

## Peloton Strategy Outline

### **Brand assessment**

Peloton is currently known as a multidimensional brand that marries a virtual fitness community with the convenience of exercising in your own home. With a short-lived period of opulence, Peloton's stock peaked at \$167 during the height of the pandemic in December 2020 only to plummet to \$12.75 (as of February 24th, 2023) a 56.03% decrease from its IPO of \$29 on 2019. Peloton's woes piled up with supply chain hic-ups, excessive inventory and dropping demand, error in planning while assuming market trends would last long after the pandemic, competitors offering similar products with competitive and cheaper prices, expensive recalls, and negative press to name a few. Peloton recorded a loss of \$42.8 million on its connected fitness products in the fiscal second quarter of 2023, which ended on December 31.

As Peloton Interactive leveraged its first-mover advantage in the Connected Fitness (CF) industry during COVID-19, it developed a strong brand presence generating a majority of its revenue from customer subscriptions and benefitted from network effects. Sales increased by 172%, monthly workouts doubled, and over a million new users purchased subscriptions. The company invested \$400 million in a factory to cut costs and bring manufacturing in-house, while revenues dramatically dropped due to the lifting of COVID-19 restrictions. With an increase in outdoor activities and customer attrition, Barry McCarthy took the helm from John Foley. In order to cut costs and revive Peloton from its drowning debt, the factory was shut down, and layoffs were announced with a cut in the workforce.

The company underwent managerial restructuring with a new focus on Peloton's software offerings that brought in profits. Through these strategic decisions, they maintained their subscription level, yielding more profit to the company compared to their physical product sales. On the other hand, the problem they now face is how to restore, maintain, and grow peak pandemic demand amongst their users, and address its challenge of buyer resistance and financial fragility.

### **Reasons for attrition**

Peloton's cult-like following combined with home restrictions during the pandemic gave users a sweat-soaked escape from reality. Many users became obsessed with Peloton and soon got burnt out from the same spin class sessions. Peloton adoptors, drained from repeated spin classes have begun to pursue other physical activities, such as yoga, meditation, strength training, etc. In fact, post-pandemic subscription increases have been a result of non-bike-related workouts.

As gyms reopen there has been a waning interest in at-home fitness equipment. The company even offered a trade-in option for upgraded machines, but the company continued to lose money. From user feedback, reduced demand can be attributed to four main observations: an increase in the need for class variety, a heightened need for being around other people and socializing, separation of work and play, and feeling the need to catch up for social events missed during the pandemic. Additionally, users miss the physical presence of others and are looking for a safe space to exercise, free of distractions amongst a community of people that hold them accountable.

### **Recommended brand positioning**

- Specific positioning recommendation to achieve differentiation: Connected fitness community (both in person and via digital technology) that motivates you to be your best self.
- Type of position: Niche
- Bullseye: (**Exhibit 1**)

### **Rebranding efforts**

Peloton recently relaunched its brand, featuring a new creative platform and strategy aimed at becoming the most motivating fitness brand in the world, boasting an impressive 92% retention rate for active subscriptions 12 months after joining. Peloton's previous differentiator was creating and emphasizing the value of a fitness community. However, as home restrictions are lifted and Peloton users are burning out we recommend a rebrand that emphasizes an **exclusive and luxury fitness experience** offering both virtual, and in-person classes with enhancements through gamification.

As Covid-era Peloton adopters are increasingly requesting access to in-person exercise experiences, it is evident that Peloton needs to provide a physical experience, in addition to its virtual classes, to recapture its lost user base. We recommend Peloton open studios, located primarily in major cities, that are only accessible to Peloton members (**Exhibit 2**). The studio will be a site for Peloton community members, events, content creation, new product testing, release parties, and fitness classes. A new subscription model will provide access to both in-person and virtual classes (**Exhibit 3**). Studio access will cost an additional one hundred dollars per month and provide flexibility to members that are craving more connection with others in the fitness community. Peloton studios provide members with a safe space to work out, connect with other members, meet their favorite trainers, and hold themselves accountable so they are better prepared to achieve their goals. The new subscription model meets the needs of users who desire to alternate between virtual and physical classes. A bike in these classes must be booked in advance as studio space is limited. Members on the standard on-demand subscription can join the live classes from home or participate a la carte for thirty dollars per class. Members with the new dual subscription also have the option to bring a friend to a class for a forty-dollar fee per class attended. This new membership model meets consumer demand while maintaining the luxury fitness experience exclusive to Peloton members.

