

MoS Episode Transcript – John Foley

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JOHN FOLEY: I don't know, Reid, I don't know what I could have done differently. I think I'm a pretty good salesman. I believed so passionately in what we're doing and I still do. And I was explaining it as best I could.

REID HOFFMAN: That's John Foley, co-founder and CEO of Peloton. And he's taking me back to 2012, when he first started pitching his idea to investors.

FOLEY: I had a 10 out of 10 business on a silver platter, going to strategics, going to angels, going to venture capitalists.

HOFFMAN: John envisioned a connected stationary bike that would deliver live classes to the home. He thought he would cruise to an easy victory with his "10-out-of-10" idea. But it turned into an epic uphill climb.

FOLEY: Here I was. I had 15 years of tech leadership experience. And I was sure that venture capitalists were going to throw money at me because it was such a good idea and I was an experienced guy.

HOFFMAN: And what was your experience like? Because that was clearly the dramatic buildup for the "but instead..."?

FOLEY: But instead, three years later – after pitching hundreds of venture capitalist and thousands of angels – I hadn't raised a dime of money from an institution.

HOFFMAN: Fans of Peloton know all about tough climbs. But this was a hill so steep, John couldn't see the top. Every investor was a skeptic. And they all had different ways to say "no."

FOLEY: There were 10 or 12 buckets of no's:

- It was my age;
- Half of the VCs didn't like hardware at all;
- Fitness was a dopey category plagued by bad teams and bad products and bad marketing and gimmicks and fads;
- A lot of people in the Valley didn't understand boutique fitness;
- "Oh you're a New York City company. I've made a commitment to my family that I'm only to sit on boards in California".

No investors wanted to look at this thing. They wanted nothing to do with it.

HOFFMAN: John took hundreds of no's from venture capital firms – thousands from angel investors – as he tried to fund his '10 out of 10' idea. But of course this isn't where his story ended. The "buckets of no's" eventually became a chorus of "yes."

Eight years later, Peloton is a publicly traded company with a valuation of nearly \$20 billion dollars. John and his team ultimately converted skeptical doubters into die-hard believers... and then rode their enthusiasm all the way over the hill.

I believe you clear your path to scale by converting skeptics to fanatics. The best megaphones for your product are the ones who doubted you at the start.

[THEME MUSIC]

HOFFMAN: I'm Reid Hoffman, co-founder of LinkedIn, partner at Greylock, and your host. And I believe you clear your path to scale by converting skeptics to fanatics. The best megaphones for your product are the ones who doubted you at the start.

I want you to think of a food you love. But not just any food, one you used to hate. For me it was stinky cheese. When I was a kid, nothing could sound more revolting.

But fast forward to adulthood, and it's one of my favorite indulgences. In particular, I have a fondness for this one pungent cheese called epoisses. It's very soft, rubbed with brine and brandy, and aged for six weeks. In its original, unpasteurized form, epoisses is banned in the United States. It's a cudgel of a cheese; it'll punch right through whatever else is on your plate.

Now, did I convince you?

Not all of you. Definitely not the lactose-intolerant. But a few of you may drop some epoisses into your next Instacart. And if we were together in person, I'd have an even better chance.

Why? Because an impassioned testimonial from a trusted source is a powerful thing. It can overcome skepticism, especially if the person testifying was once a skeptic. And especially if the skeptic can try it for themselves.

Now, it's not easy to convert full-on skeptics. And let me be clear: You don't want to pursue them at the expense of friendly early adopters. But if you can find a way to hack that skepticism and convert it into a passion for your product, you'll create an organic, loyal following that bind themselves to your brand.

Why does it work? Because it's vanishingly rare that we can admit to ourselves, "I was wrong." And when we get to that state of self-discovery, it imprints itself on our memory. And fuels our newfound love of the thing we had hated so.

That's why casual fans can come and go. But converts will stick with you, and spread the word on your behalf.

I wanted to talk to John Foley about this because as the co-founder and CEO of Peloton, he knows a lot about the conviction of true fans. It turns out, he knows a lot about skeptics too. As you'll hear.

