

Market Analysis of Peloton

Peloton : Post Pandemic Demand Declines

Peloton, a technology-driven fitness equipment and media company that provides premium at-home fitness experiences, was founded in 2012 and is headquartered in New York City. Their products include a range of connected fitness equipment, apparel and digital classes. (**Exhibit 1**) Peloton's mission is to connect the world through fitness, empowering people to be the best version of themselves anywhere, anytime. Peloton was the first to enter the connected fitness industry and has developed an early following while seeing rapid growth and expansion during the pandemic (**Exhibit 10**). Since then, the company has been dealing with a decline in post-pandemic usage, excess inventory, and layoffs to make ends meet.

The stationary bike is Peloton's defining product and boasts a large touch screen that streams live and recorded fitness classes to the user's house. The bike is designed with performance measurements, like output, resistance, speed, and power to customize each workout and monitor progress. These classes are taught by world-class instructors aiming to give users a highly engaging and interactive fitness experience. In addition to its fitness equipment, Peloton offers a digital membership that provides access to its entire library of live and on-demand classes, personalized workout recommendations, and social features that allow users to connect and compete with other members.

Peloton recently partnered with Mother LA to create a new branding campaign in an effort to bounce back from its recent post-pandemic decline. This refresh features Peloton's first ever tagline: Motivation That Moves You. This new positioning is designed to emphasize how Peloton can create a personalized and motivational fitness experience by combining fun instructors, engaging content, community feel, and music to make working out both physically and mentally stimulating to motivate members to keep coming back. The company has used its brand personality and dedication to provide a premium fitness experience to cultivate devoted followers. Peloton has achieved success in creating a strong brand image through its marketing efforts and collaborations, in addition to its product offerings. (**Exhibit 2**)

In our analysis, we examine the strategic decisions made by Peloton that contributed to the company's growth and long-term competitive potential. We evaluate how Peloton established itself as a leader in Connected Fitness (CF) industry, its market size, and financials.

PESTEL

Peloton operates in a dynamic and complex macro-environment and must be agile and adaptive to respond to the macro-environment changes to maintain its competitive position in the market. As the competitive environment, and user needs continue to evolve, as long as Peloton manages to keep reinventing itself and compete on a superior business model, it will stand a fighting chance in the market. (**Exhibit 3**)

Porter's 5 Forces

Peloton operates in a competitive market with a low threat of new entrants, high threat of substitutes, moderate bargaining power of suppliers, moderate bargaining power of buyers, and high rivalry among existing competitors. (**Exhibit 4**)

Market Description

Peloton is a leading provider of interactive fitness equipment, digital content, and other wellness-related products and services. The company operates in the globally connected fitness market, which has grown significantly in recent years due to increased consumer interest in home-based fitness solutions. Peloton has a market cap of \$4.78 billion in a \$15 billion dollar industry. The market is characterized by a high level of competition, with players ranging from established fitness equipment manufacturers to tech startups. (**Exhibit 5**)

Industry

Peloton is in the at-home fitness industry; it refers to the market for products and services that enable people to exercise and stay fit in the comfort of their own homes. This industry has grown rapidly in recent years, driven by a combination of technological innovations and a greater focus on health and wellness. At-home fitness solutions can include a wide range of products, including connected fitness equipment such as stationary bikes, treadmills, strength training systems, virtual workout classes and mobile fitness apps. These products are designed to make it easier and more convenient for people to stay active and healthy without traveling to a gym or fitness studio.

Competitor

Peloton's primary competitors in the industry include NordicTrack, Stryde, Proform Studio, Soulcycle, Bowflew, Echelon, Rogue Fitness, Hammer Sport AG, Fitness World, Tonal, Tempo, MYXfitness, etc. (**Exhibit 6**). The market is saturated with similar products to Peloton. Each rival's product is nearly identical being offered at a lower price for equipment, purchase and subscriptions. However, Peloton has differentiated itself with superior software, caliber of trainers, community engagement, extensive class offerings, and branding of each product.