In addition to the recent motivation-driven rebrand, new Peloton products and experiences will be released on a frequent basis. While Peloton studios will be used to test future products, obtain testimonials, and hold release parties, the new products advertised will initially be released in small quantities (ex: 500 Peloton bikes with leaning capabilities) to solve inventory and supply chain-related issues and encourage consumers to act quickly. Pre-releases will go to influencers, such as popular Peloton trainers and fitness enthusiasts, that share Peloton's core values and have an active online following.

To combat user grievances regarding variety, we suggest the creation of one-of-a-kind fitness experiences that cannot be replicated elsewhere. Increased fitness variety and constant innovation will keep Pelotoners engaged and drastically reduce burnout rates. Exclusive partnerships with Tour de France riders will provide opportunities for content creation, such as updated Tour de France courses, 30-minute sessions with Brandon McNulty (2023 Tour de France rider from the U.S.), eight-rider team competitions, and other tour-related challenges. Other existing and future partnerships will result in additional content and studio visits that provide Pelotoners opportunities to work out with some of their favorite celebrities. It's not every day that you get the chance to ride next to Usain Bolt.

Another user experience enhancement is through gamification opportunities. Gamification advancements will shift the focus from intense workouts to childlike fun, as badges, challenges, leaderboards, and rewards motivate users to complete real-world fitness goals. Research has shown gamification increases consumer responsiveness, encourages healthy behaviors, and supports task completion. Improvement in game-like experiences will reignite the passion users lost from amplified use throughout the pandemic and provide an opportunity for continuous releases of new and enticing features.

In line with Peloton's recent rebranding efforts (Motivation That Moves You), we suggest that Peloton partner with other holistic health providers that will reinforce healthy habits and also allow Pelotoners to look and feel their best. From an apparel standpoint, the collaboration will Lululemon would reduce the stress Peloton currently experiences within its apparel department. Some consumers need to "look the part to feel the part". A partnership with Lululemon would help create an experience tailored to our users with a passion for fashion. Lululemon's high-end fitness apparel targets the customer segment willing to pay for a luxury fitness experience and has a similar brand alignment with millions of obsessed consumers. A line of exclusive Peloton-Lulu apparel available only at Peloton studios or websites would help members look and feel the part throughout their fitness journey.

Additionally, wearables are an important market in the fitness industry. A partnership with Apple, Garmon, Whoop, etc. to develop a Peloton model fitness tracker/watch also proves beneficial by continuing to build a Peloton ecosystem, gamify the fitness experience, and grow Peloton desired connectivity through wearables with their technology-based fitness community. Avid fitness enthusiasts frequently track their daily workouts. An exclusive watch that syncs with Peloton products would further differentiate Peloton from its competitors and generate switching costs that deter members from competitor products. Investment in these areas will most certainly redefine Peloton's brand as a fitness community beyond a screen that lives long after the pandemic.

Potential endeavors for the future would include partnerships with video game companies. Peloton could release a gaming fitness track feature equipped to sync with virtual reality (VR) headsets/monitors. Tie-ups and future partnerships with gaming hardware and software companies like EA, Sony PlayStation, Ubisoft, Xbox, or Oculus could open doors to an augmented reality experience further encouraging group competitions and allowing Pelotoner's to ride "anywhere in the world". These simulated environments can be extended to athletes for pre-competition prep by simulating close to actual terrains and environments to gear them toward success.