Peloton is a brand with a very passionate fan base – and that was true even before the global pandemic put gyms and fitness classes on pause. Peloton's stationary bikes have a connected tablet that lets you take part in remote cycling classes. They've won over a million connected fitness subscribers and a user base of over two-and-a-half million members. But before that, they faced years of existential struggles. I'll let John put this in his way.

FOLEY: We were just sure that tens of thousands of people were going to throw money at us. And it was crickets.

HOFFMAN: We'll get to that uphill climb in a little bit. But first, some background. John grew up in the Florida Keys. His mother was a homemaker; his father was a pilot for Delta. When it was time for college, John's family knew money would be tight. So his father gave him the best advice he knew.

FOLEY: My dad brought home a *US News and World Report* "Best Schools for Your Money." I got into Georgia Tech, which was apparently a good school for your money. There's a co-op program where you work six months a year and you go to school six months a year so that you can pay your way through college.

HOFFMAN: Was that six months on, six months off particularly useful for entrepreneurship at all? One of the things that I've been mulling for years is that roughly speaking, one of the things I say is entrepreneurship can't be taught, but it can be learned. But was that at all helpful as a precursor to the entrepreneurial journey?

FOLEY: I wonder. That's a good question, Reid – and I'll put a finer point on it. It was three months on, three months off, you weren't comfortable. You were constantly putting your life into a car and driving a thousand miles across country. It did give you the sleep on the couch, and the work ethic for the rough times of entrepreneurship. I guess there was a correlation.

HOFFMAN: I think you're maybe literally the only person I've ever talked to who has worked on the factory floor of M&M and Mars.

HOFFMAN: John got a job at a Waco, Texas factory for Mars / M&M.

FOLEY: At one point I was a shift manager for Skittles and Starburst, but our plant also made Snickers and Twix. We made six million Snicker bars a day, which was just hard to get your brain around.

HOFFMAN: It's not easy to see a path to entrepreneurship with six million Snickers bars whizzing by. And John had another hurdle: He studied industrial engineering, which isn't the most common background for tech founders. It's led him to face some skepticism in the field.

FOLEY: Looking back, mechanical engineers, electrical engineers are much more respected in tech. So I've had to fight through that and let people know that I'm not soft or whatever the stereotype might be.

HOFFMAN: And I don't share that stereotype at all, but I think it's insufficiently techie is, I think, what the inaccurate stereotype is.

FOLEY: That's it. That's fair.

HOFFMAN: Yeah. Well. So my major was symbolic systems, and my CS friends, comp sci friends, said, "Oh. Yeah, that's comp sci light."

FOLEY: Oh boy.

HOFFMAN: Yeah and I was like, "Okay." So I'm familiar.

FOLEY: You've had the pebble in your shoe as well.

HOFFMAN: If you're unfamiliar with the nuances of "engineer politics," here's a little context: industrial engineers are in charge of operations. They streamline production. Electrical and mechanical engineers get into the technical nitty-gritty, working with pure math and physics. They tend to be better represented among Silicon Valley founders.

But John's father didn't know that when he advised his son on career options. And the way John's dad formulated advice gives us a window into how people make up their minds – and maybe – how to change them.

FOLEY: My dad told me that if I wanted to be a business guy, you might want to look at industrial engineering because the CEO and the president of Delta at the time had gone to Georgia Tech and had been industrial engineers.

HOFFMAN: John's father based his advice on the most successful business leaders he knew. And that's what all of us do. When we form our understanding of the world, we start with what's familiar. We give extra weight to what we've seen first-hand. And that's helpful to remember

when we think about how to convert a skeptic. Sometimes, there's just no substitute for letting people see things with their own eyes.

John's answer to the skeptics was to become a tech executive anyway. He left the manufacturing world to work at Citysearch, get his MBA at Harvard, and eventually join Barry Diller's empire at IAC.

FOLEY: It sounds big and corporate but so many fantastic leaders and fantastic entrepreneurs were in that world.

HOFFMAN: We've had some of those entrepreneurs on the show, including Dara Khosroshahi of Uber, Selina Tobacowalla of Evite, and of course, Barry Diller himself.

