

# Marketing Plan

MKTG 489

Professor Tejvir Singh Sekhon

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Compiled By

Abby Mellema, Annika Cable, Bianca Slamet, Niko Biro, & Cooper Cummings

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## Industry Analysis

### **Peloton Bikes**

The Peloton Bike is an indoor cycling exercise bike that enables the user to change resistance at will. It is intended to be used for personal, at-home fitness use. The bike comes with a screen attached and the user is required to pay a monthly subscription fee for an account that unlocks access to classes and instructors.

Peloton is an interesting product because it had an explosion during its release disrupting the fitness, cycling, and fitness subscription industries at their height. We chose this product because of its high demand in sales during the pandemic and is now struggling to sell its products, reporting a \$1.2 billion in loss, a 28% drop in revenue, and its shares plunging at a 20% loss (in 2022).

### **Market Review**

Some of the key drivers for demand in this industry is that the manufacturing level of Peloton bikes is largely driven by retail trends. This can include:

- **Changing consumer preferences:** among different types of sporting activities which affect what type of sporting equipment is manufactured and sport participation rates which are often also dependent on the state the consumer is in
- **Trends in Leisure time availability - leisure increases demand:** are a determinant of consumer demand for gym and exercise equipment which can explain the slight rise in the last 5 years due to the increase in leisure time from the COVID-19 pandemic.
  - Consumers have been spending a larger amount of time exercising
  - Gyms and fitness centers have seen a rise in membership due to increased sports participation

- **Prepaid group exercise classes increase demand:** have increased in popularity and have led to a growth in gym memberships or this case a peloton membership
- **Foreign products increase demand in foreign countries:** the affordability of foreign products in other countries is often cheaper than in the United States thus increasing its appeal across the industry.
- **COVID-19 decreases demand:** The onset of the pandemic and the closures of gyms and health clubs across the United States in 2020 have resulted in a decrease in demand for industry products from the commercial market.
  - Hotels and commercial wellness centers have endured large decreases in business leading to decreased demand in the market
  - **“The pandemic’s closure of gyms and health clubs resulted in a surge of individuals exercising in their homes and purchasing industry products, helping to boost overall demand for industry products and mitigate demand decline from commercial markets”**
- **Economic Recovery increases demand:**
  - **2021:** the demand for health clubs, gyms, and commercial clients hit a rebound due to economic recovery
- **Competition of Other Activities and Other Products in Times of Limited Leisure decreases demand:** Other activities and products such as toys, craft goods, music, and home entertainment products compete directly with the industry for a greater share of a customer’s leisure time!
  - Other activities and products demand has increased largely over the last 5 years due to advances in technology
    - Home theater systems
    - Electronics
    - Video games: The small fitness market in video games is expanding with things like WII Fit.
      - **“If consumers are more willing to exercise using video games, they are less likely to buy fitness equipment.”**
  - Demand growth in the future will be limited as people are more willing to substitute their time spent exercising with electronic goods
- **Growth and Age Structure of the Population:** affects demand for gym and exercise equipment. The median age of the US population has experienced little change over 5 years.
  - Demand is expected to increase over the coming decade due to continued increases in the average age of the population.

- **“Baby Boomers crossing the threshold into traditional retirement will be more inclined to exercise to better their health, boosting demand for fitness equipment.”**

(IBISWorld, n.d.)

## **5 Forces Analysis**

To have a better understanding of the competitive nature of the Exercise Equipment Industry, we conducted a Five Forces Analysis:

### **Threat of New Entrants: LOW**

Throughout the pandemic, businesses within the industry saw a massive increase in sales. Now that society has mostly moved past this, the companies that found success continue to lead the industry. This forces new businesses attempting to capture market share to work extremely hard to find success against the big players.

### **Buyer Power: HIGH**

As the world moves out of the pandemic, consumers who purchase exercise equipment are now more inclined to return to the gym or other establishments outside of their own homes. In addition, as the obesity rate in America continues to increase, consumers are turning to exercise equipment as a means to stay in shape. The wide variety of exercise equipment leads consumers who want to begin exercising regularly at home to have the option to purchase less expensive products to fulfill their exercising needs. This contributes to high buyer power.

### **Supplier Power: LOW**

Manufacturers and suppliers in the exercise equipment industry are common and businesses often require very similar inputs for the production of their products. This makes it easy for a business to switch suppliers if one isn't reliable. In addition, many products that are produced in other countries are significantly less expensive to produce. In 2022, imports of industry fitness equipment are expected to account for over 80% of domestic demand (O'Malley, 2022). Easily replaceable inputs and cheap international imports lead to the low power of suppliers.

### **Threat of substitutes: HIGH**

There are nearly endless approaches to exercise and fitness that consumers can choose from to fit their needs. Exercise bikes make up only 11.7% of the exercise products and services sold in the United States (O'Malley, 2022). Some companies sell cheaper equipment that many consumers may choose to begin exercising before purchasing from higher-quality brands. Consumers also have the option to purchase normal bicycles, still getting the same amount of exercise without needing to spend excessive amounts. This contributes to a very high threat of substitutes.

### **Competitive Intensity: HIGH**

Other companies within the industry sell various types of exercise equipment at different price points with the businesses that sell higher-quality equipment requiring differentiation to stand out. In addition to competitors within the industry, businesses must also compete for a greater share of consumers' leisure time with other industries. These include toys, craft goods, and home entertainment options. If consumers are using these items in their free time, they aren't using exercise equipment. Businesses within this industry need differentiation from competitors to operate in this highly competitive industry.

### **Summary:**

After conducting this Five Forces Analysis, we determined that the threat of substitutes is the most important force in the exercise equipment industry. The wide variety of exercise products and services both at home and at facilities gives buyers many options to choose from to fit their exercise needs. Because of this and the overall highly competitive nature, we concluded that the exercise equipment industry is not attractive to compete in.

## **Competitive Review**

To understand the current market and the industry that Peloton belongs to, the competitive review provides an analysis of its competitors, as well as a deep dive into three competitors most significant to Peloton.

## **Brand Competitors**

Brand competitors are those that compete in the same market with products that have similar features, advantages, and benefits, along with similar price points (tofurious, 2013).

### **NordicTrack Studio Bikes - \$1,899-\$2,499 | (NordicTrack,2022)**

- Interactive, trainer-led.
- Variety with cross-training options like yoga and strength training.
  - Optional iFit subscription.
    - \$39/mo or \$396/yr family plan, \$180/yr yearly individual plan.

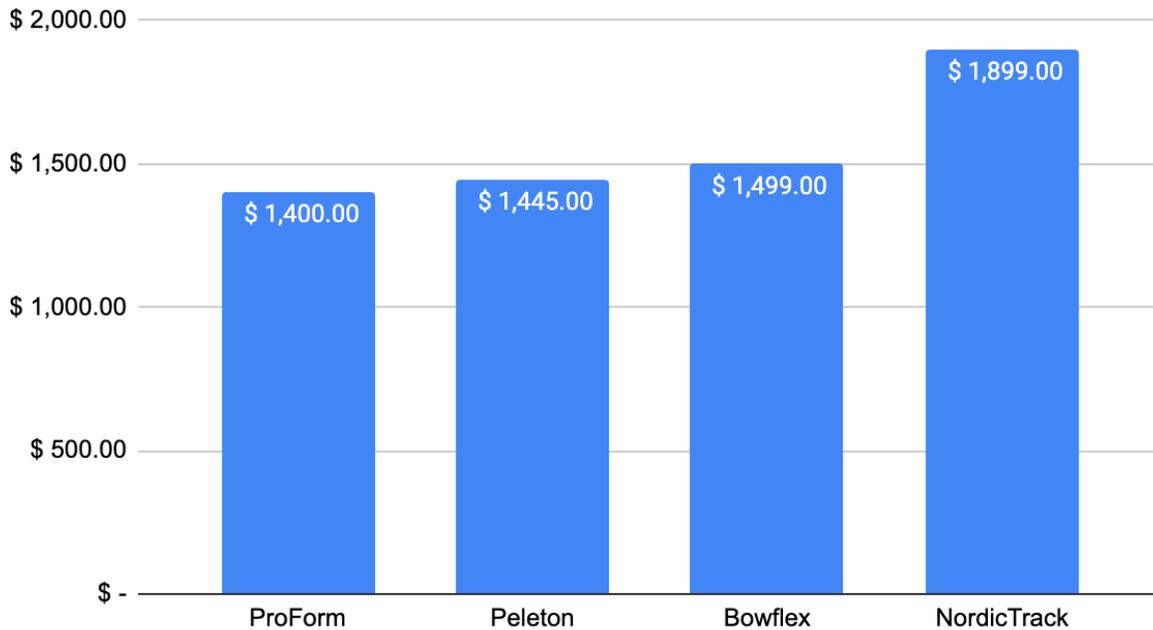
### **Bowflex VeloCore - \$1,499-\$2,199 | (BowFlex,2022)**

- The bike can lean left and right.
- A mix of trainer-led and virtual-coach classes that are pre-recorded.
- Optional subscription
  - The capability of logging into streaming services (Hulu, Netflix, etc)
    - \$20/month or \$149 annually.

### **ProForm Studio Bike Pro -\$1400 | (ProForm,2022)**

- Best value:
  - ProForm deal/contract with iFit.
    - Contract: \$39/month iFit subscription for three years.
      - Free bike.
    - Total out-of-pocket cost \$1400.

## Brand Competitors



(Exhibit 1a)

## Product Competitors

Product competitors are those that compete in the same product class but can be seen as alternatives to the product itself (Tofurious,2013).

### **Echelon EX Series - Starts at \$799-\$2,499 | (Echelon, 2022)**

- Has a device holder.
  - No attached screen.
    - Bring your own device (to mount).
    - Promotes Echelon Fit app.

### **Sunny Health & Fitness Cycling Bike - \$206.63 | (Amazon.com, 2022)**

- Indoor bike
- No screen
  - No mount for a device holder.

### **Soulcycle - Starts at \$25-\$1,900 | (Soulcycle.com, 2022)**

In-person, in-studio spin classes, or at-home bike.

- Class packages start at \$25-\$38/ class
- Launched at-home bike in October 2021
  - \$39.99/month digital subscription
  - Stream into a live studio
  - On-demand classes available



(Exhibit 1b)

### Generic Competitors

Generic competition is different products that solve the same purpose or same customer need (tofurious,2013).

#### **MIRROR - Starts at \$795 | (Mirror, 2022)**

Smart MIRROR focuses on cardio, strength training, yoga, pilates, boxing, and more. Front-facing camera allows users to see friends and class during workouts and allows live feedback from instructors.

- Founded in 2016, and acquired by lululemon in 2020.
- lululemon Studio Membership at \$39/month.
  - 10,000+ classes on-demand, new live classes daily, world-class studios, and instructors.
  - Access to unlimited content for up to six household members.

- Includes 10% off lululemon purchases.

**Tonal - \$3,479 | (Tonal, 2022)**

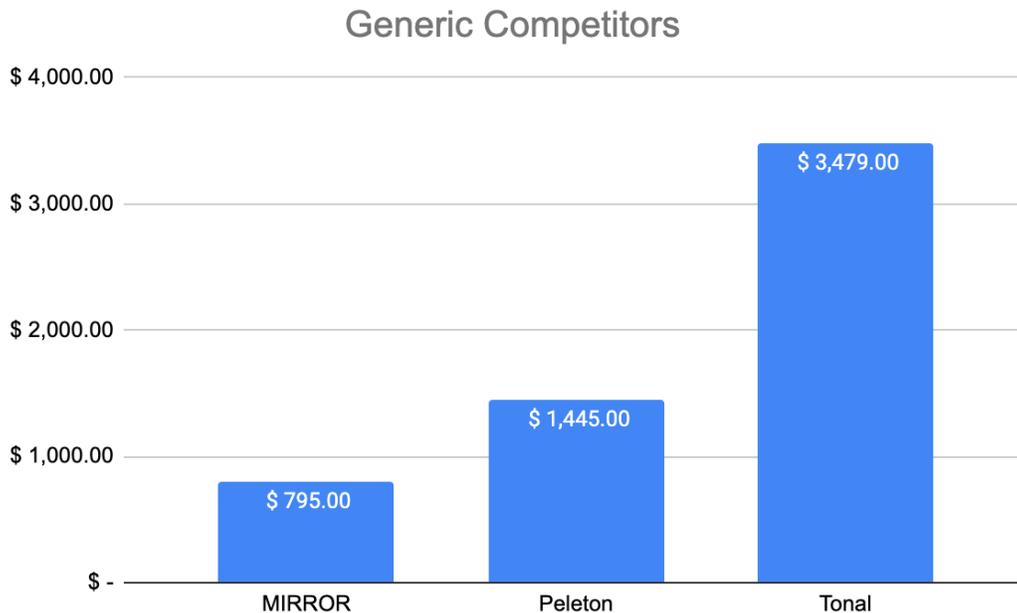
Smart “digital weight system” (cable machine) with adjustable arms for a full-body workout. Smart accessories such as smart handles, smart bar, and rope are attached to the system to allow 200+ movements.

- Founded in 2015.
- Thousands of effective and engaging workouts tailored to personal fitness goals.
  - Personalized programs, and automatic weight suggestions for thousands of life and on-demand workouts.
- Tonal starts at \$3,495
  - Includes smart accessories, membership, shipping, and installation.

**NordicTrack - \$ (price varies) | (NordicTrack,2022)**

NordicTrack is a reputable brand in the fitness industry that caters to home consumer use and is known for its Treadmills. NordicTrack is the oldest company on the list.

- Founded in 1975.
- Diverse product portfolio (treadmills, bikes, ellipticals, rowers, mirrors).
- iFit subscription
  - 30-day trial
  - \$396/yr family plan, \$180/yr yearly individual plan.



\*NordicTrack price varies by product.

