

## Rapid Response Transcript – John Foley

“How Peloton keeps pushing through resistance”

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The systemic racism that we've seen in the States for decades and decades is not a political issue. That is a social issue that I believe every Republican and Democrat with a heart can appreciate.

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**BOB SAFIAN:** That's John Foley, CEO of Peloton.

John appeared with Reid Hoffman on the classic Masters of Scale in 2020 when Peloton's business was being supercharged by pandemic demand.

Since then, the company has faced a slew of new headwinds, from product-safety issues to investor skepticism.

I'm Bob Safian, former editor of Fast Company, founder of The Flux Group, and host of Masters of Scale: Rapid Response.

I wanted to talk to John because, rather than be derailed by the challenges, he and Peloton have doubled down on innovation and ambition.

In classic entrepreneurial fashion, the hurdles have served as fuel.

John talks about supply chains, regulators, and why he opened a factory in the U.S. He muses about whether software or hardware is more difficult to produce, and he confesses to being intimidated by the charisma of his own instructors.

He explains how Peloton approaches societal issues, and how his team balances growth with responsibility.

John doesn't see skepticism about Peloton as a sign of weakness. He expects it, and learns from it. He sees every challenge as an opportunity to improve.

### **[THEME MUSIC]**

**SAFIAN:** I'm Bob Safian, and I'm here with John Foley, the CEO of Peloton. John, thanks for joining us.

**FOLEY:** I'm super excited. Thanks for having me, Bob.

**SAFIAN:** So you were on Masters of Scale classic with Reid Hoffman last year. Thanks for a return appearance, especially this week as we're commemorating the 100th episode of Reid's show. Your episode was one of the team's favorites. What did being on that show mean for you? Did you learn anything new about yourself in the process? See your own story in a new way?

**FOLEY:** Well, it's funny, Bob. I'm glad you're asking me because I probably wasn't able to fanboy over Reid as much as I would liked to. I've always looked up to Reid in lots of ways, as one of the great leaders of tech and one of the great human beings, and so it was just a personal joy for me to be in his orbit on his show. So it was a very special thing, and I'm very happy to be back. Thank you, Bob.

**SAFIAN:** Well, in that episode, Reid talked with you about converting skeptics as you grew the business, and you sort of face a new version of that at this moment. The pandemic provided a big boost for Peloton, but recently there's been some wariness about post-pandemic trajectory. How do you think about the skeptics today? Was the enthusiasm of 2020 deserved? Is the wariness of 2021 deserved? What should people understand about Peloton right now?

**FOLEY:** I guess our resilience. And to your point, Bob, that this battling through the objections and proving the naysayers wrong has been in our DNA since the first time I pitched the business to an investor back in 2012. It's wild. A lot of people think it's a rocket ship. And I said, "Yeah, obviously the pandemic created a great tailwind for us." And I do think that fitness is broadly moving into the home as a secular trend that's here to stay.

But there's also been incredible headwinds that, coming out of the pandemic, the skeptics are saying, "Oh, it was a pandemic story." Well, clearly it's not, but there's a lot of shade being thrown on us for this.

And slight missteps through operating like... We call it Adgate, where our TV commercial at one point didn't hit the right balance, and there was a lot of mockery and all kinds of stuff. It just makes us feel like we're in a hurricane every day operating Peloton, but it's what we've been doing. It's what the operators and the co-founders and now the executive team enjoy. We like challenges. We like to prove people wrong. We have more fire in our belly today than we ever have, and so that's life at Peloton.

**SAFIAN:** And it doesn't sound like it surprises you. This is just sort of what you expect.

**FOLEY:** Absolutely. I mean, certainly on the investor... Whenever the investors or the analysts are doubting, it's like, "Well, of course they're going to. That's what they've done for 10 years." There's a term you probably know, "show, don't tell." There's another investor, a guy named Michael Carmen up at Wellington in Boston. He'd always say, "John, you worry about the E. I'll worry about the P." And so we're just worried about earnings versus the price of the stocks. And so we worry about what we can control, and the rest will fall in place.