FOLEY: He understood the entrepreneurial spirit. So what we did at IAC, Reid, which not many people know, is several times I would go to Barry and say, "I have an idea. I want startup risk. I want startup upside. Will you agree to fund this? You own it as IAC. But I get to start a company."

HOFFMAN: John spent over a decade at IAC, acting as CEO of several in-house startups. Then he left for Barnes & Noble.

HOFFMAN: So what made you decide to go take on the Nook with Barnes & Noble?

FOLEY: Every time we did something at IAC, the press would read, "Barry Diller launches this," or "Barry Diller does that." I was thinking I was about to turn 40 and I said, "I want to be my own person." I'm not really an ego-driven guy, but I just kind of wanted to spread my wings.

HOFFMAN: The Nook was Barnes & Noble's answer to Amazon's Kindle, an e-reader device to drive sales of digital content.

FOLEY: In our mind's eye, we raised the pirate flag, and we were going to take down Amazon. That turned out to be a bad ship. You're glad you weren't on that pirate ship.

HOFFMAN: Yes. That one got sunk by the navy.

HOFFMAN: There are several reasons why the Nook struggled to topple the Kindle. But one theory goes back to how customers perceived its maker.

Barnes & Noble was seen as a brick and mortar store, one that only sold books. While Amazon was seen as a digital store for everything. That gave Amazon more credibility to create their own hardware and therefore a head start. Over time, the Nook had thinner offerings in apps,

games and video and they just couldn't convert skeptics as fast as the Kindle, or the emerging iPad. But: working on the Nook did have a silver lining. It brought John an "Aha moment"

FOLEY: I was in a boutique fitness class, a cycling class, and I was thinking to myself, the Nook and the Kindle are hardware and software platforms for consuming content at home. And I said, "Could you build a fitness platform, hardware and software, that allowed you to consume the content at home?"

And it was like, "Of course you can. It's called a big tablet and a bike or a treadmill. And you bring the class content." And it was very clear to me.

HOFFMAN: With this moment of clarity, the concept of Peloton was born. The reality would take a bit longer.

John started drawing up plans for Peloton in 2011 with his first co-founder, Tom Cortese from IAC. The concept was simple: make it easier for busy people to take great spin classes with great instructors, anytime. He saw an indoor bike with a tablet attached to it that could stream classes live or after the fact. An app would run with the bike to track data like heart rate or RPM. And that data would show up on a leaderboard so riders could race against each other, up the virtual hill.

Many features and iterations were yet to come, like the live class studio in New York, and the showrooms worldwide. But John could see the core idea clearly.

In 2012, John left Barnes & Noble to make Peloton official. He added three more co-founders – all of whom are still with the company. John had his dream team. Expectations were high. And you already heard what happened next.

FOLEY: Three years later, after pitching hundreds of venture capitalist and thousands of angels, I hadn't raised a dime of money from an institution.

HOFFMAN: So why couldn't John convert these skeptics? He still puzzles over it. Here's his take:

FOLEY: I thought I was good, but clearly I wasn't because my success rate on these meetings was one out of a hundred people would give me a check.

HOFFMAN: In these meetings, John heard a lot of reasons for skepticism. But one of them particularly stung. They had their doubts about him.

FOLEY: Everybody dreams of being the Mark Zuckerberg, I guess, at 19. You have an idea, and people are throwing money at you. And you never really have a boss maybe

because you're always calling the shots. But for me, it was the opposite. It was 20 years of slogging it out as kind of a corporate guy.

And I thought that was going to be an asset, that I had experience. It turns out it was a liability. I was like, "Wait, what? My experience is a liability." Everyone found a reason not to like me at that point.

HOFFMAN: Well, but this is actually related. One of the things that is unusual about your story is that typically, the 20-year career path of being a very successful executive in a number of different industries doesn't actually prepare you for entrepreneurship. The rule book for being a really successful executive is very different from the rule book of being a successful entrepreneur, as you know, because you've done both.

FOLEY: Yeah.

HOFFMAN: This innate suspicion of career executives is, I can attest, a real phenomenon. And this kind of skepticism isn't just based on surface assumptions. Corporate management rewards conservatism, while entrepreneurship favors the bold.