### **Differentiating factors**

Our three main focuses for rebranding: Luxury/ Exclusivity, Community, and Gamification

<b>Luxury / Exclusivity</b>	<b>Community (physically &amp; digitally)</b>	<b>Enhanced experience combined with improved gamification</b>
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<ul style="list-style-type: none"> <li>- Limited edition Peloton apparel partnerships (ex: Peloton-Lululemon apparel only available to Peloton members)</li> <li>- Access to networking, conferences, education, and other studio events</li> <li>- Studio entrance only accessible to members</li> <li>- Top of the line facilities and world class trainers</li> <li>- Exposure to unreleased products and opportunities to experience to preview and review before launch (ex: beta testing)</li> <li>- Pre Launch product deals</li> <li>- In-house machine assembly by delivery technician</li> </ul>	<ul style="list-style-type: none"> <li>- Peloton Studios only accessible to members</li> <li>- Accountability upheld by trainers and Peloton members</li> <li>- Group competitions that promote excitement, teamwork, and connectedness</li> <li>- Motivation that moves you</li> <li>- Psychological safety</li> <li>- Community of individuals with similar priorities and interest</li> <li>- Ability to bring non-members for a fixed fee</li> </ul>	<ul style="list-style-type: none"> <li>- Custom Peloton wearable technology partnerships with well-known providers offer metric tracking and promote competition (ex: Apple, Whoop, Garmin, Logitech)</li> <li>- Peloton-only exclusive experiences: virtual Tour de France rides, celebrity drop-ins, etc.</li> <li>- Leaderboard and reward systems</li> <li>- Best fitness technology and tracking</li> <li>- Competition based workouts and game like experiences that make fitness fun</li> <li>- Flexible workouts (largest multidisciplinary library including 15+ live classes per day)</li> </ul>
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## Customer segments

### **Demographic:** B2C customers like: Trainers, Parents, Professional athletes

Customers in their mid-20s to early 50s, that value work-life balance, externally motivated (need someone to push them) when it comes to workouts, values community, income above \$50,000 per year, appreciates convenience and flexibility, desires luxury experiences, inexperienced when it comes to developing workouts (no knowledge-based to pull from), affluent, values health and fitness (and willing to pay a premium).

### **Geographic:** Urban population

Affluent crowds that are in a position to regularly afford Peloton's premium product offerings.

### **Firmographic:** B2B customers like: Wellness clubs, Hotels, Universities, and corporate offices

Through these partnerships Peloton will gain effective resource utilization and build brand awareness while addressing its inventory woes.

### **Psychographic:** Fashion enthusiasts, Immersive exercise experts, and Fitness enthusiasts

By offering a large selection of various types of workouts, Peloton can cater to consumers that are always looking to challenge themselves and love a quality engaging fitness experience at their convenience.

## Target Customer Segments and Unique Value Propositions

**Fitness Enthusiasts:** For extrinsically motivated Fitness Enthusiasts that value convenience, Peloton provides a robust community of users and world-class trainers that will engage you holding you accountable during your fitness journey.

**Working Parents:** For working parents with inconsistent schedules that revolve around their children and value exercise but can't make traditional class times, Peloton offers a large catalog of on-demand classes that vary in time and intensity for convenient and flexible workouts.

**Fitness Boutique Users:** For our loyal premium customers, our high-end facilities provide you with a luxurious fitness experience tailored to your expectations with top-notch trainers and exclusive member benefits.

