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Meet Peloton, the tech company that delivers highly addictive cycling classes to the comfort of your home

ON-DEMAND FITNESS

JOHN FOLEY
Co-founder and CEO
PELOTON CYCLE



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ON- DEMAND FITNESS

Peloton uses technology to connect a sleek stationary bike to high-energy and addictive cycling classes in the comfort of your home

By Lee Lusardi Connor
Photography by Travis Curry and courtesy of Peloton Cycle

JOHN FOLEY
Co-founder and CEO
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AT FIRST, NOBODY WANTED TO INVEST IN PELOTON.

Sure, it was an intriguing, innovative, industry-disrupting concept. But it seemed too complicated.

As CEO John Foley pitched it, Peloton Cycle would offer a state-of-the-art bike for indoor cycling. But it wouldn't be just a stationary bike company.

The bike would have a custom-designed tablet attached to it, sturdy enough to withstand a sweaty workout, but sensitive enough to monitor a rider's cadence, resistance and more. The tablet would even allow video chat. But Peloton also wouldn't be just a hardware and software company.

The 22-inch tablet screen would live-stream indoor cycling classes from a Peloton studio in New York City. With a monthly subscription, a Peloton bike owner would be able to take unlimited classes with top instructors, live or from an on-demand library. So Peloton would be a media company, too.

Of course, riders would have to buy the bikes somewhere, so Peloton would have a retail operation as well — both bricks-and-mortar and online.

A Peloton retail location in Dallas. As of early 2016, the company had sold 20,000 bikes and claimed 200,000 riders around the world.



GAINING MOMENTUM

Foley, formerly the president of ecommerce at Barnes & Noble, co-founded the company with three others in 2012. He says that over the course of the next two-and-a-half years, he heard “no” from 400 venture capitalists. “Raising money was bone-crushingly hard,” Foley says. “It was the hardest thing I’ve ever done, by a factor of 20.”

Peloton got \$3.9 million in seed funding in December 2012, and raised \$300,000 through Kickstarter in 2013. Foley also got smaller checks from 104 angel investors. “Some of these guys felt so sorry for me,” he says. But Foley and a skeleton staff, working from a shoebox-sized startup space in midtown Manhattan, believed.

The first bikes shipped in January 2014. Eighteen months later, the company was on its way to profit. It posted \$50 million in revenue in 2015. As of early 2016, the company had sold 20,000 bikes and claimed 200,000 riders around the world (some of those riders share the use of a bike; others use the Peloton apps for iPhone and iPad on non-Peloton bikes).

There are now 11 Peloton retail stores, and if plans work out, there will be 20 by the end of the year. Peloton has the kind of deeply engaged social media community that other companies would kill for. It has now raised \$120 million in financing and plans an IPO for next year.

So it would seem that John Foley was right and the doubters were wrong. Foley, however, says he's just getting started. “We’re not slapping high-fives just yet,” he says. “Sure, we have momentum, we’re profitable. But we have very big ambitions for where this company wants to be.

“We think it can be the most special global consumer product brand in the world. Bigger than Apple.”



“PELOTON IS A MEDIA COMPANY ON TOP OF A CONSUMER PRODUCT COMPANY.”

A PASSION FOR PEDALING

Indoor cycling inspires a cult-like devotion — to the instructor, to the group, to the music, to pushing yourself to greater speed and intensity. The best-known brand in the boutique cycling industry is SoulCycle, founded in 2006. SoulCycle has spawned a number of boutique competitors (Flywheel, CycleBar) as well as countless classes in high-end gyms and YMCAs around the country.

SoulCycle and its boutique brethren appeal to affluent, urban folk with proximity to and free time for a class, which can cost up to \$40 a pop. So passionate are its devotees that, when a class is open for online registration, it tends to be filled within minutes, or less.

“WE THINK [PELOTON] CAN BE THE MOST SPECIAL GLOBAL CONSUMER PRODUCT BRAND IN THE WORLD. BIGGER THAN APPLE.”