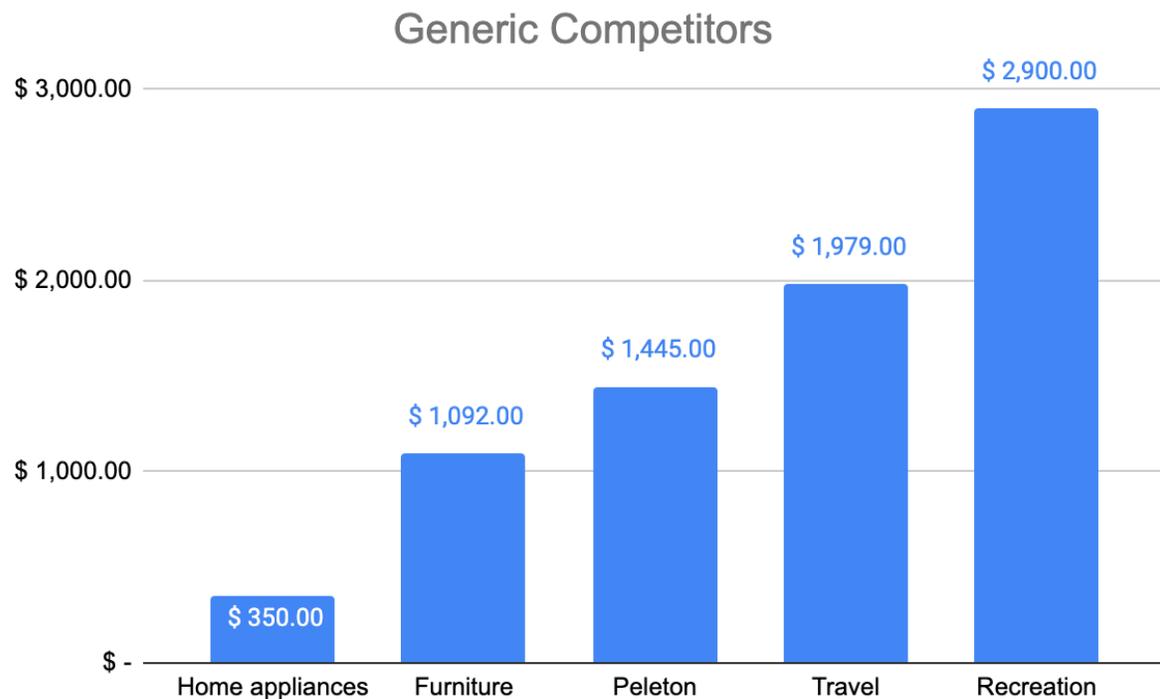
(Exhibit 1c)

### **Total Budget Competitors**

Total budget competition is between firms that compete for the limited financial resources of the same customers (Tofurious, 2013).

With Peloton's target market of younger, working adults and parents; total budget competition would include categories such as:

- **Furniture**
  - On average, affluent American households spent \$1,092 on furniture per year (ICSID, 2022).
- **Home appliances**
  - On average, home appliances range from \$350-\$8,000 (Figy, 2021)
- **Travel**
  - On average, Americans report spending an average of \$1,979 on summer vacations (McDowell, 2019).
- **Recreation**
  - On Average, American households spend \$2,900 per year on entertainment (Gabrielle, 2022).



(Exhibit 1d)

## Three Competitors Significant to Peloton

### iFit

NordicTrack and ProForm parent company. iFit was started in 1977 by Scott Watterson and Gary Stevenson. iFit pioneered the home fitness industry with treadmills that connected to VHS players- automating the incline based on the VHS workout (Togini,2021).

- **Current Strategies:**
  - Introduced iFit subscription-based model.
  - Expansive equipment product portfolio through NordicTrack and ProForm.
  - Co-creation with other brands such as its partnership with Planet Fitness to create new workout plans.
- **Past Strategies:**
  - Aggressive patenting.
  - Patent infringement lawsuits against competitors.
  - Selling and buying equity.
- **Current Performance | (iFit Stock Analysis):**
  - 2021 Revenue: \$1.75 Billion

- Market Cap: \$6.14 Billion
- Enterprise Valuation / Sales Ratio: 3.52
- **Primary Strengths:**
  - Inclusive co-creation with other brands.
  - Diverse brand and product portfolio.
- **Primary Weaknesses:**
  - The threat of entry into the industry.
  - Threat of substitutes in the industry.
- **Likely Future Marketing Strategies:**
  - Working with more brands and trainers within the fitness industry to expand its reach.
  - Licensing its iFit subscription model to other equipment brands.
  - Aggressive expansion of its product portfolio.

### **Impact of the iFit's strategy on Peloton:**

iFit will continue to aggressively expand its product portfolio as well as the content in its subscriptions in comparison to Peloton. “Watterson still believes iFIT can edge Peloton in the range of machines and content it offers, enough to keep customers buying its equipment and subscribing to its classes as the company he founded as a college student 44 years ago prepares for a potentially lucrative IPO later this year” (Togini,2021). Patent infringement lawsuits will continue against Peloton.

### **MIRROR from lululemon**

Lululemon is an athletic apparel retailer founded in British Columbia founded in 1998- it has since grown into the international market and is a large brand name in the U.S. Lululemon acquired fitness device maker MIRROR for \$500 million in July 2020 (Togini, 2021).

- **Current Strategies | (lululemon, 2021)**
  - Offers live classes daily led by lululemon MIRROR ambassadors through a subscription model.
  - Parent company lululemon sells complementary workout gear as well as apparel.
  - The subscription model offers an additional 10% off all lululemon purchases.
- **Past Strategies:**

- Certified trainers provide expert instruction and live feedback through the camera installed in its hardware.
  - Allows a sense of community, and an immersive experience.
- **Current Performance | (lululemon Stock Analysis):**
  - 2021 Revenue: \$6.36 Billion
  - Market Cap: \$37.70 Billion
  - Enterprise Valuation / Sales Ratio: 5.40
- **Primary Strengths:**
  - Incorporated well to complement the parent brand.
- **Primary Weaknesses:**
  - Lack of product diversity.
  - The threat of entrants into the industry.
  - Threat of substitutes in the industry.
- **Likely Future Marketing Strategies :**
  - Growing its key pillars “including product innovation, guest experience, and market expansion” (lululemon, 2021).
    - Investment into research and development.
    - Opening new stores that demonstrate the MIRROR across international markets.

### **Impact MIRROR’s strategy to Peloton:**

With a greater revenue and gross profit margin than Peloton lululemon has the time and resources to play with research and development into Mirror, and can; conduct research into producing more athletic wear and accessories that pair well with the brands, expand MIRROR into untapped international markets that Peloton is unable to reach.

### **Soulcycle**

Soulcycle is a fitness company owned by Equinox Group that offers indoor cycling and spin workout classes. Founded in 2006, Soulcycle operates in the U.S., Canada, and the United Kingdom (Togini, 2021).

- **Current Strategies:**
  - The launch of their “at-home” bike in October 2021 in response to the pandemic, and store closures.
    - \$39.99/month digital subscription.
    - Stream into a live studio.

- On-demand classes are available.
- **Past Strategies | (Strugatz, 2020):**
  - Studio expansions across international markets.
    - Prior to COVID-19, Soulcycle operated 99 locations internationally.
- **Current Performance:**
  - Information is unavailable due to it being a privately owned company.
- **Primary Strengths:**
  - Focus on in-person classes.
    - With the new option of streaming into a live class.
    - In-person experience of the community.
- **Primary Weaknesses:**
  - Lack of product diversity.
  - The threat of entrants into the industry.
  - Threat of substitutes in the industry.
- **Likely Future Marketing Strategies :**
  - Expansion into fitness categories other than spin/cycle in their in-person studios.
  - Re-expansion of locations after recouping their losses from the pandemic.

### **Impact of Soulcycle's strategy on Peloton:**

With the effects of the Pandemic receding, the target market is likely to prefer in-person spin classes where they can enjoy a sense of community. Their likely re-expansion into locations within the U.S. and abroad will cannibalize Peloton's sales- consumers are more willing to pay a smaller class fee than a larger initial investment.

### **What type of competitive market do these firms compete in?**

These markets compete in a perfectly competitive market. Where any firm can enter the market- reducing the industry profits as a whole through price-setting wars- increasing features, advantages, and benefits, creating similar products, and strategically lowering prices to match that of competitors.

## **Customer Review**

### **Existing and Potential Buyers**

Customers of the at-home exercise machine industry in general are usually classified as “fitness enthusiasts” who value the convenience of working out from the comfort of their homes. Peloton consumers fall into this category as well, but because of the price of the standard Peloton Bike (\$1445) and the monthly membership fee that provides access to the video component of the product (\$44/month), they target consumers with more disposable income (peloton.com, 2022).

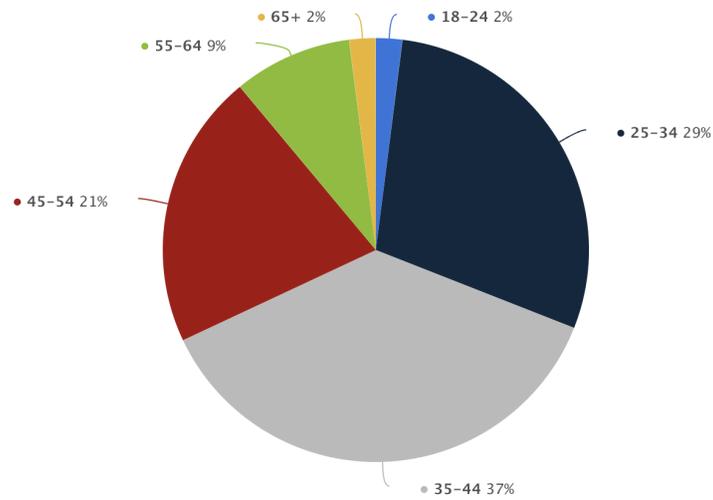
The pandemic brought a lot of new customers to Peloton because of traditional gyms being closed and people being stuck in their homes due to the lockdown. The company’s share prices took off during this time. It was one of the handful of companies that benefited from the global pandemic and was able to make a name for itself and become highly successful because of it. There was a point in time during 2020 and 2021 when everyone seemed to be buying a Peloton and it was difficult to procure one because of their extreme popularity (Hartmans, n.d.). Current consumers of Peloton are widely those that were part of the initial surge of purchases during the pandemic.

There is an opportunity for Peloton to reach beyond its current buyer base. According to a study conducted in late 2020, “although Peloton targets individuals that are typically professionals with extra money to spend, an additional demographic, those under 35 with less disposable income has become their fastest growing demographic.” (askwonder.com, 2020).

## **Demographics and Socioeconomic Factors**

- 66% of people who bought a Peloton in 2021 were between the ages of 25 and 44
- The second most common age group was 45-54-year-olds

Peloton Users by Age

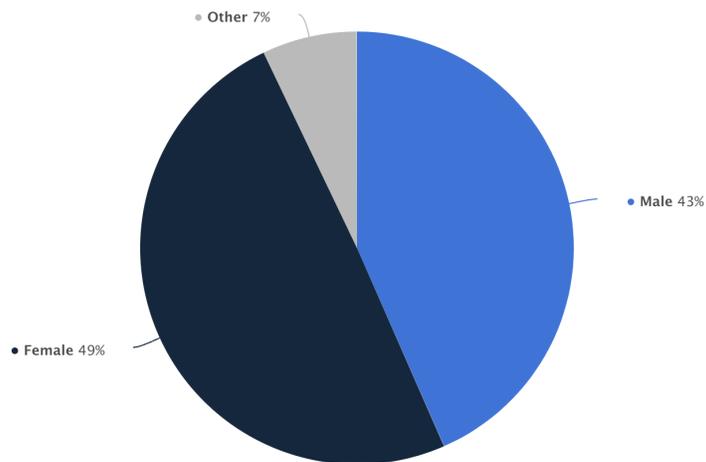


(statista, n.d.)

(Exhibit 1e)

- 49% of Peloton users were female, 43% male, and 7% indicated their gender was “other”

Peloton Users by Gender



(statista, n.d.)

(Exhibit 1f)

- 62% of Peloton users earn between \$50,000 to \$150,000, 21% make up over \$200,000 (Curry, 2022)
- Generally, consumers with a decent amount of disposable income are more likely to own a Peloton

### **Geographic Factors**

- 92% of their traffic comes from the US. The UK brings in 1.6%, and Canada 1.13% (similarweb, n.d.)
- According to Facebook Insights, the most followers come from New York City, Los Angeles, and London (askwonder.com, 2020)
- Generally, Peloton is more popular in larger, metropolitan cities

### **Psychographic and Behavioral Factors**

The average peloton user enjoys fitness and exercise to at least a certain extent. To be willing to spend that amount of money, they are also probably “fitness enthusiasts”. Aside from just enjoying fitness, the membership and community aspect that Peloton offers is extremely important to them. These buyers have a sense of loyalty to the Peloton family, have favorite instructors, and might take classes with their friends that also have a membership. The founder and CEO of Peloton have said that their core target market is people who do not have “time to go to the gym” (askwonder.com, 2020). He also has said that he “got the idea for an at-home exercise bike when he saw his wife struggle to reserve a place in Soulcycle class”.

#### Peloton Consumer Personas:

Mike, 35, corporate professional, single

- committed to his health and fitness but also very committed to his career
- doesn't want to waste time driving to a gym or coming up with his workout routine
- enjoys competing with others in fitness but can't find other workout enthusiasts to do it with
- likes to track goals and see achievements

Kate, 45, married, 2 kids

- also value health and fitness but has a hard time staying motivated to get to the gym
- wants to have a sense of community and to have “workout buddies” but has a hard time finding other moms with the same schedule
- likes a class style, group workout
- Limited amount of free time and needs the convenience offered by Peloton

To Mike and Kate, the high price point of the Peloton bike is not as important as the community and efficiency that it offers. Peloton has a 95% 12-month subscription retention rate, which supports the idea that they are more than just an at-home exercise machine (askwonder.com). These two personas give an idea of the typical Peloton customer. They are motivated, busy, and willing to spend the extra amount of money on a product that they know meets all of their needs/requirements.

### **Size of Market**

The current Peloton market has a market cap of \$3.07 billion. While this is much lower than its height in 2020 (\$44.38 billion), it is still quite large (Google Global Rank, n.d.). As the pandemic has wound down in severity and traditional gyms have reopened, the market for at-home exercise equipment has become a lot smaller. However, there is still hope. As previously mentioned, Millennials are one of the most common generations to use the Peloton bike. They are also the most health-conscious generation, the most likely to enjoy an exercise class style of workout, and love keeping up with the latest exercise trends (BrightMark Consulting, 2015). All of these lend themselves perfectly to Peloton’s offerings. The pandemic created the perfect storm for them to achieve rapid success but these specific points could help them maintain more sustainable success.