Financials

Peloton is an early adopter in the emerging CF industry. Peloton has experienced rapid growth in recent years, with annual revenue increasing from \$400 million in 2018 to over \$4 billion in 2021. As per the 2021 reports, Peloton grew by 100%, increasing from 525M to 1.25M with 2M monthly subscribers paying for CF and roughly 0.9M monthly app-only subscriptions. (**Exhibit 7**) The primary source of revenue for the company is mostly derived from subscriptions. Peloton has not yet achieved profitability. Costs are increasing and are higher than revenue generation. There is substantial competition from both established firms and new startups entering with regard to accessibility and affordability operating in the CF industry. As a

result Peloton's stock price dropped significantly from its highest point of 157 USD in January 2021. (**Exhibit 8**)

Segmentation

With a combination of demographic, psychographic, and behavioral segmentation, Peloton has effectively targeted its core customer segments and provided them with a highly personalized and engaging fitness experience. In conjunction with its most recent branding campaign, Peloton is looking to make the fitness experience unique for all users and needs. (**Exhibit 9**)

At home fitness market trend

The market trend for at-home fitness can be described as a market with significant growth and increasing consumer demand. There are a couple factors that are influencing the market: one is the increasing popularity of connected fitness equipment, visual workout classes are becoming more popular, and a growth of awareness of the importance of physical activity for overall health and well-being. Moreover, the COVID-19 pandemic has had a significant impact on the at-home fitness market, as many gyms and fitness studios have been closed or operating at limited capacity. With the mobile fitness app market growing, an increasing number of people are using these apps to track progress and achieve fitness goals.

Consumer behavior

The COVID-19 pandemic has significantly impacted consumer behavior across all industries, as people have been forced to adapt to new ways of living and working in response to the crisis and to prevent the spread. The pandemic led consumers to work in remote environments, where activities were performed mostly at home or somewhere else beside the actual work space. This has led to a greater focus on health and wellness, as people are seeking ways to maintain their physical and mental well-being and looking for ways to make their homes more comfortable and functional.

However, as the effects of the pandemic declines, consumers are more likely to shift back to onsite work and be less remote, returning to offices as seen happening in 2023. Though it is expected that consumers will continue to place a high value on health and seek to maintain habits adopted during the crisis, consumers tend to return to regular routines, leading to a decline in demand for home improvements like home offices and home gym equipment.

Current situation at hand

Throughout the pandemic, Peloton nearly doubled in size due to high demand for at home fitness equipment. Initially plagued with product shortages, Peloton ramped up production to meet the needs of its consumers. However, as post pandemic life returns to normal with gyms back open, demand for Peloton equipment has decreased leaving the company with excess inventory and large financial losses. Pelotons competitors are experiencing similar struggles because demand wasn't accurately forecasted as post pandemic usage declines.

Exhibit 1: Products



Peloton Row

Peloton Bike

Peloton Tread

A screenshot of the Peloton On-Demand class selection interface. It shows a grid of 12 video thumbnails for various classes, including "20 min Beginner", "30 min Advanced Beginner Ride", "30 min HIIT Ride", "30 min Low Impact Ride", "45 min New Treadle Ride", and "50 min Yoga". The interface includes filters for "Cycling" and "BEYOND THE RIDE", and buttons for "FEATURED", "ON-DEMAND", "SCHEDULE", and "MORE".