This competition for scarce resources adds to the classes' appeal. Still, there are large swaths of the affluent consumer population for whom the system does not work — for example, parents at home with children, or people who don't live in an urban area, or people whose schedules don't allow them to compete in the signup stakes.

That was where Foley and his wife Jill found themselves in 2012: she, at home with young children and unable to get to a spin class unless she had a babysitter, and he, disinclined to plan a workout a week ahead of time. “We thought, what would you have to do in order to take a class from the convenience of your own home?” Foley says. “And the answer was that you'd have to build a technology-enabled platform — the bike and the tablet — and stream the content. All the things we've done at Peloton.”

Foley invited select potential co-founders to his home for dinner, individually, and pitched his idea. “Everyone got very excited about it,” he says. Two weeks later, he founded the new company with Tom Cortese, COO, who had been CEO at Proust.com, a previous company of Foley's; Graham Stanton, president, who had headed Gifts.com and moved from Los Angeles to join Peloton; and Yony Feng, CTO, formerly of Ticketfly and Skype, who moved from San Francisco.

“It wasn't hard to bring Tom and Yony and Graham on board because they are like-minded and ambitious,” Foley says. “There's a style of person who hears something very challenging and wants to try to do it.”

LESSONS FROM THE KINDLE

While Foley was at Barnes & Noble, he had a front-row seat to the tablet industry. He saw that hardware companies like HP, Dell and Lenovo were, at the time, making tablets for \$250 and selling them for \$500. Meanwhile, Amazon was making a Kindle for \$250 and selling it for \$150, because the company knew it would make money on the sale of content it offered — books, movies and more. Of those tablets, only Amazon's flourished.

That observation led to a decision: The Peloton cycle would be sold at close to cost, and content — at \$39 a month for unlimited classes — would be king. Buyers, having made a \$2,000 investment in the bike, would be motivated to keep up their subscriptions. And the more bikes sold and the more homes reached, the lower the cost of content distribution.

Peloton wouldn't even have to invest in building a bunch of studios. All the content could be produced in New York and streamed to the world, where users could experience it as if they were actually in a class.

Did the world need Peloton? After all, for a lot less than \$2,000, a person can buy a stationary bike and ride it while watching a video or online exercise program. Companies like Zwift and Bkool offer social, gamified indoor biking platforms that can be connected to metrics-measuring devices. But Peloton is selling something more.

A COMMUNITY COALESCES

“Immersive” is the word Peloton likes to use. With the help of headphones, riders can easily imagine they're actually in class with the people in the studio. The



◀ Peloton head coach Nicole Meloni. To find the best instructors, Peloton employees take classes around Manhattan.



◀ A look into the control room at the Peloton studio in New York City. All content for classes is produced there and streamed into customers' homes.



◀ Peloton riders in class at the studio in New York City. Riders across the country get to know each other through social media and, as friendships evolve, they form clubs that “meet” for specific classes and encourage each other.

“OUR INSTRUCTORS GET IN YOUR HEAD AND MOTIVATE YOU, AND THAT CHANGES THE WAY YOUR BODY FEELS AND YOUR MIND FEELS.”

leaderboard on the Peloton’s tablet shows not only a rider’s stats, but the real-time stats of the others taking the live class, even if there are hundreds of them.

Instructors can see everyone’s screen name and stats on their leaderboard, allowing them to make a point of encouraging a rider at home — “Hey, Chris, looking good, I want you to get your cadence up to 110 for the next 10 seconds!” (If a rider chooses an on-demand class, he can’t get a shout-out from the instructor. But the leaderboard will provide the next best thing to a live experience: It will show the stats of all the other riders who’ve ever taken that ride, just as though they were all taking the class simultaneously.)

Peloton first kept in touch with customers by following up with bike purchasers via email, says Jayvee Nava, the company’s vice president of community. Meanwhile, riders were getting to know each other virtually through social media. Seeing that fans had created an unofficial Facebook page with about 200 followers, Peloton adopted it as an official page.

