

University of California Irvine

Marketing Group Project: **Peloton**
Introductory Paper

Section A Team 8

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INTRODUCTION

Headquartered in New York and founded in 2012, Peloton is currently one of the largest interactive fitness platforms in the US. Peloton disrupted the fitness industry through its technology-enabled fitness and subscription model for streaming wellness content. Members can immerse themselves by streaming instructor-driven boutique classes including indoor cycling, running, walking, strength training, stretching, yoga, and meditation. Their main revenue stream is connected fitness equipment (~78% of FY21 revenue) followed by membership fees. Peloton currently offers two membership tiers including “All-Access” (\$39.99/month) and their “App Membership” (\$12.99/month). Their multi-channel sales strategy includes an E-commerce platform and 123 show-room locations across The United States, Canada, Germany, and The United Kingdom. Peloton's current showrooms are located mainly in high-end malls, lifestyle centers, and premium locations. With a customer base of about 5.9 million as of June 2021, Peloton gained tremendous market traction with more people opting for “at-home fitness” during the pandemic. Looking at the changing consumer patterns and to sustain in the long-term, Peloton must refocus its efforts towards better customer segmentation to allow for a wider audience reach.

CHALLENGE STATEMENT

The USA’s gradual economic reopening has led many potential customers to return to traditional gyms. This has adversely affected Peloton by shrinking their existing consumer base (customer defection) and limiting their potential consumer base. Taking into account their past four shareholder letters, Peloton’s subscriber growth is slowing and their monthly churn rate is gradually increasing. It’s clear that Peloton must implement strategic initiatives to account for changing consumer behaviors post-COVID. To do this, Peloton should pursue a more effective segmentation and targeting strategy amongst potential consumers. By doing this, they would be pursuing a Market Development Strategy, specifically looking to pursue a new segment with their existing product offering. Currently, Peloton pursues a behavioral segmentation strategy, specifically targeting health-conscious consumers with high exercise equipment usage rates (5-7 times a week). While this niche is profitable it doesn’t adequately support their growth initiatives. By widening their communications appeal, Peloton can compensate for the slowing customer acquisition rate and support their current growth initiatives.

IMPORTANCE

While Peloton experienced impressive success during the pandemic, shifting consumer habits and the gradual reopening of the economy are posing significant threats for the growing

brand. According to Peloton's 2021 Q4 report, the company fears their ability to maintain and "gain acceptable subscriber levels to support their growth goals". This pressing issue stems from Peloton's pursuit of limited customer segments (health-conscious consumers with high exercise equipment usage rates) and spells turbulence for Peloton given their timing. In July 2021 Peloton was focusing on introducing their product to the Australian market. While it is too early to gauge the success of this costly endeavor, Peloton risks burning through substantial resources in their pursuit of geographic expansion. This could limit Peloton's ability to efficiently carry out other crucial initiatives like new customer acquisition and product category expansion. Meanwhile in the U.S, consumers are becoming more aware of their mental health instead of just physical wellbeing. Consumer Research Company Mintel reports consumers are now more motivated to exercise by improving overall mental/emotional wellbeing than physical wellbeing. If this trend continues, Peloton faces a major contraction in customer acquisition and high-end stationary bike sales. All else equal, this could add to Peloton's most recent net loss of \$189 million in FY2022, placing the company in unfavorable financial conditions. These conditions would be largely dependent on the continuation of Peloton's self-described "high operational expenses" as they increase sales and marketing efforts, expand into new geographies, invest in research development and expand their operational/retail infrastructure. Overall, investor outlook on Peloton's ability to maintain market share is becoming less optimistic due to three factors: changing consumer preferences due to economic reopening, limited market scope, and increasingly high operating costs.

VALUE

With market specialization, by promoting products to several different market segments, the number of potential customers and the product sales can be rapidly pushed up. In this case, Peloton can gain increased market share and become more competitive among the industry. According to a report provided by Seeking Alpha, Peloton's market share in the fitness equipment industry "has swelled to 10.1% from just 1.3% in 2017", and it can potentially reach 37% by 2023.

Meanwhile, the company's increased market share can positively impact its brand equity and revenue streams. If the addressed customer segmentation strategy works successfully, Peloton's products will be well recognized by the market, and clients' loyalty to its products and brand will also be built. In this case, the company's reputation can be enhanced and a strong brand awareness can be built as a consequence. Our customer segmentation approach will certainly reinforce the brand's image in the eyes of the public.

APPROACH

The project report would be divided into minimum 6 segments as mentioned below. As the research and subsequently, report progresses, we expect revisions to the approach, possible solutions, and implementation strategy.

As a group, we intend to meet and discuss in-person twice a week for the report, and schedule online group calls on two of the remaining days. Using collaborative tools such as Google drive and Google doc would allow us to keep track and be on the same page. We plan to keep the TA Derek and Professor Randrup informed of our progress, and would prefer to schedule bi-weekly meetings with Derek to stay on the correct path.

Project Timeline:

Task (Section)	Deadline
Introduction	November 7th
Marketing Situation Analysis	November 7th
Marketing Issue Identification	November 7th
Identification of Possible Solutions	November 14th
Evaluation and Choice of Solution	November 14th
Outline of Action Plan and Implement Solution	November 21st
Powerpoint and Video Deliverable	November 30th

RELEVANT INFORMATION LIST

1. Company Resources
 - a. Company website <https://investor.onepeloton.com/>
 - b. Peloton Interactive Financial reports, statements, investor reports, press releases
 - c. Peloton Interactive, Inc. United States Securities and Exchange Commission 10-K
2. Industry Reports
3. Market research publications by consumer research companies
 - a. Mintel Global Market Research: “Exercise Trends US 2021”
4. Newspaper and Magazine Articles
 - a. Wall Street Journal, Financial Times, Forbes, etc.
 - b. Bloomberg Businessweek “Peloton Moves into Breakaway Mode to Secure Sudden Dominance”
 - c. Seeking Alpha “Peloton: 17% Upside Left Followed By Decelerating Growth”