Peloton Classes



Peloton Apparel

Exhibit 2: SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> ● First tech fitness company in the market ● Strong brand reputation: known for advanced tech and innovative products in the connected fitness market ● Growing demand for home-based fitness solutions: global connected fitness market is growing rapidly ● Innovative product offerings: range of interactive fitness equipment, digital content, and accessories, all designed to provide users with a convenient and effective home-based fitness experience ● Strong financial position: significant investment capital and growing customer base ● Corporate/influencer and A-list celebrity partnerships (Beyoncé) ● Personalized and exceptional product development and service ● Loyal customer base ● Quality content ● Multichannel strategy (e-commerce, studios, remote sales) 	<p>Weaknesses</p> <ul style="list-style-type: none"> ● Dependence on technology, logistics, suppliers and musical content ● Limited geographic presence ● Premium price point ● Services outsourced to 3rd parties ● Reviews of customer service issues ● Limited customer base ● Outsource most of their products
<p>Opportunities</p> <ul style="list-style-type: none"> ● Expansion into international markets ● Tie up and partnerships with hotels and corporates ● Technological advancement, Research and Development of new products and services such as VR fitness experience ● Expansion into the wellness market like in nutrition and sleep ● Addition of product range in equipment, accessories, apparel and training ● Investing in wearable technology 	<p>Threats</p> <ul style="list-style-type: none"> ● Changes in consumer behavior as consumer preferences evolve over time ● Competition from established players and startups ● Regulatory requirements: Peloton's product and services are subject to a range of regulatory requirements, which could change and impact the company's ability to operate effectively in the market ● Patent issues ● Lawsuits and negative advertisements ● Overly dependent on one product (Bike) ● Relaxed Covid restrictions continue to reduce demand ● Seasonality affects demand for products

Exhibit 3: PESTEL Analysis

<u>Political</u>	<u>Economic</u>	<u>Social</u>	<u>Technological</u>	<u>Environmental</u>	<u>Legal</u>
Highly regulated industry	Sensitive to consumer spending patterns and income changes	Peloton targets consumers who value effectiveness of home based fitness solutions	Heavily dependent on technology, including hardware, software, and digital content	Climate change and outdoor activities	Litigation risks
Consumer safety, data safety, data privacy and product changes	Economic recession	Changes in consumer preferences for fitness solutions.	Increased performance and health data demand	Peloton supply chain is subject to environmental regulations and sustainability concerns	Copyright and patent laws
Changes in government policies and regulations	Reopening of gyms with reduction of consumer spending	Role of physical and virtual communities	Rapid growth in capabilities of wearables	Remote and on site work durations	Health data ownership and governance