Today, that official page is “liked” by 120,000-plus people. (The company also maintains a private page with more than 7,000 “super-users,” who form a kind of focus group.) “We take all feedback. We celebrate when it’s great, but we don’t ignore it when it’s bad,” Nava says. “I monitor our Facebook page 24/7 and pass the feedback on to all of the teams here, like product, technology and logistics.”

As friendships evolve, riders form clubs that “meet” for specific classes and encourage each other. “The community aspect brings accountability, and the kind of friendships you would find with people you meet to work out with at the gym,” says Kelly Snavelly, a mother of four in rural northeastern Ohio. She is a member of the Tuesday Tribe, which “meets” weekly on Tuesday mornings for a class with head instructor Jenn Sherman. “You know your friends are going to be on the ride, they look for your name on the leaderboard, and afterward you chat — who chased who, what songs we loved, the amazing push someone made at the end,” Snavelly says.

The virtual relationships tend to migrate to real life. Riders make pilgrimages from all over the world to the Peloton studio on West 23rd Street in Manhattan. Demand is such that Peloton has begun to schedule periodic “Home Rider Invasions” to try to corral all the various groups who want to meet up there.

“WE HAVE NO EGOS ... JUST REALLY COMMITTED, TEAM-Y PEOPLE WHO ARE SMART, AMBITIOUS AND GOOD AT WHAT THEY DO.”

This year, Nava and her team will be planning Home Rider community events connected to Peloton's retail stores, so they can celebrate users within a city or region. All of these contacts by the company create unofficial brand ambassadors and stimulate word-of-mouth marketing.

LURING TOP TALENT

Foley has identified two core types of talent for the business: instructors and software engineers. For both, he has adopted a “don't be penny wise and pound foolish” philosophy.

“My wife tells me every day, ‘I don't care anything about your business except, who are your instructors? This is the human being talking to me for 45 minutes,’” he says. “Instructors have to have a certain spark, a *je ne sais quoi*, that allows them to yell at you but not annoy you, and inspire you.”

To find the best instructors, Peloton employees take classes around Manhattan. “We've hired some people out of Flywheel and SoulCycle, and we audition 30 to 40 people a month and occasionally take one on to train,” Foley says. (Riders are routinely surveyed for their opinions about instructors and the classes they run.) “Whether our instructors make \$150,000 or \$250,000 a year, in the macro scheme of what we're building, it doesn't matter. I hope to pay them \$1 million a year — to pay them as real celebrity talent.”

In the technology arena, a good software engineer is a kind of celebrity in his or her own right. “To get the best software engineers to leave Google, Facebook, Tumblr, Twitter to come to Peloton — which is what we do — you have to wake up pretty early in the morning,” Foley says. “These 26-year-old engineers have eight different offers for \$185,000. So they need all of the other 50 little

TEAM PELOTON

“Peloton” is the word for the main group of riders in a bicycle race, who move faster by sticking close together. That's a fair analogy for John Foley's approach to leading his employees.

“One of the reasons we believe Peloton will become a very special global brand in the next couple of years is that we have fantastic people here,” Foley says. “We have no egos ... Just really committed, team-y people who are smart, ambitious and good at what they do. I care deeply about the people I work with. And I have found that the way I can surround myself exclusively with great people is to be the CEO.”

The company's soon-to-be-completed new headquarters will have an open office design that “reflects our open culture of communication,” he says. “That's how people learn. I could be on the phone negotiating a complex deal and 20 people within earshot could hear everything I'm saying, if they want to listen; or if I'm annoying them, they can put on their headphones.”

Foley sends frequent all-staff emails and holds regular team meetings during which employees can ask any questions they want. “When an employee leaves five years from now, I want them to say they learned more from John Foley in five years than they had in the previous 25,” he says. “And the way I do that is through total transparency, sharing every piece of information, thought and strategy that I can.”

