

Lululemon Athletica Inc.

TICKER:
NASDAQ:LULU

MARKET CAPITALIZATION:
US\$ 25 billion

HEADQUARTERS:
Canada

3 OUT OF 20

Company's Overall Ranking

69 OUT OF 100

Company's Overall Score

Lululemon Athletica Inc. (Lululemon) ranks third on the benchmark, demonstrating a higher level of transparency on its approach to managing forced labor and human trafficking risks in its supply chain relative to its peers. Notably, Lululemon is among the few companies achieving the highest scores on the themes commitment and governance, as well as traceability and risk assessment. In addition, it has the third highest score on the recruitment theme. The company has developed a Foreign Migrant Worker Standard for Taiwan, which requires suppliers to develop a foreign migrant worker policy and where practical, to directly recruit and hire foreign migrant workers. The company can improve its performance and disclosure in the areas of recruitment, remedy, and worker voice, which is the only area where Lululemon scores below average.

THEME LEVEL SCORE

Commitment and Governance	100 out of 100
Traceability and Risk Assessment	100 out of 100
Purchasing Practices	88 out of 100
Recruitment	50 out of 100
Worker Voice	25 out of 100
Monitoring	68 out of 100
Remedy	50 out of 100

LEADING PRACTICES

Traceability

The company traces all of its first tier suppliers (finished goods), second tier suppliers (fabric mills), and their subcontracted suppliers. The company states that it holds direct relationships with all finished goods and raw material vendors and vendor facilities. At all times, manufacturing suppliers must keep Lululemon informed about the current location(s) of the production facilities, provide contact details and locations of subcontractors, and on request provide details of main suppliers of raw materials. The company discloses the names and location of its 48 garment facilities and the twelve countries where the majority of its 57 material suppliers are based.

Purchasing Practices and Cascading Standards

Lululemon "recognizes that practices such as short-term contracts, excessive price pressure and



order volatility increase the risk of human right and labor violations, including forced labor practices." The company focuses on building long term relationships with its suppliers and avoids short-term contracts. It also engages in annual multi-year planning discussions with its suppliers. Further, Lululemon has implemented a process requiring suppliers to request approval and provide a rationale for overtime. The company tracks the rationales to better understand if there are any underlying systematic issues. The most common explanation given for overtime is production planning in peak season and unforeseen circumstances. The company therefore focuses on allocating capacity in ways that minimize volatility.

Lululemon requires its first tier suppliers to ensure that their own suppliers implement standards aligned with the company's Vendor Code of Ethics. In supplier agreements, the company specifically states that suppliers need to require and certify that all of their suppliers and subcontractors comply with Lululemon's codes and standards. The company also requires any subcontractors used in its supply chain to be approved by the VP of Global Sustainability and VP of Sourcing, and the company conducts audits on subcontractors that have foreign migrant workers.

Recruitment Approach

In July 2016, Lululemon developed a Foreign Migrant Worker Standard for Taiwan. The standard was updated following engagement with local stakeholders, such as Taiwan's workforce development agency and foreign migrant worker office, as well as engagement with other industries, several progressive brands, and its Taiwanese Vendor Partners. The standard requires recruitment agencies and third party labor brokers in Lululemon's supply chain to uphold worker's rights and suppliers to ensure third party labor brokers adhere to the standards. The standard also requires suppliers to develop a policy for the hiring and employment of foreign migrant workers, which includes reference to Lululemon's Vendor Code of Conduct. Further, the standard asks suppliers to directly recruit and hire foreign migrant workers where practicable and otherwise to use only licensed recruitment agencies and to provide Lululemon the names of recruitment agencies as well as access to the legal service agreements.

NOTABLE FINDINGS

Supplier Code of Conduct

Lululemon discloses in its Vendor Code of Ethics that it has zero tolerance to child and forced labor. Moreover, the company requires its suppliers to allow employees the right to choose, form, belong or not belong to a union and to ensure employees are not subject to any discrimination in their employment. The Vendor Code of Ethics is approved by its CEO and EVP Operations, is easily accessible from the company's website, and is reviewed and updated annually.

Training

Lululemon discloses that it conducts annual trainings on its Vendor Code of Ethics for senior leaders in its sourcing, quality, and procurement the following departments as well as for all decision makers in its liaison offices. The training focuses on understanding the expectations of the code, including expectations on forced labor and on what constitutes forced labor practices. The company records a webinar version of this training and makes it accessible to suppliers and employees. The company further discloses that it conducts training on emerging risks. For example, in 2015, it conducted training on its Foreign Migrant Workers Standard, specifically in Taiwan, and it intends to extend this program.

The company also trains its suppliers. New suppliers receive training on the code prior to receiving factory assessments. Existing suppliers are trained annually on the company's expectations. In January 2016, Lululemon conducted training sessions on its updated code in Taiwan, China, Vietnam, and Cambodia, as well as webinar sessions. This training also addressed expectations and best practices for engaging with foreign migrant workers.



Monitoring

Lululemon's audits include meetings with facility management, site visits, document reviews and interviews of employees at all levels of the organization. The document reviews include: contract reviews; payment records; wage slips; information on contracts of recruiters; training, grievance, and disciplinary action records; and responses. Worker interviews include questions on the recruitment process and contract terms, identification documents, wage processes, and regular questions with respect to human rights and labor practices. A typical assessment includes interviews with at least 20 workers. Lululemon uses in-house experts to conduct the assessments and works with qualified third party auditors when the company requires external capacity.

In the past year, the company assessed 73% (19 out of 26) of its first tier suppliers from the total top ten vendor base, and 67% (32 out of 48) of total finished goods facilities. Of its second tier suppliers, the company assessed 92% of its top ten raw material facilities and 40% of its total raw material facilities.

OPPORTUNITIES FOR IMPROVEMENT

Recruitment

While Lululemon discloses that, if a situation is found where workers are charged excessive fees, it requires suppliers to ensure workers are reimbursed, the company is encouraged to develop a policy requiring that no fees be charged during any recruitment processes conducted throughout the supply chain. The company discloses it is reviewing its current policy and will require suppliers to be responsible for recruitment fees of foreign worker in the future. Further, the company may consider auditing recruiters to assess risks of forced labor and human trafficking.

The company is additionally encouraged to expand its existing strong practices, such as developing a Foreign Migrant Worker Standard through consultation with local stakeholders, beyond Taiwan.

Worker Voice

Lululemon is encouraged to develop and disclose an accessible, formal grievance mechanism that facilitates the impartial reporting by suppliers' workers of workplace grievances. It is encouraged to inform workers how to access the mechanism and to ensure impacted stakeholders such as suppliers' workers trust the mechanism.

Further, the company may consider engaging with workers outside of the context of the factories in which they work, either directly or in partnership with stakeholders, to help workers assert their voices.

In addition, where there are regulatory constraints on freedom of association, the company may consider encouraging suppliers to ensure workplace environments in which workers are able to pursue alternative forms of organizing.

Remedy

Lululemon is encouraged to develop and disclose a process to provide remedy to workers in its supply chain in cases of human trafficking and forced labor and to disclose examples of outcomes of this process.

COMPANY PROVIDED ADDITIONAL DISCLOSURE

[Yes.](#)