Like many founders, John was facing bias based on a handful of facts about him. To be clear, there were plenty of biases John Foley wasn't facing. As a white, male, Harvard graduate with a rich alumni network, he could get into rooms that female founders, and founders of color, are often shut out of. For John, getting into the room wasn't the problem. The problem was converting the skeptics. John heard "no" so many times, it's a bit difficult to imagine him carrying on.

FOLEY: Everyone says, "Well how did you take so many no's – 400 no's from 400 institutions and then thousands of no's from angels?" You know, why did we keep going?

I believed that there was something here and I still firmly do. I believe that we are in out one of inning one of this opportunity of what Peloton is going to do from a technology platform globally and structured led fitness to homes, eventually hundreds of millions of homes around the world.

HOFFMAN: Well, it was a combination of belief in yourselves and the belief that there is a fitness market here that can be revolutionized by tech, that essentially everyone's missing. The good news of the fact that venture doesn't get it is they're not funding any competitors? And so if you can make it through, you can make something very unique.

HOFFMAN: John wasn't getting any traction with VCs. But he had started converting a few key skeptics into fanatics: his co founders, Tom Cortese, Hisao Kushi, Yony Feng, and Graham

Stanton. He'd pulled them away from promising careers by painting the picture of a wide-open fitness category, and a device that would bring it into millions of homes.

The prototype was still in its early phase. The network of users not yet built. So John couldn't yet ask a funder to hop on a Peloton and take a spin. He had to convert skeptics on the power of story and vision alone. He described a network of home riders, thousands per class, pedaling away at the same time, to the same live instructor, in a gamified leaderboard system.

And the best part was no one else was doing it.

John leaned into that pitch, and one by one, he won over a few early believers: Angel investors, going in for blocks of \$25, or \$50,000 dollars at a time. Those investors included John's brother-in-law, his co-founders, and John himself. Every check mattered. Each one strengthened his resolve – and built Peloton some runway to prove their case.

FOLEY: Three years later, I had a hundred checks from a hundred angels that amounted to a roughly \$10 million. And that's how we capitalize the first three years of Peloton.

HOFFMAN: Thousands of pitches to get a hundred yeses shows incredible grit. But I have to go back to the earlier question: Why couldn't he convert the skeptics in those VC firms? My take: They were actually the wrong VCs.

HOFFMAN: If I were giving advice to your younger self, I'd probably say only go to VCs who are the eccentric VCs. Don't go to mainline VCs. Because mainline VCs are going to be the, "Is this enterprise software? Do you look like one of the other things that I've had a multibillion-dollar exit yet? Oh no, you don't. Oh well, then I'm not interested." Right? And they won't say it that way. They'll actually take a bunch of your time because you've got a good enough of a pedigree and something interesting enough that you'll go do a thousand pitches and then it's a problem.

FOLEY: Yeah, you're right, it is good advice to go to the contrarian and to the more think-for-themselves venture capitalist, and that's eventually what I found in Lee Fixel.

HOFFMAN: Lee is great. I was literally on the phone with him yesterday.

HOFFMAN: Lee Fixel is an investor who now sits on the board of Peloton.

Here's one of the most important things to learn about converting skeptics. The earliest stage of your org actually isn't the time to convert full-on skeptics. It's just not efficient. These early days are the time to recruit your loyalists. The people most inclined not just to like you but LOVE you. And this goes for your investors as well as your customers.

After a thousand pitches, John had gotten really good at painting his vision. What was missing was a way to be more selective in his targets. Some skeptics will simply never be moved. Others will only be moved when they see the data. So discerning which are moveable becomes its own invaluable skill.

How do you do this? Just by asking: What does this person value above all else? And, am I offering something that speaks to that value?

When you pitch a mainstream investor, they value a sure thing. They want you to look like every other deal they've seen succeed. When you pitch an eccentric VC – and of course, I consider myself one – they value ideas that are contrarian, the ones that DON'T look like every other deal.