**SAFIAN:** So last spring, the Consumer Product Safety Commission, CPSC, issued a warning about your Tread+ treadmill that led to a recall. When did you first realize that this surprise was coming?

**FOLEY:** Yeah, when we first learned of a tragic incident involving a child with the Tread+, it was a real wake-up call. It's a horrible situation. We were incredibly empathetic and sympathetic. And what happened in those days, Bob, is we realized collectively, that Peloton is an innovator in all things fitness. Since we brought the first bike into market, we had shot to meet the bar of safety in the category. And certainly, our Tread+ did. It met every safety standard that the category had.

And at the moment when this instant happened, we said, "Wow, we need to be better than the industry. We are better than this. We can innovate on safety as well as experiences." And that was kind of the a-ha moment, and so we quickly worked with the CPSC. We did the recall. We got our Tread back on the market. We believe the Tread, the lower-price Tread, is now one of the safest products in the entire category with hardware features, software features, and even content safety features where the instructors remind you to take out the key.

But it was a real moment. But again, along the journey of building Peloton, these challenges come, and we rise to meet them.

**SAFIAN:** As you describe the situation and you think about the product development, the dealing with the regulators, are there lessons that you've drawn from this for the future, that maybe some of the other entrepreneurs listening here can draw from?

**FOLEY:** Yeah. Well, certainly: work directly with the government agencies is something that's critical. We, I don't want to say tried to go it alone, but we're a direct-to-consumer business, as you know Bob, so I have a direct relationship with our members. And so I wanted to solve it myself with the community and with my team. And for a couple weeks, we got on the wrong side of the line with the CPSC because our instinct was to just fix the situation. And I think the learning looking back was more quickly getting in lockstep with the regulators.

But it was a rocky couple of weeks. As soon as I heard about this incident, within hours, we sent an email to the entire community saying it had happened. And that's the type of action, engagement, and transparency that we have with our community. This one was just a little bit trickier.

**SAFIAN:** Right now, there's a huge focus on the global supply chain. You've been managing supply stresses from the outset of the pandemic, when demand for your bikes ballooned. You invested \$100 million in air freighting. You broke ground this summer on a new U.S. manufacturing facility in Ohio, the Peloton Output Park, which I understand you like to call POP. Is that right?

**FOLEY:** That is right. That's the term.

**SAFIAN:** Did you ever expect to become an expert in supply chains? Was that always part of what you thought your purview would be?

**FOLEY:** Well, it's funny, Bob. In the very early days, one of my moments of confidence was that I know manufacturing beyond what another software entrepreneur might, because I worked in manufacturing in Waco, Texas. It largely hasn't had much impact on our management of our supply chain or manufacturing at all. In fact, our team is way out in front of me. So it's not that my experience has helped build Peloton, but it did, in small ways, give me the confidence to say, "Okay, I've been in manufacturing. I get it. While other pure software entrepreneurs might be intimidated by it, I am not."

And we've debated this, Bob. Is software harder, or is hardware harder? And we go back and forth, because sometimes it's easier to make things and harder to write software platforms, and sometimes it's faster to write software platforms than to bring new physical products into the world. But they're both equally hard. And obviously, when you vertically integrate them and then layer on the media component, which is the third leg of the stool – actually you could say the fourth leg of the stool then is the community – and

this whole vertically-integrated cocktail of platforms that create the Peloton experiences in the home.

But luckily the beautiful thing about entrepreneurship, as you know, is that it's very self-selecting. The people who like dynamic startups, so to speak, are people who love challenges, and they show up to work for those challenges. They get energized by those challenges. So COVID, obviously, was a good year for Peloton in that we were able to welcome so many more people. The existing members that we had, we were able to provide them sanity and physical health, as well as a mental escape in a scary moment, but wow, there's a lot of challenges in landing the planes to your point, quite literally at one point.