### **Purchase Decision-Making Process**

Problem Recognition: Consumers need and want a way to achieve their fitness goals and maintain a healthy lifestyle but have limited time or access to traditional workout classes/gyms. They are also wanting a fitness community and the convenience of the option to work out at home.

Information Search: Most likely includes looking to personal sources for recommendations or independent research on the internet about the different options available to meet their specific criterion

Evaluation of Alternatives: Includes the evoked set of all known alternatives to the Peloton bike, including the competitors listed in the previous section, and the consideration set, which are those realistically considered for purchase. A consumer might compare points of parity and differentiation between the Peloton bike and other at-home exercise cycles in this step.

Purchase: Peloton is the solution to the problem identified by the consumer. It is an at-home exercise machine that also has the element of community, the instructed class style workout, and limits the amount of time they must spend each day getting a workout in.

Post Purchase Evaluation: The purchase either fulfills all of the hopes that the consumer had for the Peloton bike or they are unfulfilled in its purchase. Many will find that the Peloton was the perfect solution to all of their previous problems and others will not find as much gratification from it. Either way, the consumer will reach this step and evaluate whether or not they are happy with their purchase.

### **What the Customer Expects with the Purchase**

If a consumer reaches the “purchase” step of the decision-making process, it means that they are expecting to receive an at-home exercise bike, the ease of access to a fitness community, and the ability to have instructed workouts any day, at any time.

Peloton provides their customers with all of these things, creating a great option for the busy, fitness enthusiasts that they target.

## **Macroenvironment Review**

### **Legal and Regulatory**

When it comes to the legal factors that have affected Peloton, it is hard to ignore the fact that they have faced lawsuits in the past. On April 17 of 2021, the Consumer Product Safety Commission strongly encouraged customers to not purchase the Tread+ if they have children or pets. This was a month after Peloton shared that there had been several accidents involving children with this product and one of those accidents resulted in death. A consumer class action lawsuit was filed three days later that claimed Peloton used pictures of a woman and a young girl in their advertising indicating that the product is safe to use around children. A second lawsuit was filed nine days later on April 29 on behalf of Peloton investors. This lawsuit claimed that Peloton failed to tell investors that its products could be harmful to children or pets. As a result, these lawsuits diminished Peloton's stock price which fell to \$16.28 per share compared to its high the previous year of \$167.42 which leads into the next segment of economic factors.

### **Economic**

Peloton's economic success has been an up-and-down roller coaster ride. Peloton was founded in 2012 by five ex-IAC employees. For the first three years of its existence, John Foley, who was one of Peloton's five founders, went on the road to seek investors. Foley met with 400-plus investors and met with many of them on more than one occasion. As Foley put it, "I got 400 'nos.'" Foley stated that he had "been turned down maybe five or six thousand times." (Hartmans, 2022) Needless to say, Peloton did not see success right out of the gate. It wasn't until 2014 that Peloton could scrap enough money together to put their first bike on Kickstarter. After that, Peloton developed a cult-like following and by 2018 "Peloton raised \$550 million in venture capital funding at a valuation of \$4.1 billion." (Hartmans, 2022).

Then disaster struck as COVID-19 plagued the globe and severely damaged the economy. Or did it? While the majority of businesses suffered through the pandemic, Peloton thrived. With people forced to stay indoors many folks turned to at-home fitness to stay busy. “By May 2020, Peloton reported a 66% increase in sales and a 94% increase in subscribers.” (Hartmans, 2022) However, as the pandemic slowly began to recede, so did the popularity of the company. As the country began to reopen and people began returning to physical gyms, Peloton's stock fell by 34%. This had led to more than 5,000 job cuts including the replacement of CEO John Foley with former Chief financial officer of Spotify and Netflix Barry McCarthy. McCarthy said “Now that the reset button has been pushed, the challenge ahead of us is this... do we squander the opportunity in front of us or do we engineer the great comeback story of the post-Covid era? I'm here for a comeback story.” (Hartmans, 2022). McCarthy's optimism sparks life into Peloton's future, but they have a long way to go if they want to reach the economic glory they once possessed.

### **Social and Cultural**

Society can have a huge impact on the success of a business. As a big-name company, social responsibility is becoming more and more of a priority. Peloton, for the most part, is pretty socially conscious but every now and then there is a hiccup that has a negative affect on their brand image. For example, in 2019 Peloton aired their infamous “wife ad”. The ad featured a thin, already in shape woman, receiving a Peloton bike from her husband for Christmas. The woman then continues to document her year-long Peloton journey by taking selfie videos. The advertisement received public backlash as the video was not only unrealistic and corny, but played into outdated beauty standards and was clearly sexist. Even though the commercial caused Peloton's stock price to fall 9%, they stood by their commercial and were disappointed that the commercial was so misunderstood.

### **Environmental and Technological**

One of Peloton's main selling points is its technological genius. Their key differentiation is their live classes that simulate real life gyms. In these virtual classes,

Peloton users are trained with real instructors and get to compete with other users living in their own home. This concept creates a peloton community as users create personal relationships with their instructors and others in the class. People participating in the at-home fitness industry no longer need to exercise in solitude. This technology, however, comes with an environmental cost. When you are a part of a business that involves expensive equipment and materials, being environmentally friendly is not necessarily a priority. “Peloton’s environment rating is ‘very poor’. It uses few eco-friendly materials. There is no evidence it reduces its carbon and other greenhouse gas emissions in its supply chain. There is no evidence it has taken meaningful action to reduce or eliminate hazardous chemicals. There is no evidence it minimizes textile waste.” (Goodonyou.com, 2021)

## **Firm Analysis**

### **Key Information about Peloton**

#### **Size and Number of Employees:**

Peloton Interactive is not currently the wall street giant it once was during the peak of the pandemic. In just a year Peloton’s number of employees has dropped from 6,743 to 3,723 as of July 1st, 2022 with 100 physical locations nationwide (macrotrends, 2022). This includes stores and showrooms where consumers can explore and test their products. However, CEO Barry McCarthy plans to decrease the number of peloton locations in 2023 (Thomas, 2022). These measures are being taken to cut costs and become profitable again.

#### **History:**

Peloton was founded in 2012 by five ex-IAC employees. John Foley claimed to be the visionary of Peloton, but the other four co-founders “took it and ran with it” while Foley was off pitching to investors for the first three years of the company's existence. Foley was not met with open arms as he claimed he was denied by potential investors about five to six thousand times while on the road. (Hartmans, 2022) Nonetheless, the company carried on while he was away putting their first bike on Kickstarter in 2013. Peloton bikes really began to gain some traction in 2014 when they started shipping bikes to consumers and setting up pop-up stores in shopping centers to advertise their products. They also opened their first studio in New York where users could come and take live classes with a professional instructor.

The company continued to slowly progress up until 2020 when the pandemic hit, then things went amazingly well for Peloton. People stranded in their houses feeling purposeless turned to at-home fitness and by May of that year, Peloton's sales increased by 66% (Hartmans, 2022). Not only that but their digital fitness program had a 97% increase in subscribers (Hartmans, 2022). Peloton was on top of the world. Being one of the few companies that thrived during the pandemic, Peloton let success inflate its ego. As Covid-19 started to subside, so did their stock price falling 34% (Hartmans, 2022). Gyms began to reopen and Peloton had no plan to cope with the evolving market. Their brand image was taking punch after punch as they struggled with social responsibility issues. CEO John Foley threw parties as their stock price plummeted. Soon enough Peloton had to end their relationship with Foley and thousands of other employees in an attempt to reignite the peloton flame. This is where Peloton is today; in the optimistic hands of new CEO Barry McCarthy and a tiny bit of hope.

### **Key Management:**

This year Peloton has had a drastic change in management. Executives that are leaving include Co-founders John Foley and Hisao Kushi, Chief Commercial Officer Kevin Cornils, Head of Compliance and Risk Bertrand Lanciault III, Head of Marketing/Communications/Membership Dara Treseder, and now Chief People Officer Sherri Eaton. It is no wonder the company ran its fourth round of layoffs, with the CEO saying “I know many of you feel angry, frustrated, and emotionally drained by today's

news, but please know that this is a necessary step if we are going to save Peloton, and we are.”

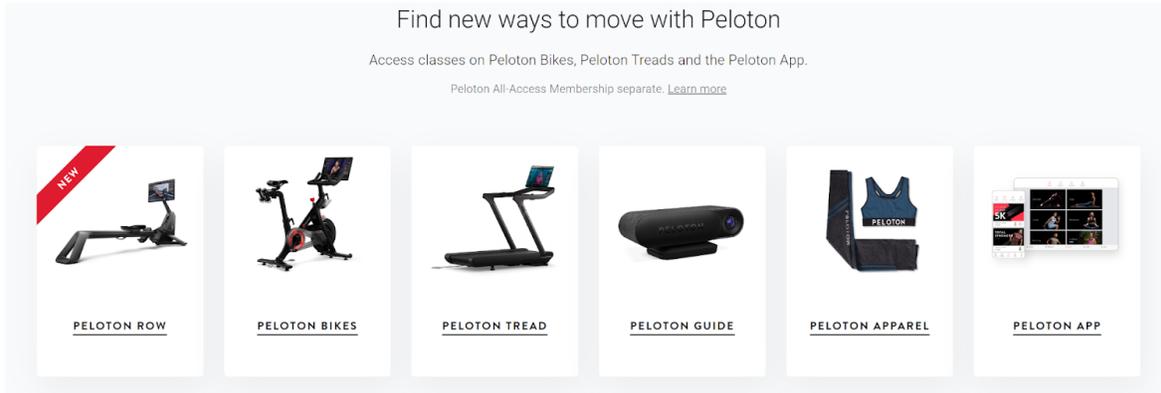
**EXECUTIVE OFFICERS:**

- William Lynch, President, Director
- Barry McCarthy, Chief Executive Officer
- Jill Woodworth, Chief Financial Officer
- Allen Klingsick, Chief Accounting Officer
- Tim Shannehan, Chief Revenue Officer
- Mariana Garavaglia, Chief Business Operations Officer
- Yong Feng, Co-Founder, Chief Technology Officer and Chief Information Officer
- Carolyn Tisch Blodgett, Head of Global Marketing
- Jennifer Cotter, Chief Content Officer
- Jon Adeo, Chief Supply Chain Officer
- Tom Cortese, Co-Founder, Chief Operating Officer, Head of Product Development
- Tammy Albarrán, Chief Legal Officer

**BOARD OF DIRECTORS:**

- Barry McCarthy, President
- Jon Callaghan, Director
- Howard Draft, Director
- Jay Hoag, Director
- William Lynch, Director
- Angel L. Mendez, Director
- Jonathan Mildenhall, Director
- Pamela Thomas-Graham, Director

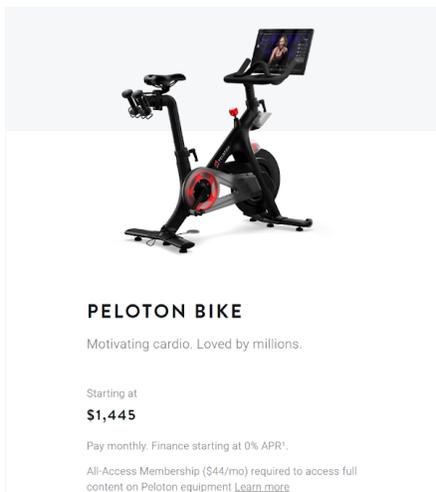
# Primary Products and Services



(Exhibit 2a)

Peloton features an array of products including their new product the Peloton Row, Bikes, Tread, Guide, Apparel, and App. Of course, the Peloton Bike and the Peloton Bike+ are the company's main revenue drivers, but the company is still trying to expand its product line to penetrate a broader market of fitness.

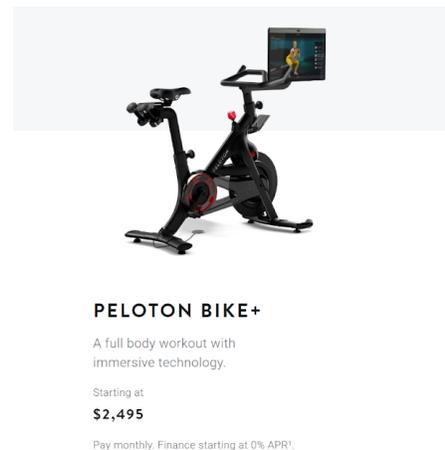
(Exhibit 2b)



The Bike has a screen tilt to accommodate different heights, a 21.5" HD touchscreen, 2-channel audio with 2x10 watt speakers, and 4' x 2' footprints, smaller than your average yoga mat. It also has a resistance knob for manual control. The price difference is \$1050 less than the Bike+, but with all the Bike+ features you can see why it might be worth the investment.

(Exhibit 2c)

The Bike+ has a rotating screen with 360-degree movement to seamlessly shift from cycling to strength, yoga, and more. Its other features include a 23.8" HD, anti-reflective touchscreen, and 4-channel



audio with tweeters and full-range drivers that deliver studio-quality sound. It also has a similar footage space as the Bike as well as a resistance knob for manual control. The resistance knob of the Bike+ features an auto-resistance option that automatically changes your resistance to match instructors' cues. One of its cooler features is the Apple GymKit which is an integration that tracks cycling workouts and syncs your metrics.

The Peloton Tread is an incline treadmill that also features the same



(Exhibit 2d)

non-reflective screen as the bikes. It allows for the same streaming of classes, tracks metrics, and has controllable incline and speed knobs for manual adjustment. It has 59" of walking/running space on the belt itself and studio-quality sound through front-facing speakers and rear-facing subwoofers. The Tread also allows for all of the same integration of apps like Apple Watch and Strava as the bikes. It retails for \$3,495 on the Peloton website.