Foley says he doesn't believe in performance reviews. “I think that's a crutch for weak leaders,” he says. “I think people should know where they stand every single day, and you should review people's compensation frequently. Someone might have had four salary increases in the last year because I think what they do has become increasingly important.”

Peloton has no vacation policy. “You can come in at any level and take as much vacation as you want,” Foley says. “Because when you're working, we expect you to be on 24/7. If I email you on a Saturday afternoon, this isn't the type of organization where you're going to wait until Monday to get back to me.”

In keeping with the ways of a young-ish staff, the bonding continues outside the office. Employees may casually go out to bars and restaurants, or attend an organized staff outing — a bowling night, a summer rooftop party, a boat ride. “I have a lot of ideas for when we move to our new offices and have more space — team yoga, office massage, guided meditation,” says Amy Stoldt, vice president of human resources. “Lots of ways to bring people together in the realm of fitness, health, and being happy in the workplace.”

An additional motivator is equity, which every employee in the company has. “So when we go public next year, it will be a big party, and everyone will be excited, and hopefully it's a life-changing event for almost everyone here,” Foley says.

bullet points to line up — you have to have the right Aeron chair, the right beer on tap, the right pre-IPO currency, leadership, headquarters, brand.”

Mostly, though, they need “sexy” technology — defined as the most cutting-edge tech, from which they will learn the most. “We first built our platform on Java, then six months in, our CTO said, ‘We’re going to rebuild the whole thing on Python because that’s the way cloud software and backend software is going,’” Foley says. “We’re on MongoDB, Cassandra, all the best database platforms. We’re working in Android and iOS. When some hotshot engineer comes in, we walk them through the technology stack. They’re like, ‘That’s a who’s who of the best. That’s what I want to be working on.’”

LEADING THE PACK

Two years ago, Peloton had 12 employees. Today, it has 350. Given such rapid growth, Foley has had to take a hands-off role in day-to-day operations. “Almost everyone at Peloton has crazy autonomy,” he says. “It’s a cliché, but you do need to hire people who are smarter and better than you, then get out of their way.”

Out of necessity, fundraising and “evangelizing” have been Foley’s main roles for the past four years. “Yesterday, I spent five hours of my day talking to the press,” he says. “The reason I’m able to do that is that I have so many good people helping to run Peloton.” At press time, Peloton had just hired a chief marketing officer and was in the process of hiring a chief financial officer.

Peloton’s growth plans for the future involve fitness classes “beyond the ride.” It now offers instruction in shadow-boxing, high-intensity interval training and more. The equipment will likely follow this content. One initiative is to find a way to flip the bike-facing screen to allow streaming of non-cycling classes. Another possibility is the creation of a treadmill on which a customer could take boot camp-style classes.

Peloton will also seek to expand its customer base beyond its current affluent, middle-aged, suburbanite model. To date, the company has focused on opening retail centers in upscale malls, candidly admitting that it follows the lead of Tesla’s showroom placements. “They’ve done a lot of the heavy lifting” in terms of consumer research, explains Tim Shannehan, chief revenue officer. “Their customers, like ours, appreciate high design, technology and new ideas.”

Going forward, Peloton will likely also invest in street-level retail. “As we start to spend more money on marketing and broaden consumer awareness, we’ll potentially appeal to a broader market,” Shannehan says. “We also have a ton of inbound interest in the B2B model, which would be hotels, gyms, resorts. We’re going to test some things.”

The global fitness equipment market is expected to reach \$12 billion globally by 2020, according to Allied Market Research. Tech-minded competitors for this market are sprouting up all the time. Peloton is betting that its proprietary technology will keep it ahead of the pack. That, and the class experience.

“Peloton is a media company on top of a consumer product company,” Foley says. “Apple is a gadget company. It doesn’t talk to you. Peloton talks to you. Our instructors get in your head and motivate you, and that changes the way your body feels and your mind feels.

“It is a shared experience. It feels good. And that makes our platform very powerful.” **CEO**

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