Figure 1: PESTEL Analysis for Peloton

Exhibit 4: Porter's 5 Forces Analysis

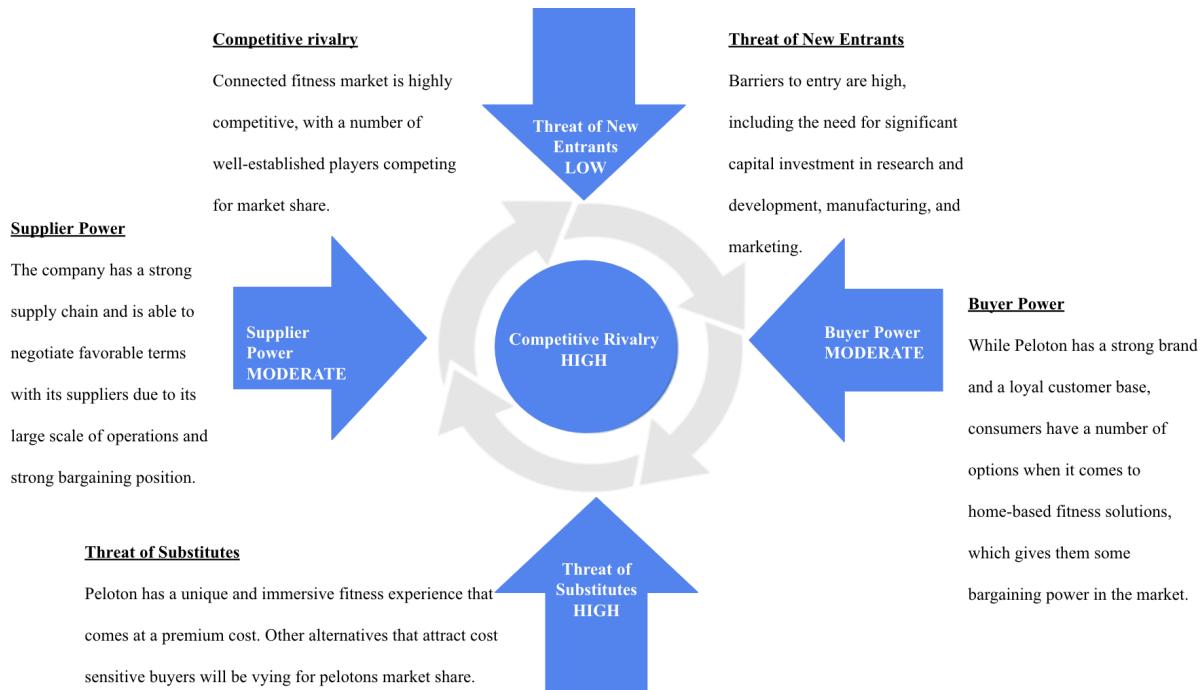


Figure 2: 5 Forces Analysis for Peloton

Exhibit 5: Market Size

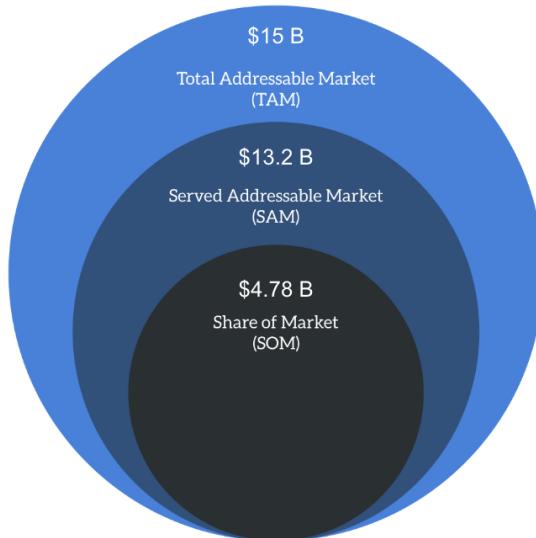


Figure 3: At home fitness market size with Peloton SAM and SOM

Exhibit 6: Competitor Analysis

	Subscription Price	Price To Purchase	On Demand Fitness Classes	Community Focus	Authentic Content	App on Phone	Connection to wearable devices
Peloton	\$44/mo	\$2,495	✓	✓	✓	✓	✓
NordicTrack	\$39/mo	\$1,999	✓		✓	✓	✓
Echelon	\$40/mo	\$2,300	✓	✓	✓	✓	✓
Soulcycle	\$40/mo	\$2,500	✓		✓	✓	✓
MYX Fitness	\$34/mo	\$1,599	✓		✓	✓	✓
Proform Studio	\$39/mo	\$1,403	✓		✓		✓
Stryde	\$30/mo	\$1,895	✓		✓	✓	✓

Figure 4:Table comparing service and feature for Peloton and their competitors

Exhibit 7: Peloton Financial History

PELOTON INTERACTIVE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in millions, except share and per share amounts)