(Exhibit 2e)



NEW

## PELOTON ROW

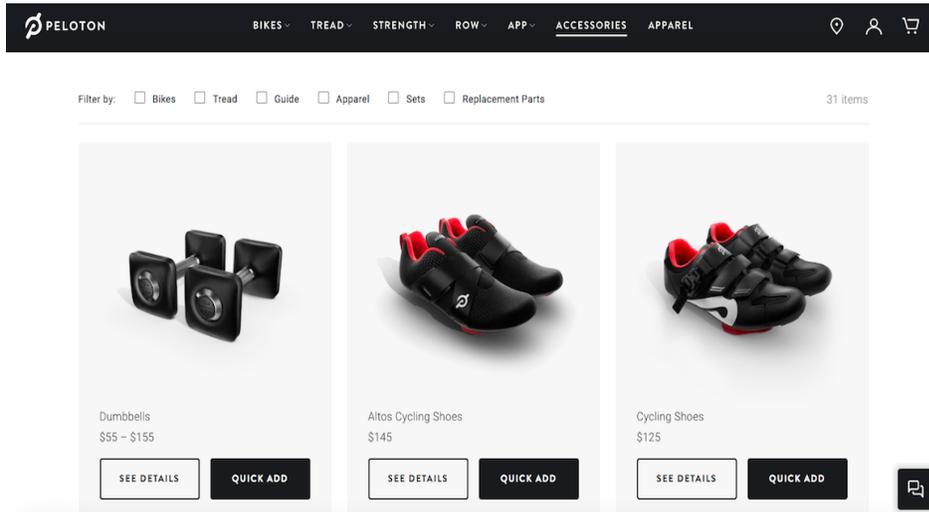
OVERVIEW FEATURES SPECS

- Form-specific features and metrics that continually help you improve your form, whether you're new to rowing or a pro
- Workouts led by expert Peloton instructors that will keep you motivated and challenged
- Real time readout of stroke rate, pace, and distance
- Compact footprint that stows against your wall for easy storage
- Comfortable ergonomic seat and smooth, nearly silent rowing experience

From  
\$3,195

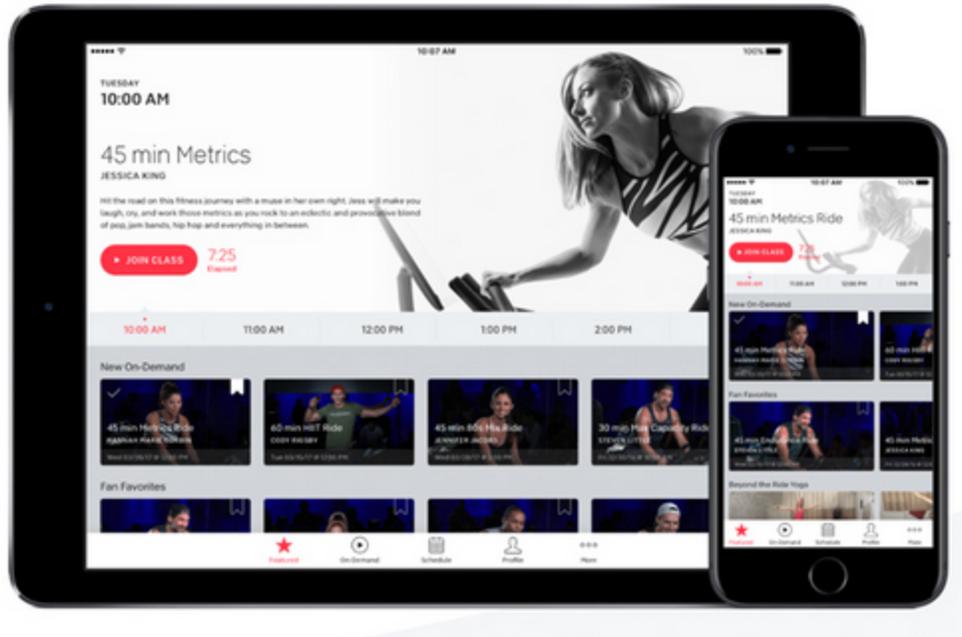
The Peloton Row is a high-end rowing simulator that is about \$600 more than the Peloton Bike. The design is sleek and space efficient. It has a 23.8" HD touchscreen where users can track stroke rate, pace, and distance while following an instructor-led workout. The Row includes a feature called Form Assist that highlights ways you can improve your form and rates your progress. It offers similar features and integration as the bikes and Tread.

The website also has Peloton apparel and accessories so fitness enthusiasts have



everything they need including shoes that are necessary to use the bike and high-end athletic wear to match their workout equipment.

(Exhibit 2f)



(Exhibit 2g)

The Peloton App includes classes in strength, boxing, running, cycling, yoga, meditation, rowing, row boot camp, bike boot camp, tread boot camp, pilates, and barre. With the app, it is easy to train from all of the users' favorite devices including mobile, tablet, computer, and tv for only \$12.99. Users can access the studio on their TV live or on-demand through AndroidTV, AppleTV, FireTV, Chromecast, Roku, LG, or AirPlay. The app also allows users to train with friends on the Leaderboard and add #Tags to their profile to express themselves and find their community within Peloton. Users can take their online quizzes to get personalized class recommendations. Their audio-guided runs allow users to keep track of pace, splits, and elevation metrics with GPS support on iOS devices to never lose track. Users can also see real-time metrics at a glance with Apple Watch to track heart rate with the Peloton App on Apple Watch. New members can now access the app for 2 months free.

## Past Strategies

### Ability to Adapt:

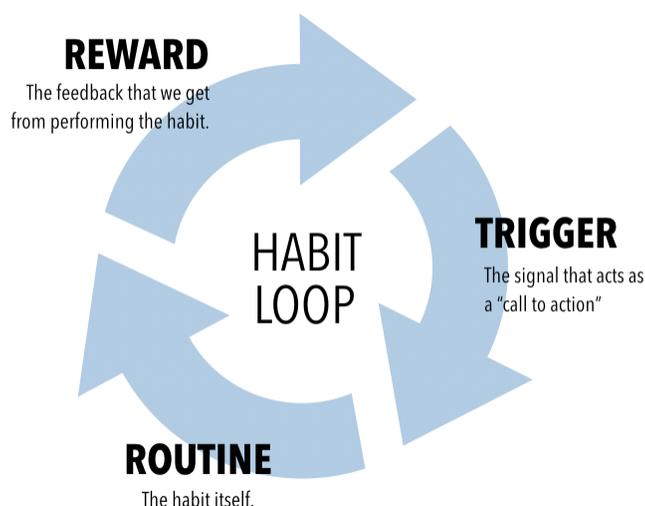
Peloton's rise to prominence and success can be attributed to the two fundamentals of a successful firm (1) customer-centricity and (2) the ability to change. Peloton's founder, John Foley, "got the idea for an at-home exercise bike when he saw his wife struggle to reserve a place in a Soulcycle class" (Togini, 2021). While at-home bikes and on-demand fitness classes have been around for centuries- Foley recognized a gap in the market and saw an opportunity to develop a new model that would disrupt the fitness industry by allowing consumers to achieve their fitness goals and become part of a community without having to leave their homes. Foley's business model for Peloton would leverage personalization, content, product development, and service- something that boutique fitness classes were lacking (Farrell, Gupta, 2019).

### User Experience:

Peloton's unique UX/UI design "gamified" the exercise experience which generated consumer retention through community and engagement- at its peak, Peloton achieved a 95% retention rate with a monthly churn of 0.65% (Farrell, Gupta, 2019). Peloton's marketing strategy relied heavily on the statement "increased usage equals increased loyalty." UX/UI design created an addictive habit loop; where triggers produce routine and routine rewards consumers' emotional responses (choicehacking.com,2020). The addicting experience is inherently psychological and is executed via rewards and social motivation; congratulating users on milestones, and birthdays, as well as building a sense of community through motivating users to "race one another."

Peloton also understood that autonomy to choose was the biggest part of being able to adapt to the needs and wants of their users. Users were able to make various choices in the classes that they wanted to participate in; whether it be a cycling or yoga class, if it was on-demand or live, which trainer they preferred, and so much more. Peloton's success in customer-centricity is largely successful because of its feedback loop and data tracking. Users are asked for an immediate review of the workout and are

offered personalized recommendations to encourage the trial of additional classes such as yoga and meditation. User and performance data is also collected by Peloton to optimize class selections offered by the company. Peloton even offered the autonomy of privacy- users have the option to withdraw from the leaderboard leaving the experience to just them and the trainer, as well as the ability to request their data to be deleted (McGowan 2021).

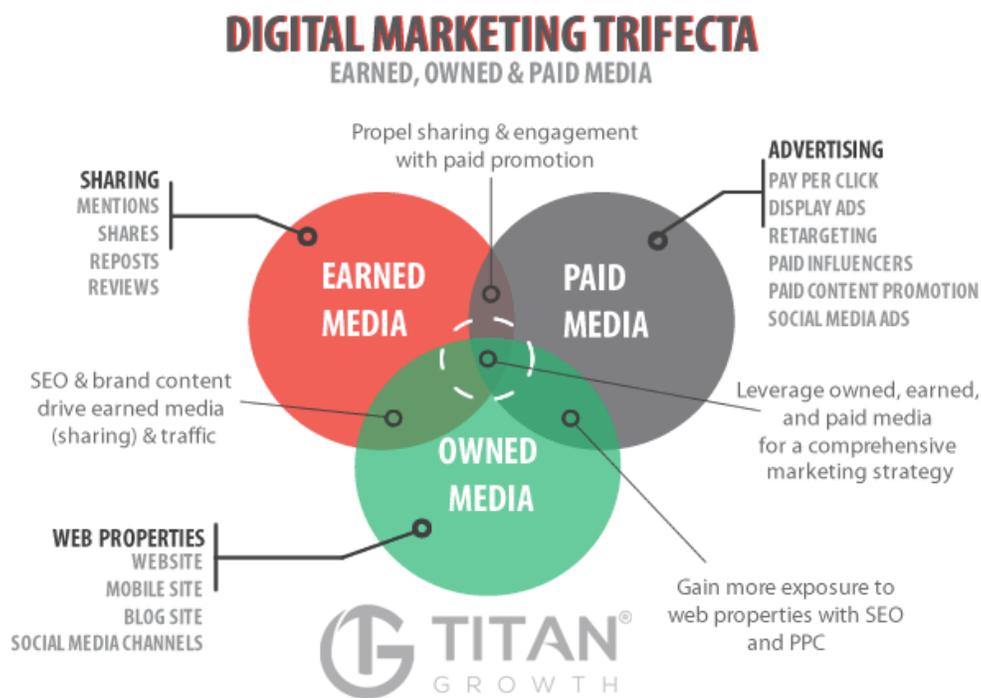


(Exhibit 2h)

## Media Strategies

Peloton's success as a company is attributed to not only being a software and hardware company but is also a content machine. In its early days, Peloton grew to prominence because the firm offered live and on-demand classes to their product; the at-home bike. This allowed consumers the flexibility to exercise when they wanted to without the barrier of having to book and pay for an in-person class. Peloton understood that their content could reach a broader audience if they removed the hefty price of their bikes as a barrier for consumers (Wegert, 2016). And in 2018, they released a digital content membership that allowed consumers access to workouts with just a monthly subscription fee. At the time, Peloton announced it closed a \$550 million round of fundraising to invest in its media services "It's like a Netflix library, but for fitness classes," Peloton founder John Foley says (Rubin,2021).

Peloton owns a state-of-the-art film studio staffed with top producers, many of whom have won Emmys, delivering users with around 950 original programs a month. Peloton also allocates its media investments in paid media such as Facebook Ads, retargeting, search engine optimization, email marketing, TV, and print (Farrell, Gupta, 2019). Foley says, “We’re trying to be creative with new forms of media that fall somewhere between earned media and more traditional marketing” (Wegert, 2016). Investments in all three dimensions of the digital marketing mix create leverage for Peloton’s marketing efforts as a whole.



(Exhibit 2i)

## Pricing Strategies

Peloton rarely offered discounts and relied on its referral program to grow its user base. Anyone who purchases Peloton’s hardware with a referral code will receive up to \$100 towards accessories purchased with the hardware, while those that share the referral code receive up to \$100 for their next apparel purchases, up to 6 times per year

(Peloton.com, 2022). However, Peloton also works with Affirm, a financing company with a 0% interest rate and 0\$ in down payments. This eliminated the upfront cost of the hardware and allowed Peloton to compete with the monthly costs of a boutique gym membership. Partnering with Affirm allowed Peloton to retain their consumers and decrease their churn rates because financing meant that users were “locked in” to their 3+year contracts (Farrell, Gupta, 2019).

## **Current Goals and Objectives**

During the COVID-19 pandemic, Peloton saw a surge in demand with a 66% increase in revenue. This sudden increase in demand resulted in a pile-up of backlog orders, and to meet the demand, production was aggressively ramped up. With restrictions being lifted post-pandemic, gyms and fitness boutiques re-opened up, and the demand for Peloton bikes declined. Now faced with a large inventory of bikes, Peloton halted production in early 2022- plunging its stock prices “the company also said it lost \$439 million in its most recent quarter as sales grew just 6 percent from a year earlier” (Griffith, Hirsch, 2022). Peloton is now on a “transformation journey” where the company is seeing a total restructuring of its business and capital structure in an attempt to recoup its losses. According to Jill Woodworth, Chief Financial Officer of Peloton, the transformation journey includes saving \$800 million annually through an aggressive elimination of staffing levels, marketing, real estate, software, outside services, and more. Peloton’s transformation efforts are part of its comeback strategy to ensure the company’s long-term health and management’s focus on growth (McCarthy,2022)

## **Current Strategies**

### **Changes in Leadership:**

As a part of its “transformation journey” Peloton is experiencing leadership shake-ups as well as rounds of employee layoffs. John Foley stepped down from his position as CEO in February of 2022, handing leadership over to Barry McCarthy, previously CFO of Spotify and Netflix. McCarthy is an expert in running businesses with

a subscription model “McCarthy’s goal is to make Peloton cash-flow positive in the second half of the coming fiscal year.” Hisao Kushi has also stepped down from his role as Peloton’s Chief Legal Officer and is being replaced by Tammy Albarran, a recruit from Uber Technologies Inc. Chief Commercial Officer Kevin Cornils is also exciting Peloton, but will not be replaced (King, Bloomberg, 2022). With McCarthy’s lead as CEO, some marketing strategies that are currently being implemented include; distribution and pricing strategies, and improving accessibility.

