Case Study: Peloton Crisis

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Peloton Interactive, Inc. ("Peloton") is an American fitness equipment manufacturer headquartered in New York City, New York with approximately 8,660 employees and 141 showrooms across the United States, Canada, Australia, and Germany (Peloton, n.d.). Peloton was founded in 2012 with an aim to "bring the community and excitement of boutique fitness into the home[s]" (Peloton, n.d., para. 1) of consumers with interactive stationary bikes and Internet-connected treadmills. The company "uses technology and design to connect the world through fitness, empowering people to be the best version of themselves anywhere, anytime" (Peloton, n.d., para. 2) in a virtual and remote fitness world. Peloton comprises of a Board of Directors, an Executive Leadership Team (the C-Suites), Mid-Level Management, and Staff (Peloton, n.d.).

Current Situation and Reputation

Peloton surged in popularity during the COVID-19 quarantines in 2020, offering customers an interactive workout experience "to connect, bond, inspire and grow stronger together" (Peloton, n.d., para. 4) after fitness centers across the United States were forced to close due to the rapid spread of the COVID-19 virus. However, several reports of children suffering injuries after becoming entrapped, pinned, and pulled under Peloton treadmills led to a massive 125,000 treadmill recall, sales falling 12% within seven months, and Peloton's reputation plummeting (Isidore & Valinsky, 2021). According to Abraham (2022) "Peloton's market cap plummeted from a pandemic peak of around $50 billion to around $8 billion" (para. 8) and the company was forced to lay off 2,800 employees reducing its workforce by 20% to cut its input cost (Abraham, 2022).

Why I Chose Peloton for This Case Study

Peloton is of particular interest to me for this case study because while I chose to purchase a new road bike during the COVID-19 quarantines to keep physically fit, many of my friends and colleagues purchased Peloton bikes and treadmills, which later became clothes hangers as the

COVID-19 vaccine mandates led to a decrease in COVID-19 cases and a gradual return to some level of normalcy. During the COVID-19 quarantines, social media advertising and viral videos catapult Peloton into a household name for virtual fitness training, and for this reason, I wanted to delve into this Peloton treadmill crisis to examine how quickly social media advertising and viral videos can allow a company to go from in-demand to in a crisis. This case study examines the overall public relations (PR) effort to determine why the effort was unsuccessful in mitigating the Peloton crisis.

Analysis of the Peloton Crisis

Peloton's opportunity to avert bad press and fallen sales occurred due to its lack of prompt response to the faulty treadmills and delayed adherence to the Consumer Product Safety Commission's (CPSC) request to issue a recall after the death of one child and "70 other injuries tied to the treadmills" (Isidore & Valinsky, 2021, para. 2). This case study examines Peloton's handling of the treadmill crisis to determine how Peloton could have effectively handled this crisis using communication strategies and the public relations process.

Research

After the CPSC issued a warning about the Peloton Tread+ and Treadmill machines following the death of one child and reports of 70 other children injured due to being entrapped, pinned, and pulled under the treadmills, Peloton refused to recall the treadmills. Peloton initially used deny strategies by refuting the CPSC's warning "saying at the time its warning was 'inaccurate and misleading'" (Isidore & Valinsky, 2021, para. 8), but the deny strategy only bought Peloton sufficient time to investigate the reason for its faulty treadmills while hurting them for the recall delay. Peloton's CEO John Foley later admitted that the decision to refute the CPSC's warning and not issue an immediate recall for the treadmills was a mistake. The company launched an investigation to identify the cause of the faulty treadmills and discovered that the use of slat-belt technology causes "some degree of slack or sag that can be seen from underneath the deck of the Tread+" (PelotonOne, n.d., para. 1) causing the slat-belt to drag on the floor and that there were gaps between the moving belt and the floor causing children to become easily entrapped, pinned, and pulled under the treadmills. Peloton later issued a statement asking customers to contact their Member Support Team "If the slat belt drops low enough that it makes contact with the surface of the floor" (PelotonOne, n.d., para. 1).

To mitigate this treadmill crisis, Peloton needed to utilize the Public Relations RACE (research, action planning, channel/communication, evaluation) process. The RACE process consists of detailed web analytics, careful collection of data during formative research, and root cause analysis to identify and document key flaws (Kelleher, 2021) that would help with crisis communication to mitigate damage. A SWOT analysis during the research stage would have helped Peloton to identify internal (*strengths* and *weaknesses*) and external (*opportunities* and *threats*) factors and devise communication strategies to help the company move forward from its current situation to its desired position (Kelleher, 2021).

In late October 2020, Peloton launched a large marketing campaign, called "We All Have Our Reasons," which appeared across social media, on advertisements websites, and on TV featuring middle-aged consumers at home or with family members demonstrating different reasons and one community—showing up for one another (Peloton, n.d.). However, Peloton failed to show up for its customers and consumers when it refused to recall its faulty treadmills after the CPSC warned of the treadmills' potential dangers (Isidore & Valinsky, 2021).

Goals and Objectives

As the demands for Peloton products surged during the COVID-19 quarantines when people were confined to their homes and awareness about health issues soared sky-high, Peloton was forced to increase the manufacture of its fitness products which challenged the supply chain to keep up with high demands (Abraham, 2022). Peloton's goal to manufacture a high percentage of its fitness products to keep up with high consumer demands created a massive expense that did not generate expected income because the rapid demand for treadmills was short-lived when the COVID-19 restrictions were lifted, and gyms reopened leading to a drop in sales for Peloton.

According to Abraham (2022), "In view of the delays in delivery, Peloton spent millions to better its logistics management. The company also spent $420 million to acquire Precor, one of the world's largest commercial fitness equipment makers. Besides, Peloton invested another $400 million to set up a factory in Ohio" (para. 4).