	Fiscal Year Ended June 30,		
	2020	2019	2018
Revenue:			
Connected Fitness Products	\$ 1,462.2	\$ 733.9	\$ 354.7
Subscription	363.7	181.1	80.3
Total revenue	<u>1,825.9</u>	<u>915.0</u>	<u>435.0</u>
Cost of revenue:			
Connected Fitness Products	833.5	427.8	199.9
Subscription	155.7	103.7	45.5
Total cost of revenue	<u>989.1</u>	<u>531.4</u>	<u>245.4</u>
Gross profit	<u>836.7</u>	<u>383.6</u>	<u>189.6</u>
Operating expenses:			
Sales and marketing	477.0	324.0	151.4
General and administrative	351.6	207.0	62.4
Research and development	89.0	54.8	23.4
Total operating expenses	<u>917.6</u>	<u>585.8</u>	<u>237.1</u>
Loss from operations	<u>(80.8)</u>	<u>(202.3)</u>	<u>(47.5)</u>
Other income, net:			
Interest income, net	16.2	7.0	(0.3)
Other expense, net	(3.8)	(0.3)	—
Total other income (expense), net	<u>12.4</u>	<u>6.7</u>	<u>(0.3)</u>
Loss before provision for income taxes	<u>(68.4)</u>	<u>(195.6)</u>	<u>(47.8)</u>
Income tax expense	<u>3.3</u>	<u>0.1</u>	<u>0.1</u>
Net loss	<u>\$ (71.6)</u>	<u>\$ (195.6)</u>	<u>\$ (47.9)</u>
Net loss attributable to Class A and Class B common stockholders	<u>\$ (71.6)</u>	<u>\$ (245.7)</u>	<u>\$ (47.9)</u>
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	<u>\$ (0.32)</u>	<u>\$ (10.72)</u>	<u>\$ (2.18)</u>
Weighted-average Class A and Class B common shares outstanding, basic and diluted	<u>220,952,237</u>	<u>22,911,764</u>	<u>21,934,228</u>
Other comprehensive income:			
Net unrealized gains on marketable securities	\$ 3.9	\$ 0.2	\$ —
Change in foreign currency translation adjustment	6.0	—	—
Total other comprehensive income	<u>9.9</u>	<u>0.2</u>	<u>—</u>
Comprehensive loss	<u>\$ (61.7)</u>	<u>\$ (195.4)</u>	<u>\$ (47.9)</u>

See accompanying notes to these consolidated financial statements.

Figure 5: Peloton income statement during 2018-2020

PELOTON INTERACTIVE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in millions, except share and per share amounts)

	Fiscal Year Ended June 30,		
	2022	2021	2020
Revenue:			
Connected Fitness Products	\$ 2,187.5	\$ 3,149.6	\$ 1,462.2
Subscription	1,394.7	872.2	363.7
Total revenue	<u>3,582.1</u>	<u>4,021.8</u>	<u>1,825.9</u>
Cost of revenue:			
Connected Fitness Products	2,433.8	2,236.9	832.5
Subscription	450.0	330.5	155.7
Total cost of revenue	<u>2,883.8</u>	<u>2,567.4</u>	<u>988.2</u>
Gross profit	<u>698.4</u>	<u>1,454.4</u>	<u>837.7</u>
Operating expenses:			
Sales and marketing	1,018.9	728.3	476.7
General and administrative	963.4	661.8	351.4
Research and development	359.5	247.6	89.1
Goodwill impairment	181.9	—	—
Impairment expense	390.5	4.5	1.2
Restructuring expense	180.7	—	—
Supplier settlements	337.6	—	—
Total operating expenses	<u>3,432.4</u>	<u>1,642.2</u>	<u>918.4</u>
Loss from operations	<u>(2,734.0)</u>	<u>(187.8)</u>	<u>(80.7)</u>
Other (expense) income, net:			
Interest expense	(43.0)	(14.8)	(2.0)
Interest income	2.3	7.9	18.2
Foreign exchange losses	(31.8)	(3.5)	(4.0)
Other (expense) income, net	(1.5)	0.1	0.1
Total other (expense) income, net	<u>(74.1)</u>	<u>(10.4)</u>	<u>12.3</u>
Loss before provision for income taxes	<u>(2,808.1)</u>	<u>(198.2)</u>	<u>(68.4)</u>
Income tax expense (benefit)	<u>19.6</u>	<u>(9.2)</u>	<u>3.3</u>
Net loss	<u>\$ (2,827.7)</u>	<u>\$ (189.0)</u>	<u>\$ (71.6)</u>
Net loss attributable to Class A and Class B common stockholders	<u>\$ (2,827.7)</u>	<u>\$ (189.0)</u>	<u>\$ (71.6)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (8.77)</u>	<u>\$ (0.64)</u>	<u>\$ (0.32)</u>
Weighted-average Class A and Class B common shares outstanding, basic and diluted	<u>322,368,818</u>	<u>293,892,643</u>	<u>220,952,237</u>
Other comprehensive (loss) income:			
Net unrealized (losses) gains on marketable securities	\$ (0.4)	\$ (3.5)	\$ 3.9
Change in foreign currency translation adjustment	(4.5)	11.5	6.0
Derivative adjustments:			
Net unrealized loss on hedging derivatives	(6.3)	—	—
Reclassification for derivative adjustments included in Net (loss) income	5.3	—	—
Total other comprehensive (loss) income	<u>(5.9)</u>	<u>8.1</u>	<u>9.9</u>
Comprehensive loss	<u>\$ (2,833.7)</u>	<u>\$ (180.9)</u>	<u>\$ (61.7)</u>