### **Distribution and Pricing Strategies:**

Under McCarthy, various pricing strategies are being tested and implemented in an attempt to acquire new customers and boost sales. Peloton’s recent partnerships with Amazon and Dicks Sporting Goods allow the company to broaden its distribution channels and attract potential customers. “Expanding our distribution channels through Amazon is a natural extension of our business and an organic way to increase access to our brand,... Providing additional opportunities to expose people to Peloton is a clear next step” says Chief Commercial Officer, Kevin Cornils (OnePeloton, 2022). Distributing with retail partners such as Amazon and Dicks Sporting Goods allows Peloton to compete directly with its biggest competitors, resellers, and knockoffs (Bishop, 2022).

Peloton has also been rolling out a “fitness as a service” strategy as a way to break the barrier between consumers and the hardware’s large upfront cost. Its “fitness as a service” model allows customers to rent its bikes for a monthly fee. During the trial phase, Peloton revealed that the company saw a low churn rate of 3% with its 5,000 trial users. Users are able to rent the Bike or Bike+ starting from \$89/month plus a \$150 set-up fee, the rental service will require users to have an all-access monthly membership to Peloton’s digital platform. Users are then able to purchase the bike starting from \$895 after 12 months (Thomas,2022)

## **Accessibility**

As a business that highlights its digital platform to engage its users, Peloton is striving to grow subscriptions by highlighting its mobile app. In the last quarter, Peloton increased its app-only subscribers to 980,000. McCarthy plans on creating a tiered subscription model so that users have the option to pay for extra content and other special features. Currently, the digital platform runs at \$12.99/month for access to all the content and features in Peloton's app. McCarthy has also added that Peloton will be testing a strategy to increase access by allowing users to use the platform on third-party devices and equipment, McCarthy says "we will be delighted for people to use our content on someone else's hardware." Peloton's strategy in breaking the barriers to accessibility and exclusivity will increase new customer acquisition (Thomas, 2022).

## **Current Performance**

### **Financial Performance:**

In just 1-year Peloton has managed to decrease its company revenue from \$4 to 3.6, increase its net loss from 2021 with \$189 million to 2.8 billion in 2022, and the stock has fallen from \$35 in early January 2022 to just recently under \$9.

In December 2020, Peloton sought out its largest acquisition Precor for \$420 million to build production capacity which supported future demand from the pandemic. Since the rise there comes a faster downfall. Peloton suffers from poor financial performance and executives leaving the company.

Peloton announced in September 2022 that it was set to partner with Dick's Sporting Goods to save its financials by selling its fitness equipment in 100 of its stores. This is especially due to over 70 freak accidents happening in 2020-2021 including a child who died from getting stuck under one of their treadmills; these incidents might lower consumer trust. It also started selling bikes through Amazon as well just to generate more revenue.

Peloton also signed a deal with Hilton hotels in early October to have their fitness bikes in 5,400 of their hotels. Hilton Honors rewards members will get a 90-day free trial with the Peloton app (with the original trial being 30 days), and \$100 off a Bike, Bike+, or Tread through January 1st, 2023. The data found was very positive for Hilton with 90% of Peloton members being more likely to stay in hotels with Peloton equipment and 1.6 million Peloton rides occurring at hotels over the past year. This only made stock prices rise a good 2.9%.

Peloton starts to cut costs by outsourcing manufacturing and distribution to Taiwan's Rexon which gave them less control over quality and possibly lower customer loyalty due to the accidents it has caused. Peloton also could be suffering from reducing its in-house customer service teams. It plans to close most of its retail outlets as well.

All sources point to Peloton's financial demise.

### Financial Data 2022:

Revenue	\$3,582,200,000 (decrease from \$4.02 billion last year)
Sales and Marketing	\$1,018,900,000
Market Share (2022) <small>*CSI Market share data for Electric and Wiring Equipment Industry</small>	3.01% (#8 by Electric and Wiring Equipment Industry)
Market Share Growth <small>*CSI Market share data for Electric and Wiring Equipment Industry</small>	-1.19%
<b>Profitability</b>	
Return on Investment (ROI) <small>*see ROI by quarter for deeper breakdown</small>	- 31.48%
Return on Sales (ROS)	- 8.95%
Gross Profit	\$698,300,000
Operating Loss	- \$2,734,000,000
Net Loss	-\$2,827,700,000

(Exhibit 2j)

## SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Brand recognition</li> <li>- High-quality product</li> <li>- Uniquely combines exercise equipment and classes</li> </ul>	<ul style="list-style-type: none"> <li>- Operates in only four markets</li> <li>- Increasing prices to reestablish themselves as luxury brand but selling at lower prices through third-party</li> <li>- Only three types of equipment</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Global interest in at-home fitness</li> <li>- Wide variety of types of at-home fitness</li> <li>- Emerging technology</li> </ul>	<ul style="list-style-type: none"> <li>- Injuries and deaths while using products</li> <li>- Intense competition</li> <li>- Users returning to in-person workout facilities</li> </ul>

(Exhibit 2k)

### Strengths

Peloton's strengths begin with their brand recognition. In 2021, they were named the 2nd most relevant brand with over 5.9 million members on its platform (Admin, 2021). In addition to this, Peloton expertly combined both fitness equipment and training classes to create their high-quality products which positioned them in the luxury sector of the market. With the pandemic forcing people to exercise at home, Peloton was able to capitalize on this customer need, resulting in a 172% surge in sales and a 220% stock increase in 2020 (Valinsky, 2020).

### Weaknesses

Peloton is only found in the USA, the UK, Canada, Australia, and Germany with a great majority of sales taking place in the United States. Because of this, Peloton focuses most of its marketing efforts in the US, limiting its potential in the other countries

they operate. And as sales have greatly decreased in recent months in the United States, it's clear that this strategy is not working. Up until recently when they introduced a rowing machine, Peloton only offered two fitness training products. (Admin, 2021). When compared to companies like NordicTrack that offer over five product lines, Peloton is significantly behind in its potential of reaching a wider audience with its products.

Another weakness that Peloton faces is its recent pricing strategies. Peloton is a luxury brand, yet they have begun partnering with third-party retailers like Amazon and Dicks (Smith, 2022) and offering lower prices while simultaneously hiking up the prices on their websites (Exercise, 2022). This contradicts their marketing position and leads to consumers not wanting to pay premium prices if the products are offered cheaper on other websites.

## **Opportunities**

In the at-home fitness industry, there are many opportunities that a company can take advantage of. One opportunity is geographic expansion. All around the world people are looking for the ability to exercise conveniently and if companies expand to a wider set of international markets, they could capture global market share while increasing overall brand awareness.

Another opportunity is the wide variety of exercise equipment (Xaif, 2022). There are nearly endless possibilities for types of exercise equipment ranging from free weights, ellipticals, benches, and more. Businesses looking to enter or strengthen their position in the market could offer a wide range of products to appeal to a greater consumer base and customers could purchase the elements of an entire home gym, rather than mixing and matching the companies they buy from. As technological advancements happen every year, another opportunity for businesses in this industry is to incorporate these advancements into their products. Augmented reality and virtual reality offer a whole other market that is still evolving, so realizing this and incorporating

it into their products can result in new customers interested in trying this new technology.

### **Threats:**

In 2021, at-home exercise injuries increased by 48% from the previous year (Chaffin, 2021). This is a severe threat to the future of at-home fitness companies and it is their utmost responsibility to ensure products are safe and won't cause injury to users. Another threat to businesses within the industry is the intensity of competition (Momin, 2022). Many consumers of exercise equipment don't want to spend high prices for higher quality products, so they end up purchasing cheaper alternatives. It's also clear that post-pandemic, many companies within the industry have been unable to reach the level of profit and sales that they had previously captured. This is likely because of the ability of consumers to return to gyms and other fitness establishments rather than continuing to exercise at home.

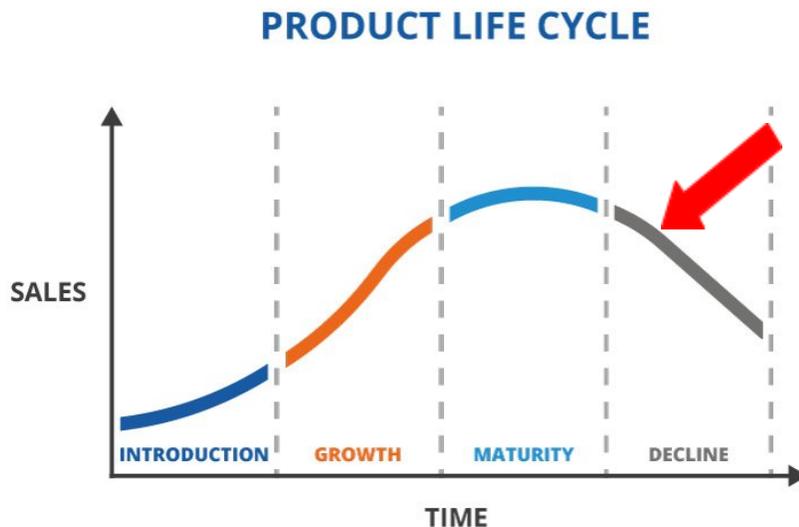
## **Product Lifecycle Stage**

### **Beginning of the Decline:**

As discussed earlier in this report, Peloton had an extremely rapid growth period following its introduction period a couple of years prior. At the peak of the pandemic, Peloton continued to grow and hit maturity soon after. Since then, and after evaluating their finances and general health as a company, it looks like they are beginning to enter the final stage of the product life cycle, decline. This can be evidenced by their sudden massive lay-offs, store closures, and troubling balance sheet.

Just this year, the company has laid off more than 5,000 staff members, has seen four top executives depart, and reportedly is considering a potential sale to the likes of

Amazon, Apple, or Nike. Peloton's stock has been trading well below the IPO price of \$29 per share, at one point dropping as low as \$6.66 (Hartmans, n.d.).



(Exhibit 2I)

### **Current Branding Strategy**

Peloton is currently running a campaign called “Motivation that Moves You”. It’s centered on the idea that through its “unique combination of world-class instructors, content, music, hardware, and software, the Peloton experience makes fitness so motivating and exhilarating that not only will you love working out, but you’ll stick with it” (peloton.com, n.d.). They hope that it can be a different experience for people than other at home exercise machines. They are also trying to fight the common running joke that Peloton’s are just “\$2,000 dollar coat racks” by pushing the immersive experience that the subscription provides.

### **Instructor Emphasis**

Another huge part of Peloton's branding is its instructors. There are 51 instructors that are a part of the brand and each offers specialty classes and their individual processes. The most popular instructors have their own following and personal brands and are largely responsible for that 95% retention rate that Peloton loves to mention.

(Exhibit 2m)



Cody Rigsby and Robin Arzon, who teach cycling, have become household names, with about 1 million Instagram followers each and Facebook fan pages that draw in tens of thousands of Peloton members. Cody in particular is very popular on Tiktok because of his high energy, feel-good classes where he often makes outlandish comments that people really enjoy. It's very likely that if he were to leave Peloton, a huge amount of their subscribers would leave with him (Person & Kaye, 2022). The former CEO, Foley, says "it's effectively a co-branded sponsorship between two brands." For us, the other brand is our celebrity instructors." (Thompson, 2020).

## Collaborations

Peloton also partners with celebrities, influencers, and other popular institutions. The best example of this is their Artist Series. This series features direct collaborations with artists and features their music in a variety of different styles of classes. Beyonce was one of the biggest artists to partner with Peloton. Together they introduced Peloton x Beyonce, which included 72 hours of content in the form of 17 classes, all featuring her music. The partnership also included gifting Peloton bikes to gyms/recreational centers of historically black colleges and universities (Konstantinovsky, 2022).

(Exhibit 2n)

Another example of a Peloton's partnership was with the German Football Club, DFB. Peloton users were able to "train with' and compete in DFB branded workouts. This marketing move gives users a tangible benefit of community membership, and positioned Peloton in front of a brand new segment of consumers".

(Exhibit 2o)

Whether it's German sports fans that had previously not been targeted by Peloton or black Americans that are often excluded from the fad, boutique-style fitness trends, by building

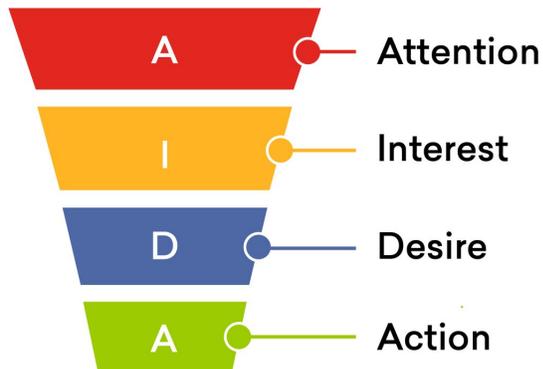


partnerships like this, Peloton is sure to attract new subscribers who may not have previously seen Peloton as something they could use before. These partnerships are all examples of co-creation of value. Peloton and the partners are able to both benefit from the collaborations, and in turn, the consumers benefit the most by having new, exciting content to use.

### **Store Closures**

The final branding note that should be made about Peloton, and one that was briefly mentioned in the Performance section of this report is that they are making their retail store presence significantly smaller in the wake of their financial troubles. "Peloton will be closing stores across North America, although McCarthy didn't specify how many. But he described the decision as 'a significant and aggressive reduction of Peloton's retail footprint.'" This decision will have an effect on the Marketing funnel that every consumer must pass through in order to reach purchase. It starts with attention or awareness and progresses through interest, desire, and action (purchase). When

consumers reach the interest/desire stages of the funnel, the option to trial a product is ideal, especially when the product is as pricey as a Peloton. With the current store closures, it will be harder for people who are in the critical interest and desire stages to



make the decision to pull the trigger. In these two stages, it is optimal for a potential consumer to be able to talk to a Peloton representative and feel the difference the name-brand, high-end bike provides over their competitors. The store closures are probably a necessary step due to the financial problems Peloton is facing, but they will, unfortunately, have an impact on

their sales as well, further hurting them.

(Exhibit 2p)

### **Hotel Partnerships:**

Peloton has also partnered with the hotel industry; supplying brands under Hilton, Westin, and Marriott hotels with Peloton bikes that allow users to utilize their bikes even while traveling (Ingram, 2022). People that already own a bike can continue to maintain their dedication to the brand and people who don't, can trial the product for free. Hotel Peloton bikes offer the option to log into your existing account or use the guest account for those who don't already subscribe. This partnership with the hotel industry increases awareness, trial, and preferences of users across the nation. Doing this helps to combat the problem that store closures were causing because many people will still have the option to trial.