[AD BREAK]

HOFFMAN: We're back with John Foley of Peloton. We were talking about how you convert skeptics into fanatics. So far, we've focused a lot on the skeptics John and his co-founders faced as they tried to get funded. Peloton did start to gain traction... not with mainstream VCs, but by converting one angel investor at a time with the power of story.

HOFFMAN: So what do you think was the key thing is that the, call it wisdom-of-the-crowd VCs weren't getting? Was it that the demand was so high? Was it the stickiness? What was the thing that was kind of like, "No, no, this is why it was contrarian and right?"

FOLEY: One of the things that I still think a lot of investors in the world hasn't woken up to is what a gorgeous category the fitness world is. How much willingness to pay from a consumer and how passionate people are about fitness, how much time they want to spend, how much money they're willing to spend, how much they care about it, how much they're proud of it. I mean, going back 15 or 20 years you knew a couple people I'm sure Reid, that had Iron Man tattoos.

HOFFMAN: That's Iron Man the long-distance triathlon, not the Marvel hero. And in truth, I don't think anyone has ever shown me theirs.

FOLEY: If you did an Iron Man, you got a tattoo because you're so proud of yourself. And then you'd see women in New York city walking around with SoulCycle tank tops and people want to talk about, they're proud of their fitness routine. People love fitness. So when I'd go in and I would say, "We are going to be the tech disruptor in fitness," they would hear fitness is a dopey category where there's been no capital and no software and no media and no innovation. And I would say, "Exactly."

HOFFMAN: This was back in 2012 when boutique fitness studios were booming. SoulCycle, the biggest name in spin, was six years old; its rival, Flywheel, had just turned two. Barre classes, hot yoga, Crossfit, and boot camps were taking over New York, LA, and San Francisco. But the crossover to streaming content was still in its infancy. Most at-home fitness instruction lived on Youtube. It seemed to John like an inflection point was coming. And he wanted Peloton to drive it.

Having exhausted every VC fund they could think of, John and his co-founders turned to Kickstarter to recruit some new fans. If the funders remained skeptical, surely showing them thousands of ready consumers would change their minds.

HOFFMAN: How did Kickstarter play into all of this?

FOLEY: For the first almost two years, we hung everything on it. We knew that at this point the investors didn't see it, but we thought the consumers might see it. So we thought that if we could put a prototype together and tell our story in a four minute Kickstarter video, you remember that year or two or three, that Kickstarter was kind of a big deal. It felt like all fundraising was going to take place on that platform for a hot second. Right? And we were right in that vortex.

HOFFMAN: You may have heard of that “vortex” John mentions as the “Reality Distortion Field.” And it's actually an effective way to convert someone from a skeptic to a fanatic.

Some founders are famously good at generating “Reality Distortion Fields,” from Elon Musk to Steve Jobs. In fact, the term “Reality Distortion Field” was coined for Jobs by an Apple exec, who borrowed it from Star Trek. It's meant to convey charisma, but also something more: the ability to convince everyone around you that your idea is not just epic, but inevitable. It's more than just storytelling, it's world-building.

As John pointed out, Kickstarter as a platform is good at conjuring this vortex. Build your page, make your video, and it just feels like the pledges are about to come rolling in.

FOLEY: And so we were a head of steam, so excited, spent meaningful money on creating our video to tell our story because we want it to be as blue-chip as we could afford, which was, looking back, not blue-chip at all.

HOFFMAN: John has gone on the record before about just how “not-blue-chip” the process was. They ran into prototype troubles: one bike came back 40% too big. Another was so wobbly, they had to ask the rider in their video – who happened to be John's wife – to pedal very slowly.

FOLEY: But we were proud of it at the time and we launched it and we were so excited and we were just sure that thousands, tens of thousands of people were going to throw money at us. And again, it was crickets.

HOFFMAN: Only 178 people bought a Peloton bike from the original Kickstarter. And there's no sugar-coating it: this setback hurt. It's one thing to say that venture capitalists doubt you. It's another to say, the consumer doesn't want you. You've been betting everything on the promise that if you build it, they will come. And they didn't.

This actually happens a lot with crowd-funding. It turns out, it's better for rallying your own supporters than it is for finding new ones. It's definitely not the place to convert skeptics. But in John's case, there's something else they'd come to learn. No video of someone using the Peloton would be as convincing as a customer trying it out for themselves.

