

Exam 31.01.2022

Read the short case and the questions carefully and justify all your answers.
You cannot use any class or personal materials.
Answer questions 1 in the BMC template, 2-3 in one sheet, and 4-5 in a different sheet.
Duration: 1h30 + 30 minutes tolerance.

Peloton: Bringing the Studio to You

<https://digital.hbs.edu/platform-digit/submission/peloton-bringing-the-studio-to-you/>

Peloton has created their own “fitness as a service” ecosystem that delivers the quality and experience of a boutique studio workout without leaving your home.

The \$28B American fitness industry is no stranger to a passing trend. Through the decades, consumers have flocked to gyms, classes, and increasingly, to boutique fitness studios like Soul Cycle, Fly Wheel, and Berry’s Bootcamp. But as consumers’ lives have gotten busier, and free time shortened, a new space has opened for fitness that fits within our crowded lives.

As technology has made other parts of our lives more convenient and on demand, Peloton has sought to do the same for fitness. Peloton offers consumers fitness equipment - bikes and, recently, treadmills - that are digitally connected to broadcast Peloton’s live and on-demand fitness classes directly onto a connected screen, bringing the boutique fitness experience to the home. In addition to the on-machine interface, Peloton developed an app to allow subscribers to access Peloton workouts even when they’re not at home.

For \$1,995, consumers can purchase a connected Peloton bike and pay a \$39 monthly subscription for access to live and on demand classes filmed in Peloton’s NYC studio. Peloton’s founder John Foley (HBS 01’), views Peloton’s model as “fitness as a service” and an alternative to the prices paid for comparable workouts in boutique studios (SoulCycle NYC - \$34/class, FLYwheel NYC - \$36/class). Peloton’s newest launch, a \$3,995 treadmill, showcased at the Consumer Electronics Show this year, takes aim at boot camp style workouts with the same model (Berry’s Bootcamp NYC - \$36/class). The high initial cost of the bikes and treadmills may be a barrier to entry for some consumers, but those who do buy in have a very low churn rate (reported at 0.3%), thus the company is able to earn recurring revenue on the subscription services.

Peloton’s strategy to become the at home fitness platform owner allows them to fully control their product ecosystem. They manufacture and sell the hardware, update and maintain the software to deliver the programming, design, produce, and own the content, and sell the subscriptions to customers. By developing their own product ecosystem, they’re able to capture the maximum value from customers (no one to split it with!). In addition, with the development of new products (treadmills), they have a greater ability to attract and capture additional value from customers. By owning the ecosystem, Peloton can also control which partners to allow access. They’ve recently announced a partnership with FitBit to allow consumers to sync data from their Peloton workouts to their FitBit devices - which will likely drive even more stickiness for users.

Peloton reportedly has about ~75,000 bike users and service subscribers (as of January 2017) thus far, and is beginning to ramp up international expansion. 2017 sales clocked in at \$400M, more than double the 2016 sales of \$170M. While it may be way too early to say that Peloton has won the high-end fitness market, it is safe to say that competitors are scared. FLYwheel, a popular national boutique spinning studio, has launched their own me-too product called FLY Anywhere. FLYwheel's bike decouples the bike (\$1,699) from the built-in screen (\$400 add on), to allow users to utilize a television set, mobile device, or tablet, and offers the same \$39/month subscription fee. While the offering is comparable, Peloton's in-market time advantage means they have a much larger library of on-demand content (>8,000 classes) to offer consumers, and given their investment in the technology platform, they have a greater ability to expand into new offerings like the treadmill and potentially other equipment in the future (ex: rowing machines, weight machines). Investors have also affirmed their confidence in Peloton, which has reached the "unicorn" level of valuation in their latest rounds of funding (\$325M for a \$1.25B valuation).

<https://digital.hbs.edu/platform-digit/submission/peloton-the-digital-platform-revolutionizing-the-future-of-fitness/>

"(...) key technologies (...) on the digital bike platform are Peloton's data sharing and communication technology. These technologies allow instructors to interact with riders via "shoutouts". (...) During a ride, riders can track their friends' stats, encourage each other, and even egg each other on. (...) Peloton does not intend to be a completely open platform. (...) It wants to deliver a curated experience by carefully vetting spinning instructors and their workouts before bringing them onboard (...)."

McGee P, 'How connected fitness became the new obsession' Financial Times (London, 21 January 2022)

"(...) fans of Peloton and its peers describe connected fitness as a cure for mental burnout; a time saver; a gamified experience that has led to healthy habits; a way of getting into fitness, or even building a community, without feeling awkward or vulnerable at the gym. (...) The immersive workouts offer tips to prevent injuries, and some of them use artificial intelligence to give feedback on your movements. (...) The ability to offer users motivation has been critical to the success of at-home fitness since it was led by Jane Fonda on VHS. But content was limited, there was no feedback, metrics were not recorded and the social element largely didn't exist. The significance of Peloton was offering an endless library of classes, where every push of the pedal would upload in real time for others to see, giving rise to interactions on social media where members could "find their tribe."