### **Exhibits for Performance**

2q)

		2022
<b>Connected Fitness Products:</b>		
Revenue	\$	2,187.5
Cost of revenue		2,433.8
Gross profit	\$	(246.3)
<b>Subscription:</b>		
Revenue	\$	1,394.7
Cost of revenue		450.0
Gross profit	\$	944.7
<b>Consolidated:</b>		
Revenue	\$	3,582.1
Cost of revenue		2,883.8
Gross profit	\$	698.4

2r)

**Peloton Interactive's ROI per quarter**  
Return on Investment, Quarterly Results, Trends, Rankings, Statistics

Select the Comparisons : **None ▼**      Select the Ratio: **Return on Investment ROI ▼**

Return On Investment	(Jun 30 2022)	(Mar 31 2022)	(Dec 31 2021)	(Sep 30 2021)	(Jun 30 2021)
	IV. Quarter	III. Quarter	II. Quarter	I. Quarter	IV. Quarter
Y / Y Investment Change	-16.19 %	19.12 %	67.16 %	69.98 %	-
Y / Y Net Income Change	-	-	-	-	-
Investment (TTM) in Millions	2,198	3,384	3,257	3,111	2,622
Return On Investment (TTM)	-94.66 %	-60.96 %	-38.45 %	-24.11 %	-8.18 %
<b>PTON's Overall Ranking</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
Seq. Investment Change	-35.05 %	3.88 %	4.7 %	18.63 %	-7.69 %
Seq. Net Income Change	-	-	-	-	-

2s)

Return On Assets	(Jun 30 2022)	(Mar 31 2022)	(Dec 31 2021)	(Sep 30 2021)	(Jun 30 2021)
	IV. Quarter	III. Quarter	II. Quarter	I. Quarter	IV. Quarter
Y / Y Total Assets Change	-10.19 %	-6.32 %	40.2 %	26.94 %	50.43 %
Y / Y Net Income Change	-	-	-	-	-
Net Income (TTM) in Millions	-2,828	-1,886	-1,137	-634	-189
Return On Assets (TTM)	-61.67 %	-40.13 %	-23.82 %	-14.48 %	-4.56 %
<b>Total Ranking</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>	<b>#</b>
Total Assets (TTM) in Millions	4,029	4,415	5,483	4,415	4,486
Seq. Total Assets Change	-8.75 %	-19.47 %	24.19 %	-1.59 %	-4.81 %
Seq. Net Income Change	-	-	-	-	-

2t)

PTON Annual Net Income Growth	2022	2021	2020		
Y / Y Annual Net Income Change	-	-	-	-	-
Annual Net Income (in millions \$)	\$-2,827.70	\$-189.00	\$-71.60	\$0.00	\$0.00

## **Core Competencies & Competitive Advantages**

### **Core Competencies**

Peloton's core competencies for the Electrical and Wiring Equipment Industry is a unique product offering through high technology. Peloton is part of a first mover strategy in creating products that intersect the fitness world (physical) with the online world. Peloton combines equipment and education through their tools including their app, their equipment with built in digital screens and classes through membership. This integration of technology and equipment has been a core competency for Peloton since its foundation in 2012 when John Foley wanted to change the game in the fitness industry.

Another value that is provided with Peloton's revolutionary technology is customer centricity. Peloton wants its members to be seen and heard. One thing that many competitors fail to consider is the psychological side of health and fitness in general. Working out is not easy for everyone and many people lack the discipline and motivation to exercise routinely. Not to mention many people buy Peloton and subscribe to the training courses in search of guidance because they lack the self confidence or knowledge of how to exercise effectively and efficiently. Instead of just selling their customers a bike and letting it rust in the corner of someone's garage, Peloton aims to be with its customers every step of their fitness journey with structure and an abundance of positive energy and encouragement.

### **VRIO Framework**

#### **Value**

The value delivered through Peloton's high technology is not only HD touchscreens in their equipment, but access to thousands of classes, profile creation, tracking of in-workout metrics, apple syncing capabilities, leaderboard workout against other members, training programs and challenges, workout history, milestone achievements, streaks and badges, and special event programmings. Their unique features make it easier for people to have immersive experiences that add about \$3,000 in value to the price of a treadmill which averages at \$600. In addition to all their

equipment having HD touchscreens, Peloton's Row has a 4 digital microphone array, 8MP still photo, 1080P video camera with a photo cover, Bluetooth 5.0, and tracks metrics like stroke rate, distance, pace and more! Who's to say Peloton captures the most value though compared to its competitor's high technology; NordicTrack.

NordicTrack has been capturing immense value with its 22"-32" tilt and pivot HD touchscreen, AutoAdjust technology automatically adjusting incline and speed, ActivePulse Technology which adjusts speed and incline to your optimal heart rate zone (with a Smart Beat Heart Rate Monitor), has an incline from -5% to 40%, allows you to simulate running outside through Google Maps workout technology, and is able to track your stats. One of their other competitors Technogym amps up the ability to track stats by including an advanced biofeedback kit for their Skillrun treadmill that contains a sensor detecting left and right leg running metrics and power data. Skillrun is also part of SkillLine which partners with Olympic champions to bring people's athletic performance in tune with the champions. This makes the professional classes run by Peloton seem like second rate. Skillrun even features built in maps for customized running similar to NordicTrack. In all truth, Peloton's metrics tracked could be even more detailed and add additional value; however I would like to note the Skillrun treadmill has a lofty price of about 18k! So Peloton users are definitely getting a good deal compared to Technogym Skillrun.

## **Rare**

Peloton's high technology bikes are built to sync data with your Apple GymKit to track cycling and sync metrics. The bikes also fit their resistance level in tune to each workout to ensure you are working out with precision. Other bikes are electric, but do not have the high definition screens, syncing and tracking capabilities, or the customizable precision to a workout as the Peloton bikes do. Nor do they deliver studio-level sound which brings another level to the workouts with Peloton that others simply cannot bring without their equipment users going out and buying a stereo. Peloton's ability to incline and its touchscreens can be matched by its competitor NordicTrack which has been operating since 1975. NordicTrack has not only a 22 in HD

screen, but 32 in screen as well for their equipment. They also create tracking capabilities, auto adjustments, and provide additional benefits to their workouts that Peloton does not have including a tray, fan, and Heart Rate monitoring as well as Google maps simulation technology. Another rare thing that Peloton does not include with its running machine is built in technology for parachute training and sled training like the Skillrun treadmill by Technogym. This is a rare feature technogym has that Peloton has not featured in its technology.

### **Imitable:**

What has been stated about Peloton's main competitor already has shown that a lot of the technological advances for Peloton have been easily replicable. In October 2021 NordicTrack decided to start imitating Peloton's gigantic screens on all of their equipment, they were not only able to imitate it; they are bigger and there are sizes. However it has been noted that companies like BowFlex, Echelon and NordicTrack all use iFit technology which is more expensive than Apple Fitness technology. This therefore makes the features more expensive for others to replicate.

### **Organization to Capture Value:**

Peloton has never had any clear security issues with their products through their secure technology; NordicTrack has. NordicTrack has had their equipment users hack into their systems all with 10 taps to the screen; they could download things like Netflix, Youtube, English Premier League. After they updated their systems to "lock their customers out of god mode" people were furious at the company's actions made for safety and security. The change made people turn quickly with anger as they had spent around \$4000 on their machines only to have the CEO and iFit unable to let them customize their machines as they pleased. The lack of scandals in this regard has made Peloton the clear choice when choosing a machine, but it certainly shows areas of improvement as to where it could capture higher value! Make it an iPhone you workout to and you will have people dropping their money like flies! Peloton has neither the level of features, nor the clear advantage over its competitors to capture value in the market place and is losing out by not incorporating things like AI, additional app capabilities,

different sizing in screens, heart monitor tracking capabilities for added customization and safety, as well as many more features if it wants to stay in the minds and hearts of the consumer.

Comparing Technogym to Peloton; Peloton is able to capture more value through their built in screens which are on every piece of equipment and all pieces of equipment run cheaper than TechnoGym. Peloton is definitely able to provide technology at a price about \$400 cheaper.

What makes Peloton able to capture value is the choice between live and on-demand classes available to the consumer which create a more personal touch as well as curated music through Peloton Radio. Is this enough though? If they do not have enough to capture a product that is rare and not easily imitable and is organized to capture high value they will lose out with no clear sustainable competitive advantage.

<b>Peloton's VRIO Framework</b>					
<b>Core Competencies</b>	<b>Value</b>	<b>Rare</b>	<b>Imitable</b>	<b>Organized (to capture value)</b>	
High Technology Product and Service Offerings	Yes	No	No	No	Temporary Competitive Advantage

(Exhibit 3a)

## **Competitive Advantage**

### **Cost Advantages**

Because Peloton has focused on a differentiation strategy over a cost advantage strategy, we were only able to identify one cost advantage in their business. Peloton's monthly service subscription allows for unlimited access to the dozens of home-based Peloton workout classes. Other exercise-based services can cost around \$20 to attend a single class so Peloton's unlimited access for a month is definitely a cost advantage (V.C.M, 2022). Despite this, Peloton has cemented itself as a luxury product in the Exercise Equipment market, and part of this is being one of the most expensive options compared to competitors.

### **Differentiation Advantages**

#### **Product Advantage**

The Peloton products are truly high quality and luxurious. They all have a very sleek, all-black, minimal look and feel. The idea is that having a Peloton in your home adds to the overall aesthetic of a room instead of taking away from it. All of the products come with a long list of high-tech features like a 21.5 inch HD, anti-reflective touch screen, built-in microphone, quality speakers, and Bluetooth and wifi connectivity (peloton.com, 2022).

Peloton also differentiates by offering access to thousands of classes Live or on Demand, individual profiles for all household access, in workout metrics, leaderboard metrics to allow you to compete with other members, training programs and challenges, and scenic rides with curated music. All of these things combined put Peloton exercise machines in a completely different category than most and are the justification for the high price.

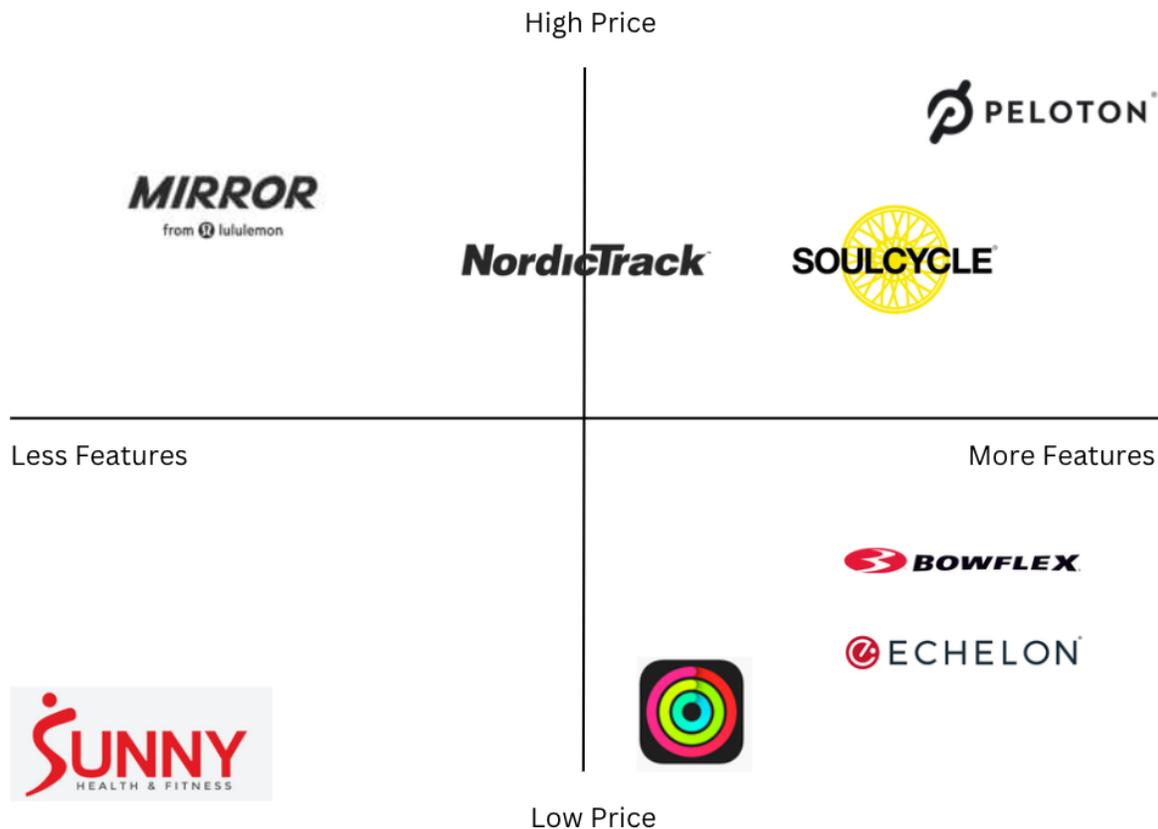
## **Branding Advantage**

It could be argued that even despite Peloton's long list of capabilities and various qualities, its brand advantage is the most important. It has been emphasized earlier in this report that when people are buying a Peloton, they're not just paying for the bike and the class membership, they are paying to be included in a specific fitness community. The instructors and classes also all have a very specific energy and flow that is unique to Peloton. This is also a big part of their brand advantage.

The most important part of any company's brand advantage is the meaning that people give to a brand or product. In this case, it's the inclusion in a fitness community but it is also the status or lifestyle that is associated with owning a Peloton. Whether it's the idea that "ultra-fit people own Pelotons" or "ultra-rich people own Pelotons", both would be fair claims for consumers to make about the brand because we can see that in Peloton's demographics. There is an element of aspirational branding and aspirational purchasing that is associated with Peloton. People might be purchasing them based on how they *want* to feel or how they *wish* to be perceived by others. This may or may not be Peloton's actual goal but it is something worth noting and could be seen as a very important part of differentiation.