See accompanying notes to these consolidated financial statements.

Figure 6: Peloton income statement during 2020-2022

Exhibit 8 : Peloton vs Competitor Revenue and Stock Price

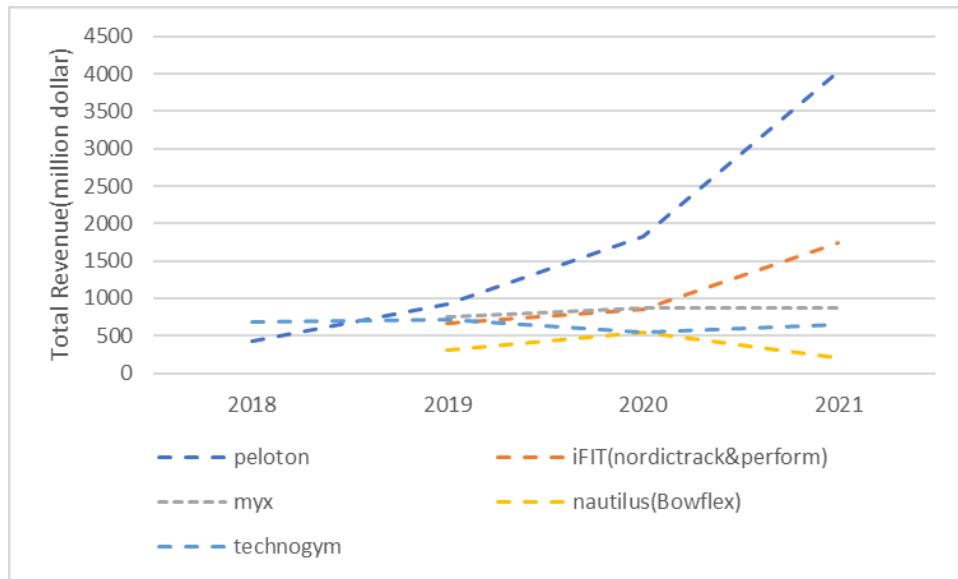


Figure 7: Total revenue comparing peloton and their competitors