And this was the insight that ultimately let Peloton break out. Peloton is a tech-centric company. But it isn't tech-only. At the heart of the Peloton experience is a real fitness studio with real instructors and real cyclists, pedaling together in real-time with people at home on their Peloton bikes. This vertical integration from the real-life studio to the bike at home defines Peloton today. But it turns out: That was a bit of an accident.

HOFFMAN: One of the things you undoubtedly really stuck to your guns on was the vertical integration everything, from the bike to the media elements to the production of media. Undoubtedly you got a ton of, "Oh, that's really expensive." "You're trying to do too much." What gave you the conviction to stay with that vertical integration?

FOLEY: Yeah. I will say we didn't dream up the idea of being so vertically integrated. We were forced into doing it. In the early days as kind of tech entrepreneurs, we went to SoulCycle and we went to Flywheel and said, "You guys have studios, you have instructors, you run classes, you are effectively the media, you have the brand and you do all that. We could together put a camera in your class and we could be the hardware and software team over here and we could partner." We didn't have the money to create a studio to hire the team, to hire the instructors, all of that stuff wasn't in the original plan.

HOFFMAN: Notice how SoulCycle and Flywheel reacted – and remind yourself to think twice before you ever make this mistake. Both of these fitness studios were skeptical that John's idea would do anything but cannibalize their business. They both said no and Peloton was forced to go it alone.

FOLEY: Looking back on it, we're very happy the way it worked out because we think vertical integration has now created a stronger platform.

HOFFMAN: John and his co-founders had imagined themselves as a hardware and software company, delivering classes that other companies organized. But they found themselves not only building bikes and tablets but creating their own functioning cycling gym.

FOLEY: We hired these instructors and we had the production techs and maintenance folks and we had 30 or 40 people working in that studio, which felt like incremental burn for a young tech company. Hiring 30 or 40 non-tech people, you get anxious. You and I get anxious about that. The beautiful thing was, though, that you had paying customers coming in to fill up those 55 bikes to take the local spin class. So notionally, that studio and the instructors and the salaries were paid for via the side P&L of the studio business.

HOFFMAN: Of course, the local spin class did more than cover the costs of the studio. It seeded the Peloton universe with its first passionate fans. Fans who had the opportunity that hundreds of potential investors hadn't – the ability to try the experience for themselves. The studio was a powerful rainmaker for Peloton. But there were some learning curves, to be sure.

FOLEY: We built a bike for the home, the core Peloton bike. And then we had the studio bikes. And you know, on the 10-yard line we said, "Oh shoot, we don't want this 22-inch tablet in front of the person coming to take the local class because they don't need the video content. So right away we had to scramble and build a second hardware and software platform.

And then by the way, there's a third hardware and software platform of the instructor bike because we wanted that instructor to be fed stuff from the data warehouse of, "Hey it's Reid Hoffman's hundredth ride. Give him a shout out."

"R. Hoffman in Palo Alto, you're going to carry us up the hill on three, two, one, everyone follow R. Hoffman"

And it's, "Oh my gosh I got a shout out from my sensei, this instructor that I've been following for six or 12 months."

HOFFMAN: These in-person riders were quickly converted to Team Peloton by the quality of the experience. In fact, they were excited enough to tell their friends – both in and outside of New York City. With each live class Peloton grew in popularity, and their studio got better at filming and creating content for those streaming at home.

It was a virtuous cycle that got Peloton's flywheel turning. And to keep it turning, John and his team had to get people to try those bikes. They had been stuck in first gear in their quest to win converts... Until they built a functioning model. As soon as there was something to try, turning skeptics into fanatics grew a lot easier.

They experimented with Facebook ads, pop-up shops. But their greatest success came from what tech guys like me think of as an unlikely place: an old-fashioned brick-and-mortar store.

Peloton opened their first showroom in Short Hills, NJ, an affluent commuter satellite of New York. In their showroom, customers click their feet into the pedals and listen to the music cranking through headphones as their video instructor guides them through their climb. Everything that had been theoretical on their Kickstarter video was now tangible and real.