Both Peloton's extensive product advantages and brand advantages are sustainable because they have sought to truly differentiate themselves. They have competitors that have followed in their footsteps by combining the physical bike with the class integration, but they were the first to do it in a sleek and integrated way. While they have begun to reach a decline in their product lifecycle stage because of the competitors catching up, Peloton still has household name awareness because it was the first of its kind. It truly is the best that money can buy and that can help them maintain their competitive advantage temporarily. They will have to shift strategies in the future to achieve true longevity.

## **Industry Perceptual Map**



As a disruptor in the fitness industry, Peloton sought to differentiate itself from its competitors since its conception. CEO John Foley looked for a way to bring spin classes to consumers' homes by combining pre-existing markets; home spin bikes and subscription-based fitness classes. Despite Peloton's high product cost, its features in both hardware and subscription puts it above all competitors in terms of the industry perceptual map.

Soulcycle's position nears Peloton in the perception map since it provides high prices for more features in terms of its at-home bikes and fitness subscription. The difference between Soulcycle is that their content isn't as engaging as Peloton's. Soulcycle's main product is in-person spin classes, and focusing too much on developing engaging content for their subscription-based at-home model would cannibalize their main product.

In the more features and low price quadrant are competitors such as Bowflex and Echelon, both of which have a variety of spin bikes at low cost with more features. Bowflex and Echelon are able to keep their costs down because they do not produce their own subscription-based content. Bowflex, Echelon, and NordicTrack utilize subscription-based content licensed by iFit.

Apple Fitness is considered low-price yet still had features because they provide content by fitness professionals at a low price- accessible through devices consumers already own ie. smartphones and tablets, this allows budget-tight consumers to purchase a similar product without the added cost of hardware, and consumers are able to track their fitness metrics by again, devices they already own.

Mirror is positioned within the high-cost and low-quality quadrant because while the brand's content is interactive, the product itself lacks exercise-focused equipment features.

Last, in the less features and low-price quadrant are products made by brands such as Sunny. Brands such as Sunny have a cost-based strategy, offering consumers the physical experience of a spin bike without any added luxury features such as a screen or original fitness content.

### **3 Circles Targeting Framework**

#### **Segment of Customers Targeted**

Fitness enthusiasts who want the convenience of at home workouts.

#### **Key Competitor**

##### **SoulCycle**

*Our goal is to figure out how Peloton can increase subscriptions by creating more value for fitness enthusiasts who want the convenience of at home workouts *than the hassle of going into an in-person SoulCycle class.**

#### **Customer Perspective**

The table below illustrates potential factors that customers consider when they are choosing between Peloton and SoulCycle. Factors are established, given a weight of

importance, and then given a rate for each respective company. In the bottom row, these rates are totaled and are available for comparison.

\*Customer importance is based on a 1-10 scale. 1 being low importance in customer purchase decisions and 10 being high importance in customer purchase decisions.

Factors Customers Consider	Customer Importance	 PELOTON	 SOULCYCLE
<b>Interface / UX Design</b> (accomplishments saved in individual profile, power output, calories burned, heart rate tracked, etc)	9	8.5	8.5
<b>Product Design</b> (hardware specs)	8	8	9
<b>Content &amp; Classes</b> (Variety of fitness classes like Yoga, Core Training, Strength Training, scenic rides, many instructors to choose from)	10	9.5	6
<b>Convenience of Classes</b> (on demand and live class offerings online, at home, any time)	8	10	6
<b>Interaction with Community</b>	8.5	9.5	8
<b>Price and Value</b>	9.5	7	5
<b>Total</b>	53	52.5	42.5

(Exhibit 4a)

## Firm Perspective

### Peloton Key Features:

Scenic Rides: Peloton offers a wide variety of scenic rides to accompany you on your workout. For a while, they carried drone-like rides. But recently they sent instructors around the world to film rides. They have four guided scenic rides, seven distance scenic rides, and over 45 time scenic rides that show destinations all around the world.

Gamified Workouts: The workouts Peloton offers allow you to compete against other community members in a video game-like setting. It combines music, immersive visuals, and fitness-inspired challenges that help to motivate users.

Workout Types: With Peloton, there are two options for types of workouts. Live workouts take place at a certain time every day and allow users to work out with more participants. They also work to keep you more accountable because of the scheduled

classes. On-Demand workouts allow you to work out on your own time with a pre-recorded guide and instructor. This makes it easier for people with busy schedules to still get their workouts in every day.

Off-Bike Workouts: There are more than just cycling-style workouts available with Peloton's subscription. Users are offered class options like yoga and pilates as well.

5+ Categories of Classes: Peloton offers a very wide range of class options including cycling, pilates, yoga, treadmill, boot camps, and more

Competitive Emphasis/Metric Tracking: The approach that Peloton chooses to take with the overall style of their workouts is one that is rooted in competition with others in the class, with visual representations of everyone's' standings and metrics.

Hardware Variety and Product Tiers: Peloton offers two bikes to purchase for customers that may not want to spend the full price for their best bike. Their Bike+ includes a bigger, rotating screen, access to metrics during your ride, and automatic resistance changes.

### **SoulCycle Key Features:**

In-Person Classes: SoulCycle offers 45-minute in-person classes at their SoulCycle Studios. There are over 83 studios across the United States, Canada, and the United Kingdom, usually in more heavily populated areas. These studios are composed of rooms filled with SoulCycle bikes, an instructor in the front of the room, and dimmed lights with loud music playing.

Feel-good Workouts: SoulCycle strives to create a feel-good environment in its studios. They describe it as more than a workout and like a "powerful mind-body experience".

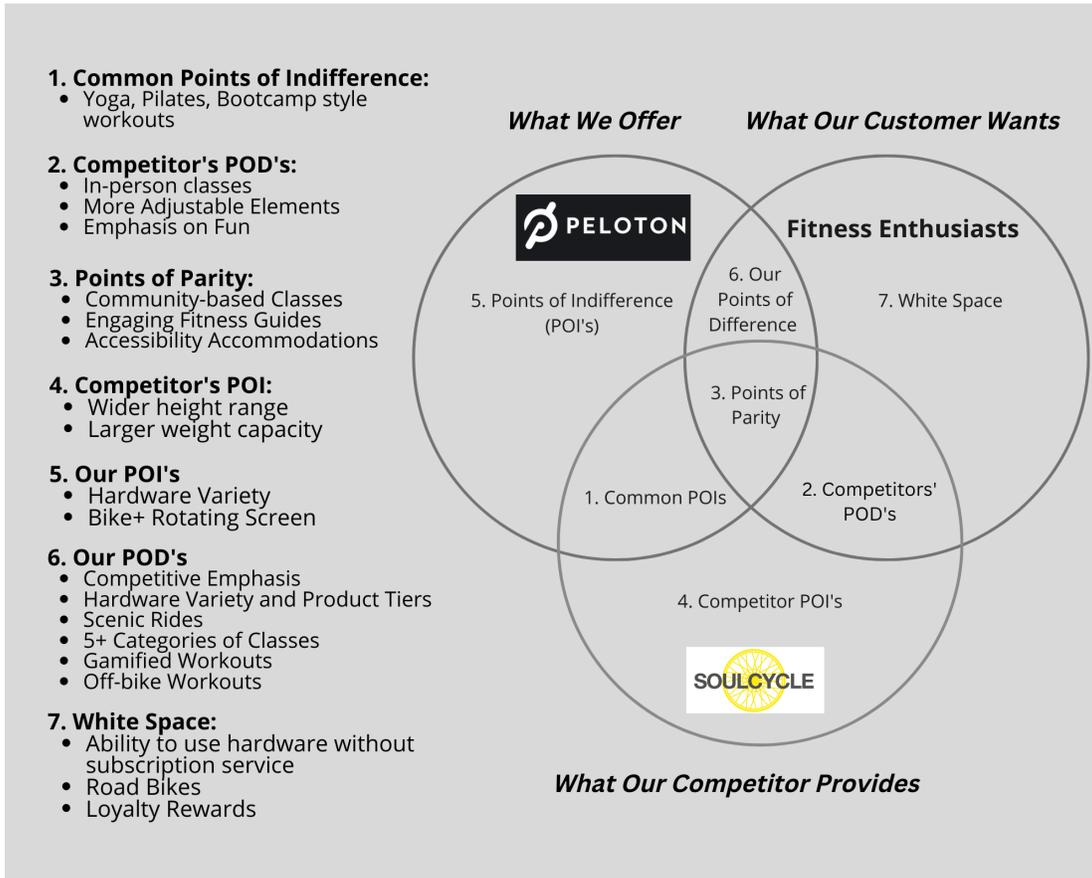
More Adjustable Elements: SoulCycle offers multiple simple ways to adjust their bikes to fit your accommodations. You can adjust both the bike's seat height and depth as well as the height and position of the handlebars.

Community-Based Classes: Working out in a tightly packed room filled with people doing the same workout adds a huge emphasis on community with SoulCycles workouts.

Engaging Fitness Guides: SoulCycle's in-person feature makes the fitness guides engaging and motivating. They are taught to be energetic and have been reported as feeling more like a performer or DJ rather than a traditional fitness instructor.

Fun Emphasis: SoulCycle's collaborative nature and in-person instructor create an environment that emphasizes fun over competition.

### 3 Circles Framework



(Exhibit 4b)

### Key Opportunities for Growth

Peloton’s main opportunities for growth lie in trying to up the value for its prices, the product design and its interface/ux design.

It has a large opportunity to **expand the portfolio of products** it already has by introducing a product geared around strength training like that of the strength resistance Soulcycle creates with their bikes or Tonal’s strength training machine. This would give people more opportunities to lose weight with most of the weight loss lying in strength training.

One of the problems consumers run into is that the equipment is not sold in their country, so Peloton has the opportunity to **expand into new markets**. One of their main competitors Precor has already expanded to 100 markets which shows a definite potential. Their lookalike company in Spain, Volava, was created after the CEO could not buy a peloton in Spain. Right now the Peloton Bike is available for purchase and delivery in continental US, Hawaii, Alaska, Puerto Rico, UK, Canada, Australia, and Germany.

One of the major opportunities for growth is **expanding physical locations** which could include showrooms, boutiques, and retailers. Their major competitor Precor showed their prowess by positioning their bikes in 95 showrooms, and 2,200 bikes across 1,200 hotels to expand physical presence which opened the door into hotels at an international level.

One of the big successes in the Google Play apps is their gaming apps, and this is another target Peloton has the opportunity to hit; **virtual fitness**. It is known that video games drive the creation of communities with close bonds. This idea of gamified workouts is something that sets them apart from their main competitor Soulcycle and is something they can play into to expand their loyal customers who are from the younger generations.

## **Feature Elimination**

Peloton doesn't have many features that should be outright eliminated, but they should consider shifting their focus away from hardware and focusing more on their content and user interface. Issues with the supply chain for their bikes have been the main cause of Peloton's recent decline. In a Bloomberg article from earlier this year, the author describes Peloton as the "Apple of fitness". This is because they "design their own bikes and treadmills, have built their own Peloton operating system, and offer their own fitness content subscription service." The hardware comes with the operating system and content all in one.

The article goes on to say that Peloton should consider shifting from their current "Apple strategy", and try to become "the Android of the fitness world" instead. This

would mean phasing out their hardware (physical bikes and treadmills), and focus on their renowned interface and content. Phasing out of hardware would be a huge cost saver. The gross margin for its hardware this past quarter was 6.4%, while its subscription business had a margin of 68% (Gurman, 2022). Peloton could ditch the part of their business that makes them a manufacturer and license their content for use with companies like Echelon and NordicTrack's machines.

Peloton's content and software is considered to be the best of the best when it comes to exercise bikes and treadmills. They could make money from operating system royalties and subscriptions—with bike and treadmill makers potentially getting a share of the subscription fees. Peloton would also continue to make money from its roughly 900,000 digital-only subscribers (customers who use its content without its bike or treadmill). By making this shift away from hardware, it could help Peloton recover from the financial troubles that they are in because of supply chain issues and could make the entire business more sustainable in the long term.

## **Feature Promotion**

Peloton's "transformational journey" in 2022 by newly appointed CEO Barry McCarthy, Peloton has revitalized many of its marketing strategies which include its rental program and opening its "content" up to non-hardware owners. Since Peloton's hardware features and basic content structure is widely available in the industry, Peloton should focus on promoting these recent changes in their marketing and sales to drive customer acquisition.

### **One Peloton Club**

To drive its market share, Peloton's rental program called "One Peloton Club" allows consumers to rent its hardware for a one-time delivery fee of \$150 and \$89-\$119 per month- this monthly fee includes access to the workout content which alone costs \$44 per month. After 12 months, customers are able to purchase the bike at a reduced price (OnePeloton, 2022). According to CEO McCarthy, "Our test results show the program is driving increased traffic to the top of our marketing funnel and clearly appeals to a younger, more value-conscious consumer" (Fool.com,2022) Since the

release of the program in June of 2022, Peloton has seen more than 5,000 enlist in the program with a mere churn rate of 3%. The program is commitment/contract free and consumers are able to cancel or buy out at any time with a free pick-up service for returns. The One Peloton Club is an improvement to Peloton's pricing strategies from its original stand-alone financing offer through Affirm, a financial technology company, that allows qualifying customers to purchase through a contractual agreement with interest rates depending on individual credit scores.

### **Digital Membership Plans**

Prior to 2018, consumers were unable to experience Peloton and its famed classes without purchasing hardware. To gain a market share in the digital-only fitness industry, Peloton launched the "Peloton Digital App" in June 2018. For \$19.49 per month, consumers are able to access more than 10,000 classes led by top instructors and include a variety of workouts including cycling, indoor and outdoor running, bootcamp, strength training, stretching, yoga, and cardio classes- these classes range from five minutes to two hours (Zickl, 2018). Due to a lack of subscriptions, Peloton dropped its price point to \$12.99 in 2020.

In Peloton's 2022 "transformation journey" with newly appointed CEO Barry McCarthy, Peloton is preparing for an overhaul of its app strategy in hopes of increasing sales by removing barriers to its exclusive price points. McCarthy plans on relaunching the new app in 2023, with a tiered-membership model that allows pricing-dependent access to Peloton's classes. McCarthy expressed that Peloton's previous strategy was too focused on getting consumers to purchase their hardware and not enough on the app-only segment- "It will be a different price value opportunity than it is currently. There'll be tiered pricing associated with our content strategy... We're chasing 100 million digital app users. The current product has never really grown bigger than a million" McCarthy said in the Q1, 2023 earnings call. Peloton should strive to promote their app earlier rather than later if they plan to re-launch their app in early 2023 (Weicher, 2022).