1. Develop the Business Model Canvas for Peloton, based on the information above. (Please use the BMC template provided in the exam, and add any explanation you find useful in the back.) (5)

See BMC on the last page

- VP + CS - (30%)
- CR + CH + R\$ - (35%)
- KP + KA + KR + C\$ - (35 %)

2. What network effects are leveraged by Peloton, and how do they contribute to its value proposition? (3.5)

Peloton leverages the three types of network effects:

- direct network effects (47.5%) - with the value in peer interaction in rides and social media, more riders attract more riders; contribute to the riders' value proposition by enhancing motivation in a variety of ways, namely removing the awkwardness and vulnerability of gyms and enabling interactions directly on the platform and on social media;
- indirect network effects between riders and instructors (47.5%) - more riders attract more instructors, which attract more riders; contribute to the instructors' value proposition by providing them access to a broader set of riders, and to the riders' value proposition by providing affordable choice and some personalization;
- more modestly, it also leverages data network effects (5%) - more riders and more instructors allow collecting more data that can be exploited to improve services and collect even more and better data; data network effects allow automating (enhancing and/or making more affordable) a more personalized service for riders.

3. Should Peloton evolve to a fuller platform model with a more open ecosystem? What would be two key pros and two key cons of that evolution? (4)

In the scope of the course topics, pros and cons could be framed by the following:

- platform value creation and value capture - influence on network effects, winner-takes-all dynamics, scale & scope economies, envelopment;
- product-to-platform transition - pros and cons of "hybrid", "more of the same", and "something different" business models; challenges in customer, company, and competitor "conversion";
- ecosystem dynamics - what improves or not in terms of quality, flexibility, cost and speed competences; feasibility and pros and cons of complementor relations management.

The weights are the following: pros - 47.5%; cons - 47.5%; recommendation synthesis - 5.0%.

4. How would you fit Peloton's Business Model in the types of digital servitization business models? Justify your answer. (3.5)

In this answer, it is important to refer to either an industrializer or an integrated product-service solution provider.

(Offer integrated product-service solutions, often entailing relatively high levels of solution customization) - integrated product (peloton equipment) + service (classes, personalized instructor interaction, and community) solutions (40%)

(Provision of availability sets relatively high standards of remote diagnostics, requiring accurate data acquisition, analytics, and implementation). - using data acquisition and analytics to provide personalized service (classes and interactions) (30%)

(However, the customers of companies that apply this business model may still want to purchase integrated solutions with performance guarantees and availability instead of pure outcomes) - the revenue model is still based on the sales of the equipment + subscription fee, and not service or outcomes only. (30%)

Responses referring to IoT business models will have up to 60% of the grade.

5. In the last Board meeting, the Chief Marketing Officer (CMO), together with the Chief Information officer (CIO) proposed that Peloton start offering a new service. The new solution will complement Peloton's equipment with a smart wristband, which together will contribute to Peloton's huge

dataset. Through data analytics, Peloton will offer a full personalized service and will charge based on outcomes, such as weight loss or increase of muscle mass. What would be the impact of this proposal on Peloton's business model? (4)

In answering this question, it is important to refer to the outcome based business model, and to refer to changes in the VP, revenue model and key activities.

Solution providers that sell outcomes instead of products or services - in this case, it could be either mixed BM (purchase of equipment + outcome based fee); or full outcome based value proposition and revenue stream (40%)

Offering such solutions requires the capability of accurately measuring the generated performance, often entailing accurate monitoring and control of the product and service - in this case, it would be necessary to be able to accurately measure, not only the performance, but also user activity and other indicators. (25%)

Being able to continuously measure and optimize the equipment or processes is a critical underlying requirement of outcome providers - data collection and data analytics becomes key (25%)

Strategic capabilities to sell and implement outcome-based contracts, suggesting capabilities in detailed monitoring, control and optimization of even autonomous solutions - the biggest difficulty would be to guarantee the outcomes, as they heavily depend on customer activities (namely exercise) and vary from person to person (quite different from fasteners). (10%)

Stating that the new business model will require more monitoring, data analytics, and personalization activities without referring to why it is so (outcome based) is less valued.










The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partners  Fitbit Instructors Providers of hardware components	Key Activities  Development & production of new fitness equipment Platform development and operation Data analysis and personalization Development and distribution of class content Management of C2C interactions Key Resources  Integrated solution of products and services Large library of on-demand classes and content Technology platform Funding User base Data and algorithms Instructors* Content and solution developers Dedicated facilities and equipment	Value Propositions  Personalized and quality experience of a boutique studio without leaving your home: <ul style="list-style-type: none"> - Motivation via community, instructors, gaming - Personalization enabled by connectedness - High-end experience from content and equipment quality - Time saving and awkwardness avoidance at home 	Customer Relationships  Close relationship with customers through personalized classes Personalized relationship with instructors Community of users who connect with one another Lock-in from durable purchase and specific training Channels  On-machine digital interface Personalized interactions between instructors and teams Peloton app Equipment distribution	Customer Segments  Customers who want to have a personalized and social fitness experience but have a crowded life and/or feel awkward at gyms. High-end fitness market
Cost Structure  Equipment development and production Cost of data analytics and software development Instructors and online class development Economies of scale		Revenue Streams  Product/equipment hardware sales Monthly subscription for online and on demand classes		