John's team had calculated that to keep the doors open, they needed to sell one Peloton bike a day. But soon after opening their first showroom, they were averaging four. Curious skeptics were converted into paying customers, through this physical experience.

And it's worth noting: This "try it, you'll like it" persuasion model isn't new, but it is effective. Think of the TV show "Shark Tank." The entrepreneurs always have Mark Cuban and Barbara Corcoran taste and touch and try things. It's not just good TV, it's good business. You can hear it in their voices when you've converted a skeptic into a fan.

And I want to stay with this idea for a moment. Because the truth is: Skeptics are rarely persuaded by words alone. It often takes physical, tangible experiences to win them over. And I want to give you another very physical example of how skeptics are converted to fanatics. We'll start, as one does, inside a Cessna.

MELANIE CURTIS: It's loud. There are propellers spinning, it's windy, wind rushes into the fuselage and you feel it on your face, you have your goggles on, you're ready to go. You're probably imagining, "What the hell am I doing?"

HOFFMAN: That's professional skydiver Melanie Curtis – and if anyone knows about converting skeptics, it's her. Melanie is the co-founder of Highlight Pro Skydiving Team, so she's seen her share of reluctance at 13,000 feet.

CURTIS: The ideology of "No way, no how, never gonna do it"? You see that a lot. So there's this very electric part of converting people, and going, "How do we break through an ideology like that?"

HOFFMAN: Melanie has 24 years of experience breaking through that kind of ideology. And turning skeptics into fanatics like herself. Her own path started with the physical experience of her first jump.

CURTIS: I'm in the small aircraft and my best friend from high school is making her first jump and because of weight and balance and all of that, she's going first. I will never forget the visual of her climbing out onto the wheel of this Cessna, and her just disappearing, like she was just gone. And I mean, I just, I still don't even have the words. I will never forget that.

HOFFMAN: Melanie has done some 11,000 jumps since that day. But how do you convince someone else to take the leap? The key is to listen to what stories they tell themselves... and then tell a new one.

CURTIS: Certainty is very seductive. We are so certain that we can't do certain things. So maybe someone is really blocked in a relationship or maybe they're really blocked and they're feeling just un-enlivened.

HOFFMAN: In cases like this, skydiving becomes the metaphor for taking the leap.

CURTIS: There is nothing like exiting an aircraft in flight. When you let go of that airplane, that is a point of no return. You can't get back in the airplane. So there's this powerful surrender. There's a powerful choice to go, "I feel afraid and I'm going to do this anyway, and I'm going to be open to what I might get from it."

HOFFMAN: The end goal for Melanie is not getting the person to jump. Instead, she wants to give them the power to make that choice for themselves.

CURTIS: I don't actually try to convert people. I try to genuinely understand people and what they are looking for and what might benefit them for real in their lives.

HOFFMAN: And this brings us back to John. Trying to understand people and what might benefit them was his goal at Peloton too. Every improvement they made to their system was shaped by what the customers needed from it. The flexible remote workout, the friendly competition, the feeling of community, the reminders to come back.

These are all ways to encourage you to keep riding. And that's the true business proposition of Peloton. Unlike physical gyms, whose business model depends on some members just never showing up, Peloton wants their students to show up, again and again.

FOLEY: The first year of Peloton we started sending hundred ride t-shirts. When you do your hundredth ride, you get a Peloton hundred ride t-shirt. It's one of the most coveted things in our community and you earn it. It's gamified. You can't buy it.

HOFFMAN: If it sounds odd that a t-shirt can motivate riders in a serious way, then you have a lot to learn about gamification, where even simple online badges can prompt engagement. The hundred-ride shirt is a coveted item because you can't buy it outright. Remember those Iron Man tattoos John spoke of? People now get tattoos of the Peloton logo. That's a real thing.

Once Peloton's sales started to take off, all the feedback loops started working the way they're supposed to. More users meant more riders; more riders meant more people clamoring to visit the live studio in Chelsea. Home riders formed Facebook and Meetup groups to connect with

each other. Some started organizing yearly pilgrimages to the Chelsea studio. After pedaling in place for years, Peloton was rocketing up the hill.