Figure 8: Peloton Stock price chart



Figure 9: Technogym Stock price chart

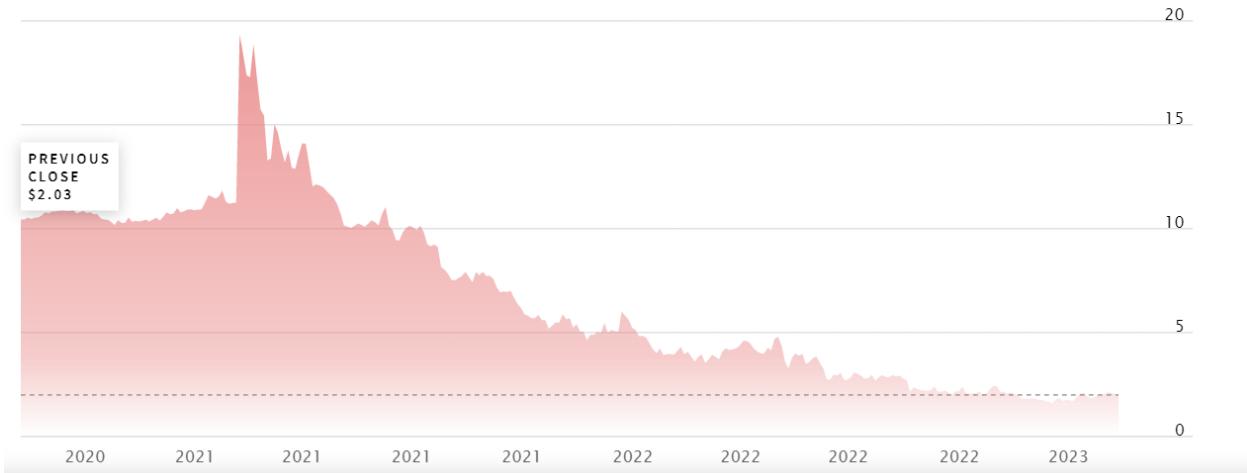


Figure 10: Nautilus Stock price chart

Exhibit 9: Segmentation

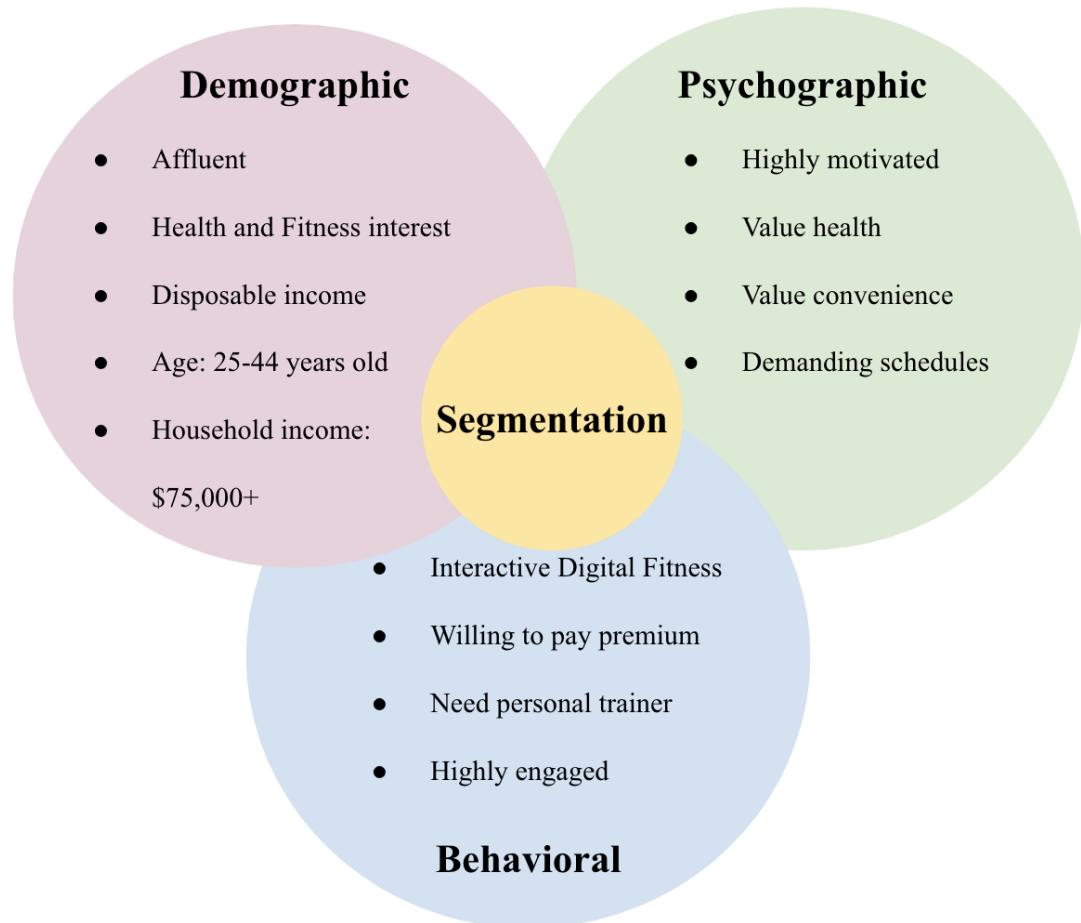