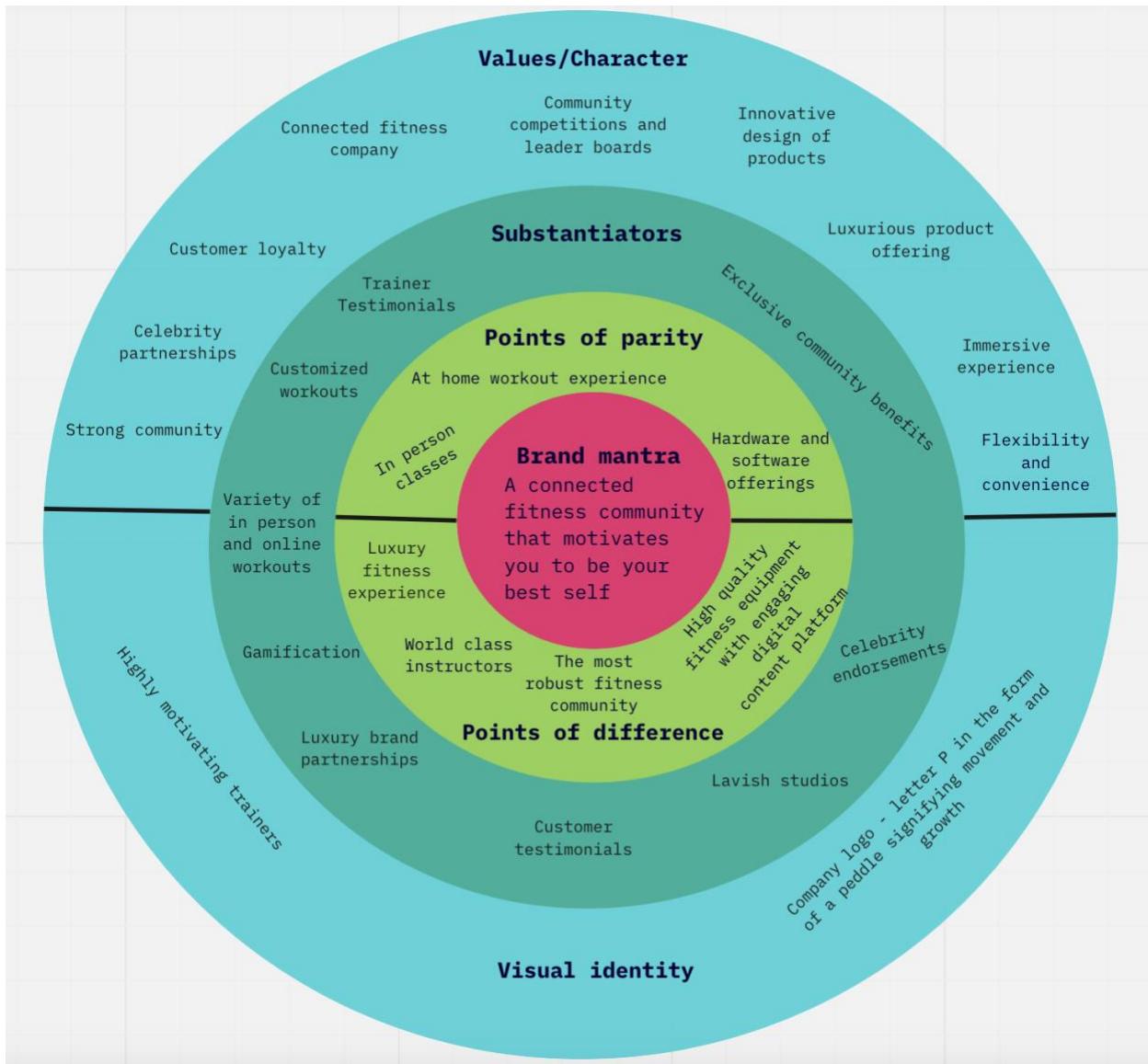
#### **Hierarchy of effects: (Exhibit 4)**

#### **Risks involved with the new strategy**

Risks having an effect on Peleton's reputation, thereby affecting its profitability:

1. Resistance to adopting Peloton due to cheaper substitutes. Furthermore, in-person or community classes could potentially face resistance, leading to low adoption rates due to a lack of resonance among consumers.
2. Failed partnership attempts due to slowing demand for Peloton
  - a. Lululemon also recently lost a case against Peloton claiming Peloton copied their design patterns - partnership could be hard after a negative relationship and the recent acquisition of The Mirror
3. Risk of injury with new product releases and bad press
4. Peloton's partners, manufacturers, and suppliers have a certain degree of independence which could potentially put the company at risk by impacting the quality and quantity of its products.
5. In the current inflationary economy, Peloton may face challenges in retaining its customers if it raises the subscription price.
6. Any dislike in terms of gamification or user experience of physical equipment or app features, could negatively impact the company's reputation and erode customer trust.

