percent," 2019). Athleta's B Corp status, creation of sustainable fabrics, and efforts to reduce waste and water usage show consumers its commitment to environmental sustainability.

## The Power of She Collective

Unlike other companies in the athleisure industry that rely on athletic endorsements, Athleta has formed partnerships with successful athletes to promote its products among fans. Athleta signed Allyson Felix as its first brand partner in 2019 after she spoke out against Nike's poor

treatment of pregnant athletes. In 2021, Athleta began a long-term partnership with Simone Biles, who had also recently ended her partnership with Nike (Marin-Lopez, 2023).

Recently, Athleta formed the Power of She Collective by signing eleven more female athletes to join Felix and Biles as brand partners (Marin-Lopez, 2023). These athletes include women from a wide range of sports and career stages.

**Members of the Power of She Collective**

Athlete	Sport
Albane Valenzuela	Golf
Allyson Felix	Track and Field
Brenna Huckaby	Paralympic Snowboarding
Heather O’Reilly	Soccer
Jesse “Flex” Labreck	American Ninja Warrior
Jessica Mendoza	Softball
Katie Zaferes	Triathlon
Mariah Bell	Figure Skating
Monica Puig	Tennis
Monique Billings	Basketball
Natalie Coughlin	Swimming
Simone Biles	Gymnastics
Winter Vinecki	Freestyle Aerial Skiing

(“Power of She Collective,” 2023)

By diversifying its partnerships with female athletes, Athleta reaches a wider audience of consumers. The company selects trailblazing athletes as its partners “to champion wellbeing, create meaningful impact, inspire product innovation, and support women moving women forward” (“Power of She Collective,” 2023). Unlike other athletic wear companies that focus on partner athletes’ accomplishments, Athleta prioritizes authenticity and values. Each member of the Power of She Collective has a specific cause for which she advocates.

**“Athleta has supported me holistically as not just an athlete, but a mother and activist since day one. I’m excited for the opportunity to come together with other women and use our collective**

**experiences as athletes, moms, entrepreneurs, and all that we are to not only support each other but make the world a better place for women and girls. Athleta is giving us the space and support to do that.”**

Allyson Felix

Beyond the athletes in its Power of She Collective, Athleta partnered with musician and entrepreneur Alicia Keys in 2022. Keys has released multiple collections in partnership with Athleta, and she serves as a mentor and advisor for Athleta’s Power of She Fund grant program (“Athleta Partners With Alicia Keys,” 2022).

## AthletaWell

To gain an advantage in the highly fragmented and competitive athleisure market, Athleta must find ways to increase brand loyalty among customers. One way Athleta can accomplish this goal is to increase the number of customers signed up for Athleta’s loyalty program. Loyalty members account for over 50% of Athleta’s sales, and a member spends, on average, twice the amount of a non-member (Thomas, 2021). In 2021, Athleta launched AthletaWell, a digital platform for loyalty program members, where women can access workout content and discuss a wide range of topics relating to health and wellness (Thomas, 2021). The platform includes additional benefits for Athleta loyalty members, giving customers a greater incentive to join the program and increasing brand loyalty among existing members.

## Looking to the Future

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In 2022, Athleta received criticism for the color, style, and fit of its apparel, causing sales to decline (Kapner, 2023). After a disappointing fourth quarter, Gap Inc. announced the departure of Athleta CEO Mary Beth Laughton, citing “product acceptance challenges” as the reason for needing new leadership (Gap Inc., 2023a, p. 4).

As Athleta looks to the future, it must make several important strategic decisions to achieve its \$2 billion annual sales goal. Most urgently, the company must identify a successor to fill Laughton’s recently vacated CEO role and address the issues that made customers dislike the designs and fit of its recent apparel lines. With competition in the athleisure space continuing to intensify, Athleta must also focus on what differentiates it from competitors like Lululemon and Nike to carve out its place in the market. Finally, as a successful brand within the Gap family, Athleta faces not only its own challenges but also the pressure of helping to sustain Gap Inc.

Fortunately for Athleta, the company has several strengths on which it can capitalize to address challenges. Athleta's innovation around environmental sustainability, partnerships with pioneering female athletes, and unwavering focus on women and girls have all proven extremely valuable in helping the company reach its present level of success. Whether the company can continue taking advantage of these strengths or cultivate new ones will determine its ability to thrive in the future.

## Discussion Questions

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1. How can Athleta compete with other companies in the athleisure space, like Lululemon and Nike?
2. Does Athleta's position as a B Corporation provide the company with a competitive advantage in the athleisure industry? Why or why not?
3. How can Athleta balance its obligation to support its parent company's survival while maintaining its own identity and values?
4. If you were the incoming CEO of Athleta, what is the first strategic decision you would make for the company?
5. Is Athleta capable of the growth needed to sustain Gap Inc.'s portfolio of declining brands?



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