## **Points of Differentiation to be Taken From Competitor**

SoulCycle currently offers a design that is suitable to a much wider range of people based on height and weight. With its adjustable seat and handlebars, SoulCycle can fit riders who range from 4'10" to 6'10" and weigh as heavy as 350 lbs (Smith, 2022). With Peloton's design, riders have to be between 4'11" and 6'5" and under 297 lbs. While the SoulCycle's footprint is slightly bigger than Peloton, it is more accessible with its wire weight racks compared to Peloton's plastic weight holders. Another point of difference for SoulCycle is its much bigger emphasis on fun. SoulCycle's classes are choreography based with upbeat music which promote a positive vibe. Peloton is more focused on structured workouts that incorporate the metrics of the ride. These points of difference that SoulCycle Currently possess, are things that can be easily replicated and improved which gives Peloton an opportunity to use these features in the future.

# Marketing Plan

## Marketing Goals and Objectives

During the height of the pandemic, Peloton saw a surge in their revenue and sales- with global membership totaling 3.1 million and company revenue at \$607 million (Garces, 2022). With global mandates and restrictions being lifted, Peloton's revenue and sales plunged. Through speculation and thorough secondary research, our main overall marketing goals focus on **acquisition, retention, and preference** for Peloton to focus on in their transformation journey. This marketing plan aims to increase their sales and revenue back to their leading positioning during the height of the pandemic.

### Acquisition

Goal: *Capture a wider target market that was not previously considered in their initial strategy.*

We aim to break the barrier of the initial hardware price tag so that a wider target market of fitness enthusiasts can utilize Peloton's services and become part of the community.

### Retention

Goal: *To increase the CLV of existing customers and members.*

We aim to increase brand loyalty, so that the Peloton community can continue to thrive.

### Preference

Goal: Shift focus from hardware (like bikes and treads) and promote the software (subscription service).

We aim to transform Peloton from the "first in mind" at-home exercise bike brand to the "first in mind" fitness brand. This would mean shifting focus to the subscription service provided so that people could take Peloton with them anywhere, even if that place doesn't have a bike.

## Segmentation

Three potential segments for Peloton have been identified below. Included are descriptions of the segments and a value proposition for each.

**The Mama Bear:** this person might be a stay-at-home parent that doesn't have the ability to leave the house and go to the gym. They are interested in a convenient, quick workout that will keep them motivated when they are in a season of life that makes it more difficult. They are also very compelled with the idea of a fitness community that can support them.

*Peloton offers The Mama Bear the opportunity to have a fitness community that keeps them motivated without having to leave their kids.*

**The Busy Bee:** This person spends all day working and doesn't have time to go to the gym. They want a convenient way to destress after a hard-day's work in the comfort of their own home. This person is also highly competitive, so having a leaderboard in front of them when they're working out further motivates them.

*Peloton offers The Busy Bee convenient, at-home workouts that match the competitive atmosphere created in the gym.*

**The Healthy Hermit:** This person likes to be healthy and active but dreads the atmosphere at in person gyms. They like the privacy of working out at home but still like some of the metric tracking and community that comes with the Peloton subscription.

*Peloton offers The Healthy Hermit high intensity, quality workouts for the person that is uninterested in traditional gym culture.*

## Targeting

We plan to target **The Busy Bee** because the majority of Peloton's consumer base is looking for a convenient, quality workout that still incorporates a competitive factor. The Busy Bee also shares identifiers with The Mama Bear and The Healthy

Hermit, but is a little bit more encompassing and larger than the other two segments identified.

## **Positioning Strategy**

For “The Busy Bee” or fitness enthusiasts leading busy lifestyles, Peloton’s subscription service is the only fitness streaming product that will satisfy the consumer that doesn’t have a lot of time to work out while also giving them the benefit of convenience and a higher level of motivation with their at-home workouts. Unlike competitors, Peloton’s subscription service will be technologically flexible, provide the best content and interface, and will give the consumer the ability to exercise wherever and whenever.

## **Marketing Implementation**

### **Communication Strategy:**

The following activities will be used to adjust Peloton’s business model and promote aspects of it that will be useful in creating more success for the brand. The communication will take place mostly in the form of digital marketing. We will create campaigns for Instagram, TikTok, and Youtube that will be for announcing changes or new offerings. This communication will be aimed at our target of “the Busy Bee” segment. All proposed activities will be described in more detail below.

### **Acquisition Goal Activities**

#### Promote the Rental Program

In order to increase acquisition for Peloton, we suggest greatly emphasizing their rental program. This would increase the likelihood of interested consumers signing up to try Peloton without having to pay the full price. The rental program gives users the

ability to lease a Peloton Bike or Bike+ on a month-to-month basis before making the full purchase. After an initial fee, the cost of the rental program combines both the bike and the subscription service, allowing users to try the bikes before ultimately deciding to purchase them for good.

To go about this, we'd like to partner with celebrity fitness influencer Sommer Ray. Sommer Ray is a well-known model that regularly posts her fitness journey and serves as an inspiration to many aspiring fitness enthusiasts. She currently has 26.1 million Instagram followers and 12.2 million TikTok followers so we would use those two platforms to promote Peloton's rental program.

On Instagram, Ray charges \$86,000 per post. We would have her make a total of five Instagram posts over the course of 3-months totalling to approximately \$430,000 overall. This would relay the fact that Sommer Ray is an avid Peloton user with a true relationship with the brand and the repetition of seeing the posts would help acquire more users. The posts would be either pictures or videos on the main feed, showing Ray posing on the bike and exhaustively finishing her workouts. On TikTok, Ray charges \$50,000 per post.

Using the same timeframe as Instagram, over the course of three-months we would have her make eight TikToks resulting in a total cost of about \$400,000. These videos would show Sommer Ray talking about why she loves Peloton and how the rental program allows users to try the products before making the final purchase. She would also illustrate that rental's don't require any commitment and that Peloton workers will fully install the bikes without additional fees. In addition to this, we would have Ray provide viewers of these ads with the code "Sommer15" giving those who decide to rent a Peloton bike 15% off their first month. We believe that these advertisements will greatly increase the acquisition of new users who weren't formally being reached and encourage them to start their Peloton fitness journey.

## **Retention Goal Activities:**

### Creation of Tiered Subscription

Peloton will introduce new subscription tiers. Instead of offering just the app subscription and the all access subscription, they will offer 3 levels of add subscription along with the all access subscription.

Subscription tiers will be put into different sitelinks to drive traffic to the website, the subscription tiers will be put into product form to make those who are ready for action when they see the video the 2nd or 3rd time, and there will be product feeds below the video for the 2nd or 3rd time shown to show the different subscription actions they can take and more about the different tiers functional benefits

Subscription tiers will be based on lower usage rates indicated by Statista where the average person only works out 16 times a month as opposed to using the peloton app 22 times a month as it was last year. This proves we need more app usage to be mobile when people are not actively exercising to help build that connection and relationship. We need Peloton's app to have a product extension.

Peloton already has an All-Access Membership which allows its users to have unlimited access to a growing library of live streaming, on-demand classes, scenic rides, challenges, and real-time performance tracking. This is \$44/month. The app membership is something we want to stress with on the go people being more mobile; we want to show they can use this on the go which is \$12.99.

App subscription (normal): \$12.99 for app access monthly.

App Subscription (+): \$30/month for app access monthly, will include additional benefits including the benefits in the normal subscription, and an additional tack on membership to HeadSpace (which costs \$13 a month) to make sure that people who exercise don't miss out on taking care of their mental health first. This is huge for those who are busy because sometimes people get so busy they don't think about taking care of themselves.

App Subscription (Premium): \$50/month for app access monthly, will include additional benefits including: Gets additional tack on membership to HeadSpace (which costs \$13 a month), and an additional FaceTime and text component in-real time with an instructor where they can talk about their goals, set plans and schedules, learn tips and tricks to stay on top even with a busy lifestyle, and set reminders for what they want to achieve all through the app. This will include more human connection, better relationship building with the program, and a better relationship with Peloton's instructors and

personnel. Human needs and schedules change, and Peloton wants to change with the customer.

This is a hard-sell and reason-why ad that is linked towards gaining preference in the eyes of the consumer. This video follows the ABCD Google Ads Campaign model for videos on how to sell a video for our Youtube Campaign.

### **Video Creative for Retention:**

Hook attention from the start: (video of someone using the peloton app in their home; it might be really early in the morning or before they hit the road; this person immediately goes to the road and cut clip to the coffee shop and cut clip to almost reaching the office; this shows them on their day to day journey)

“We are Peloton, made for the busy and on the go”

(show a clip of the target persona (same person from above); this could be a person carrying a tray of coffees to bring to their workplace; we can do several video clips for those who work in busy all day working jobs like in healthcare and business - maybe they are juggling their phone and the coffees at one time and they are about to fall over; we want to emphasize we see them as a person and their business)

“Are you tired of other fitness gurus telling you when you can move? With Peloton we help you move where you can, when you can with our dynamic differing subscription.”

“We see you: the mom, the workaholic, the homebody and that’s why we have the different subscriptions that work for you.”

Share Functional Benefits:

“With Peloton + we take care of you; when ever, wherever, because we care about your mental health”

(The second subscription type is to retain customers through added benefits sought of better mental health in their day to day exercise relationship with the peloton app. This will create positive liking, preference and ultimately lead to better retention. This would show the added benefit of Headspace)

“With Peloton Premium you get this and more, a person to talk to, a friend and mentor; someone who wants to see you succeed!”

Have a clear call to action: “Work your way with Peloton today”

Timeline + Plan:

The video ads campaign will feature a larger distribution for digital ads on Youtube because it is the best investment to gain retention. This campaign will be run over the course of Jan.-Mar, Q1 2023, featuring a large usage of A/B testing of Youtube Video Ads with product feeds built-in, sitelinks for products they might have searched for online that might lead them to more in-app purchases. The recommendations of Google Ads spend will customize running TV and Youtube (digital video ads) in tandem to see what is working the best.

Budget:

The budget will be based on the Target CPA (cost-per-action)/Cost-per-view where people will click on an ad leading them to the searched products they found on Google to something similar online on our Peloton site.

We will allocate 50% towards TV and 50% towards digital to our Video Ads sector to see if we need to be harboring a more mobile on the go user; our busy bee segment doesn't necessarily have a whole lot of time to watch TV and needs more campaigns generated towards capturing them on the go - their phone, their computers on breaks, and during times when they would likely be free like leading up to a holiday or special event.

\$15,666,667 is the overall platform ad spend (this can include display ads, search ads, in-app ads, video ads and shopping ads across platforms). Video ads include \$9,400,000 if the video coverage is 60% ad spend for 1 month. Generated for a 2 week period Youtube spending would cost \$2,350,000 with youtube being half the video ad spend for 2 weeks of spending. On average, businesses' YouTube ad costs are \$0.10 to \$0.30 CPA or CPV. We did not want to spend a whole lot on ad spend as it is

costly and only focuses on generating the right results which is why our 2 week budget is based off our 2.3 million subscribers watching the video at least 3 times with a cost-per-view of about \$0.30. This makes our 2 week budget \$2,070,000.

Towards the Future:

Our campaign would be run with differing call-to-actions, headlines, and extensions (such as sitelinks and product feeds) where people can connect to products they find useful that add value to the relationship they have with Peloton to really help showcase and drive that action towards app purchase

We would track which videos they most respond to, when, and which ones drive more traffic to the site to either make purchases or build more consideration.

- A/B test 2 video ads over the course of 2 week (since video ads need to run for at least 2 weeks to track action)
- Run the winning ad for 2 weeks after
- 4 weeks total
- Keep UTM tracking tracking exactly which campaigns made people subscribe which would use SQL to gain more insights from data; this is marketing attribution through first and last click
- Also gain actionable insights on Google Analytics data tracking the actionable events took them from awareness of the different tiers to consideration and purchase of the different app tier
- Use SQL to track when people subscribed to the app tiers, which are doing well, when people exactly lost interest in the app, which subscription tier was it and why

## **Preference Goal Activities:**

Shift focus to software instead of hardware

Allow other companies to license out Peloton's software

In an effort to shift Peloton from a hardware centered company into a software centered company, we need to brand Peloton as the “first in mind” fitness company. This will include allowing other companies to license their operating system. A partnership with a company like Echelon, NordicTrack, or Schwinn would upgrade the world's bikes and treadmills by putting Peloton's operating system and fitness content in any machine. These companies that make treadmills and bikes would embrace the Peloton brand and content, especially if it meant they were no longer competing with their hardware.

Peloton could make money from operating system royalties and subscriptions and the partners could potentially get a share of the subscription fees. This revenue would then be combined with the money they make from their roughly 900,000 digital only subscribers (people who only use the content and don't own a bike or tread).

This action is the most radical of all of our other activities. Because of this, the partnership announcements would be announced within an estimated 2 years. The 2 year plan would provide Peloton the time to pitch the partnerships to the hardware companies, draw up legal agreements, create a campaign that would announce and promote the partnerships, and handle any other interface logistics that would be involved with the licensing. The cost of this action would mainly come in the form of the promotion/announcement campaign, and will have a similar campaign structure to the one detailed above (subscription tier introduction).

## **Evaluation and Control**

We will use a variety of metrics to measure our success, one of them being sales of subscriptions. This will help us evaluate customer retention because we know customers are enjoying and utilizing our product if they are buying subscriptions. Also, we will use conversion rates to help measure our success. By partnering with famous

fitness influences we aim to increase these conversion rates. Paying attention to our conversion rates will allow us to gauge the effectiveness of our marketing efforts. The last metric we will measure is revenue. Any increase in revenue will be indicative of any positive advancements of Peloton and the at home fitness industry in general.

## **Conclusion**

The goals of increasing acquisition, retention, and preference can all be reached through their respective marketing activities. Things like reconfiguring their business model, creating campaigns, and introducing new features to their subscription service, can help Peloton pull themselves out of the hole they are currently in and create sustainable, long term success.

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