Figure 11: Peloton's customer segmentation

Exhibit 10 : Peloton Interactive Subscribers

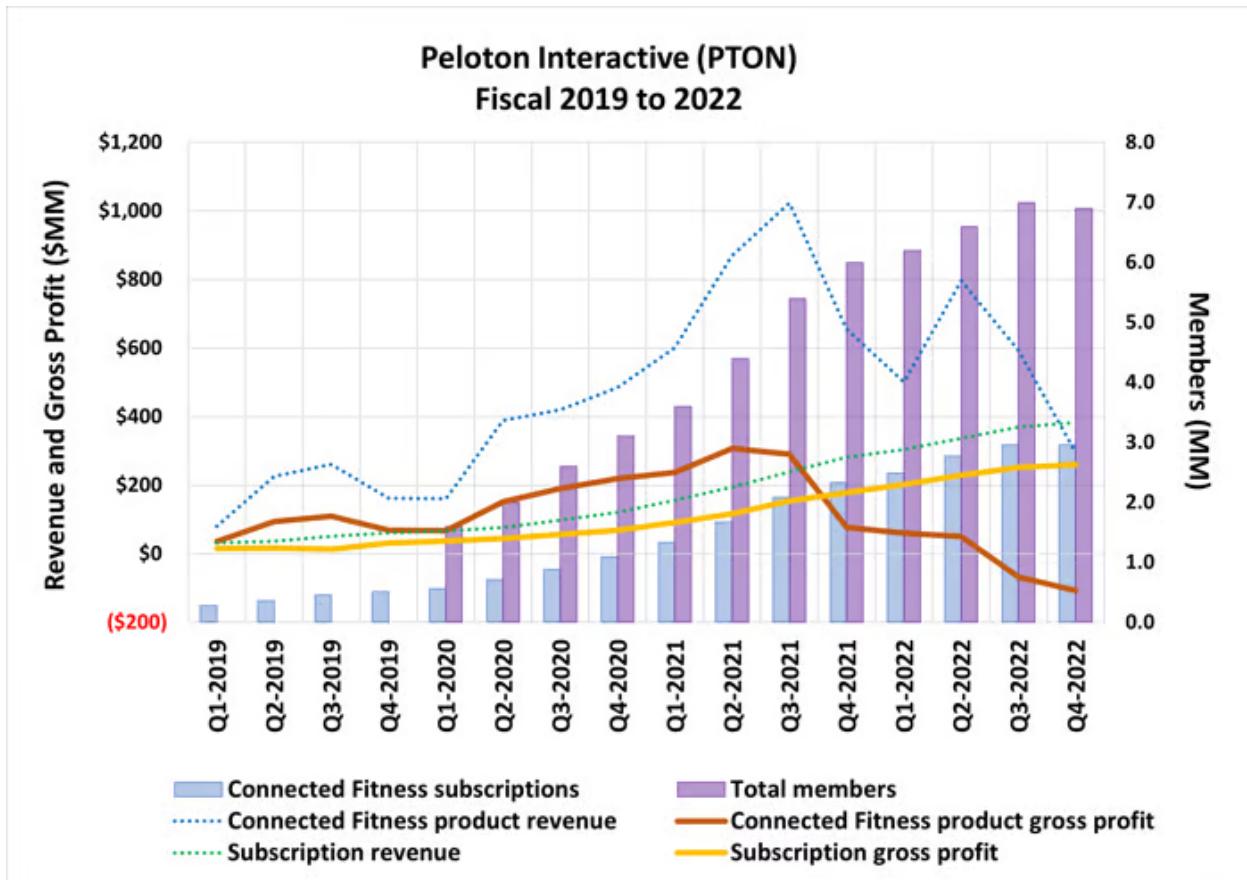


Figure 12: Graph showing Peloton's profit, revenue, membership over years

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