And something interesting happened: eventually, VCs started coming around. The same ones who had been so skeptical the first time. Some might think that this was the stuff of dreams: all the people who passed you by, having to bow their heads and whisper, “I was wrong.”

But – I cannot say this loudly enough – do not make them do that.

The way you convert nonbelievers to believers, and skeptics to fans, is NOT to force a ceremonial eating of crow. Because guess what? People do not like that. Persuasion is tricky when someone’s ego is at stake. A better way is to say: “Hey, you were right. But things have changed. Let me show you what’s different now, and why we’re a great bet.”

Remember my favorite stinky cheese? I don’t think I was wrong, as a child, not to appreciate it. What changed is, I grew up.

In Peloton’s case, a lot changed between their first 100 investors in 2012 and their IPO in 2019. They smoothed out the kinks in their production line. They found a target audience, and proved a market for a \$2,400 bike – by selling millions of them. They also showed the passion of their fans. So of course, they became an ever-safer bet.

And this is perhaps obvious, but the ultimate way that you convert skeptics is by being right. By having the data that demonstrates success. And then finding ever-wider ways for people to come along for the ride.

Which brings us to the Covid pandemic. Which I don’t need to remind you, changed a lot about the world as we know it.

HOFFMAN: I suspect the pandemic has had this weird, complex impact on Peloton. There’s the obvious things, which is people’s exercise at home and everything else. But then also, like the studio and the operations and all the rest get much more complicated.

FOLEY: You’re absolutely right. It’s multifaceted for our business. One, it’s the usual, everyone’s working from home and adjusting to that. Two, it’s the learning that our retail stores, we are a multichannel marketer. We have a hundred stores globally in four countries and we have inside sales and we have the website. Our sales have been so incredibly strong, even though our stores are closed. So last night on the earnings call, a couple analysts were saying, well do you need the stores? And I said emphatically yes, we love our stores.

When you think about new products that we’re going to bring to market, if you want to go try the new X or Y device you might go to the Palo Alto Stanford Shopping Center and

go to our store and poke around and get on one of the bikes or get on one of the treads or one of the new products and have somebody explain to you what the difference is and feel which one's better for you. And we think that physical piece of Peloton still matters.

HOFFMAN: Of course, Peloton had to close their physical studio, so they pivoted to an increased focus on how to make their leaderboards feel more intimate.

FOLEY: When you think about a leaderboard with 30,000 people on it or a couple hundred thousand people, you quickly bump into the impotence of abundance.

When you think about Google in the early days, you don't need 17 million search returns. You need five that are the right information, right? A leaderboard with hundreds of thousands of people isn't that motivating, incrementally more than 2,000 people. Maybe it's less valuable because you feel less intimate and less connected.

So we've launched this tags concept where you might have the LinkedIn group or the Palo Alto group or the Microsoft senior exec or whatever tag you might want to have, and when you get on the leaderboard, you can tag and all of a sudden you click into the Microsoft executive tag and Peggy Johnson is there and you're like, "Oh my God, I didn't know she had a Peloton bike, but there she is." I high five her. I can video chat with her and it takes that 200,000 into something instantly more intimate and relatable and personal.

So as we get bigger you want to make sure that when there's a hundred million people on your platform, it feels like it's more intimate than it was yesterday, which is counterintuitive. But you do it through connecting people with people they know.

HOFFMAN: It's hard to know what the next few months will bring. During the first wave of the pandemic, Peloton was named one of the three safest stock bets during quarantine. By the time you hear this, something may have changed again.

But one thing will remain true, we're sure to continue to change our minds, all the time. We doubt something one day and believe it the next. So if you have something – an idea, a company, a cause – and you want to get others to believe, the best way to convert them is to meet them right where they are.

Do your best to show them why your path is the right one – better yet, get them to see it for themselves. And if they don't, or won't, invest your time in someone who will. If you're lucky, you'll be able to go back to your doubters in the not-too-distant future. And say, with perfect grace: "You were right. But things have changed."

I'm Reid Hoffman. Thank you for listening.