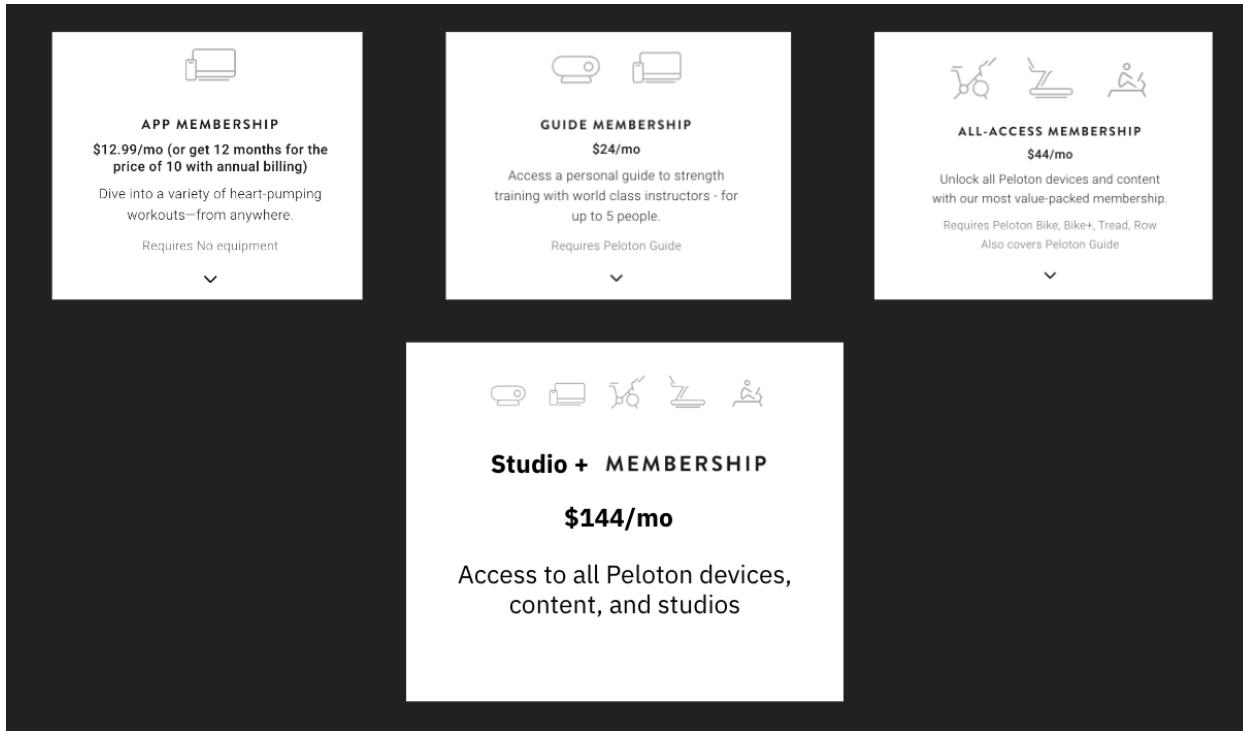
#### **Exhibit 1 Bull's eye**



**Exhibit 2 Peloton studios**



**Exhibit 3 New subscription plan**



#### Exhibit 4 Hierarchy of effects

Steps	Influences	Influencers	Decision maker	Importance
<b>Awareness</b>	Partnerships Events Commercials Social media campaigns Word of mouth Gym partnerships Trainer interviews Blog/Magazine articles	Fitness enthusiast Trainers Customers Partners	Partners Customers C-suite execs	Building credibility and re-establishing brand trust
<b>Knowledge</b>	Customer reviews Celebrity testimonials Blog/Magazine articles Success stories Discounted non-member trials	Trainers Fitness enthusiasts Partnerships Fashion influencers Celebrities	Trainers Fitness enthusiasts C-suite execs	Building the brand as a luxurious fitness experience
<b>Liking</b>	Luxurious fitness experience Brand partnerships Community Experience	Customers Trainers Celebrity endorsements	Customers Trainers	Generate buy-in through the belief in investing in Peloton to motivate one to be their best selves.

	Gamification and user engagement	Partners		
<b>Preference</b>	Highly engaging and active community Elite club-like status Variety of classes and product offerings  Strong customer support	Trainers Celebrity Partners Community members	Customers Trainers	Generate buy-in through the belief in investing in Peloton to motivate one to be their best selves.
<b>Conviction</b>	Discounted non-member trials Product lock-in Motivating community Strong customer support	Customer Trainers Partnerships Community members	Customer Trainers	Establish credibility and provide product confidence
<b>Purchase</b>	Seamless purchase experience Post sales support Pre-order choices In-home machine assembly by delivery technician	Trainers Partnerships Community members	Customer Trainers	Generate brand equity and customer loyalty

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