Peloton needed to utilize SMART objectives which are *specific* (clear about the objective to be achieved); *measurable* (capable of measuring the success); *attainable* (possible or capable of achieving); *relevant* (aligns with the organization's vision or values); and *time-based* (has a deadline) to achieve desirable goals. Social media consultant Marie Ennis-O'Conner explains, clear objectives "will not only propel your strategy forward, but they will also serve as defined metrics when it comes to measuring your progress" (Ennis-O'Conner, 2018, para. 3). Increasing production of products to meet the growing consumer demands for treadmills is not as effective as having SMART objectives that are clear and measurable. Peloton's objectives were unclear and unmeasurable because they were not time-based, but instead were only revenue based. Peloton increased the production of its fitness bikes and treadmills to meet high demands that were not within a specific timeframe. Peloton's key messages of "a million reasons" to run with Peloton, and the ability to become "one community" with common goals, fell short of reaching and resonating with its community of stakeholders during the crisis, who saw sales drop and the loss of 2,800 Peloton jobs equaling 20% of its workforce (Morahan, 2022).

Programming

Peloton used social media (Facebook, Twitter, Instagram) to reach its target audience and challenged customers to share their reasons for riding with Peloton using the #MyPelotonReason in an early 2020 "We All Have Our Reasons" marketing campaign. The campaign ads were the first since the COVID-19 quarantines in early 2020. However, "Peloton disclosed in their previous quarterly [Q3 2020] earnings reports that they made the decision to pause all marketing pushes during the pandemic until stores started to re-open" (Giles, 2020, para. 1). This was a terrible idea to pause all marketing because Peloton was not able to generate client engagement to reach more consumers to help restore sales and revenue after the company was forced to recall "about 125,000 treadmills" (Isidore & Valinsky, 2021, para. 2). According to Abraham (2022), "Peloton's market capitalisation fell more than 80% in a year – wiping out nearly all its pandemic gains – amid overambitious expansion plans, soft demand and various other issues" (para. 4).

While Peloton initially used social media effectively to promote its fitness bikes and interactive workouts, it failed to continue the use of social media to promote its products during the quarantines and suffered a massive workforce and profit loss. Peloton made a last-minute decision to alter its manufacturing budget which led to an increase in production and a surplus of fitness products after the pandemic restrictions were lifted. Having a budget, getting approval for the budget, and achieving the goals and objectives within that budget signifies professionalism in public relations (Kelleher, 2021); therefore, public relations efforts that fall short of these budgetary activities are not aligned with professional public relations practices. Kelleher (2021) explains, "achievable goals and objectives depend on a budget, and the budget depends on the resources needed to achieve the goals and objectives" (p. 165).

Peloton's decision to refute the CPSC's warning about the dangers of the treadmills and ignore the request to recall the treadmills was a poor decision in public relations and crisis management and did not align with its mission or values of "put members first" and "together we go far." While Peloton did not breach ethical practices or legal standards, this is a preventable crisis, because Peloton could have avoided this crisis by issuing a timely recall which would have demonstrated how seriously the company takes safety. A timely recall would have been in the best interest of their customers/stakeholders. According to Kelleher (2021), "Preventable crises caused by mismanagement and illegal activity or unethical action are the worst kind for organizations, and they may be intensified when the organization already has a reputation for breaking rules or a history of similar crisis" (p. 335). Peloton was recently sued for allegedly stealing artists' music, which could reflect negatively on its reputation as having a history of breaking the law.

Evaluation

The impact of Peloton's treadmill crisis was determined by its loss of revenue, job cuts, and reduced workforce. Peloton evaluated the effectiveness of its crisis management effort by measuring its business and financial loss. However, tracking and analyzing what is being said about a company is important to maintaining the company's brand and reputation. Peloton would need to track, analyze, and respond to consumer comments on social media as a strategy to reach consumers through client engagement. This method of client engagement is called "social listening." According to Kelleher (2021), "social listening allows you to track, analyze and respond to conversations about specific topics, such as a company or industry, online" (p. 623). This is because people might already be talking about the company on social media and the company may want to know what is being said to manage negative posts/comments. Peloton should establish measuring tools to evaluate the crisis communication efforts and determine the overall success of the crisis communication to mitigate risks. Performance measures (e.g., customer satisfaction) and metrics (e.g., listening metrics) could be used to measure the impact against the expected results.

Conclusion

This treadmill crisis has significantly hurt Peloton to the point where it might be difficult for the company to recover. As if the treadmill crisis is not enough, Peloton's Co-founder and CEO John Foley is being replaced by Barry McCarthy, who is the former CFO of both Netflix and Spotify (Abraham, 2022). In a recent interview with the Wall Street Journal, Foley said "'I have always thought there has to be a better CEO for Peloton than me… Barry is more perfectly suited than anybody I could've imagined'" (Abraham, 2022, para. 10). Foley has also said that Peloton is open to exploring opportunities that could create value for its stakeholders (Abraham, 2022). This recent development signals an opportunity for Peloton to rebuild. Peloton utilized rebuild strategies when it publicly acknowledged and accepted responsibility for its mistake in refuting the CPSC's warning on the safety of the treadmill, apologized to stakeholders, and have begun to rebuild to bolster its reputation from the mistake. Companies often believe they will lose supporters if they acknowledge culpability; however, consumers tend to support companies that are transparent and genuinely care about their customers. Peloton has the potential to emerge from this crisis, but it will need to employ reactive PR activities because the impact of this treadmill crisis on the company is very clear and requires reactive PR to manage and mitigate the crisis.

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