**SAFIAN:** And the way you dealt with the supply chain issues a year ago, versus the way you're dealing with what the conditions are now, is it the same, or have you had to adjust again based on where things are right now? Or, are people just talking about it more now and you guys have been having to deal with it for a year and a half?

**FOLEY:** No, no, it's real. And we are certainly dealing with it like everybody. And I'll point out, Bob, that we deal with heavy industry and steel and commodities prices and trying to lock in enough steel to make enough bikes and enough treads, and the old world – I call it dirty manufacturing, where you're welding and grinding, and you're making bikes and treads.

We also make tablet computers akin to Apple. Every Peloton bike or Peloton tread has a touch screen with scores of microprocessors and speakers and LED screens and the like. So we're dealing with the global chip shortage. And so we're trying to lock in all the chips. There's, I think, close to 200 chips on a Peloton bike and on a Peloton tread. And so we have to deal with the old earthly manufacturing, as well as the clean room manufacturing. And so we're seeing those headwinds on both sides of the global supply chain shortage.

Another interesting thing, Bob, that you know well is just the movement of these materials and these bikes and treads around the globe in containers is also in crisis. And we've struggled, not just getting them through the Port of Los Angeles and the Port of Long Beach, but also getting them across the Pacific Ocean. And what used to be a \$5,000 container full of bikes coming over shot up to a \$25,000 container. And what that does to your cost of goods sold, and all the business implications of your margin. Luckily those \$25,000 containers are behind us. And our team has now secured contracts for much more reasonable shipping containers. But it's globally challenging. And the things you read in the paper are real.

**SAFIAN:** Yeah. You mentioned earlier that E versus P, that hits the E pretty hard when those things happen.

**FOLEY:** It can. Luckily, Bob, we don't have a hardware business model. Our business model is subscription digital content. So even if our hardware margin gets hit a little bit, we're able to make it up over time in the lifetime value of our customer.

**SAFIAN:** The POP Park, which I understand you're very excited about. Was the plan for that sparked from your experiences with the pandemic and the supply chain? Or was that always the plan that you wanted to do some manufacturing in the U.S.?

**FOLEY:** Yeah, I'm a proud American patriot. My dad went to the Naval Academy and fought in the Vietnam War. So it was a proud moment for me to go to Ohio and break ground with the governor and bring over 2,000 jobs to the Troy township in Ohio. That said, we also bought a manufacturer in Taiwan, and we have a second big contract manufacturer making bikes and treads in Taiwan as well. That's a critical part of our business and our future.

I think to your question, just having the optionality of onshore and offshore manufacturing is a little bit of a hedge of the geopolitical risk. You think about China and Taiwan right now, to have some hedge and less exposure to the island of Taiwan over the coming years will allow us to sleep better. But we're still going to have a great relationship with all our manufacturers in Taiwan, and we're going to probably have in the coming decade other manufacturers in other countries. And it's just part of running a global supply chain. It's smart, it's efficient, you have options.

**SAFIAN:** So you mentioned earlier all the different businesses that are part of Peloton, including being a media company, the volume of media that you're putting out has just exploded over the last year or so. You're basically streaming daily live TV, essentially from studios in New York and London. And now I understand you're doing classes in yoga and whatnot and classes in Spanish and German. What's the plan for the media side?

**FOLEY:** Yeah. Again, just like we have great supply chain people, Jon Adee, who is our Chief Supply Chain Officer, we also have a visionary world class leader of our content and our media business, Bob. Her name is Jen Cotter, and she is 100% responsible for all of this media you see. And it is a special part of Peloton. We are platform agnostic with our media. So we stream to our own bikes and our own treads, but we'll also stream to your television via any number of OTT devices. We'll stream to your phone, whether it's Android or iOS. We'll stream to your tablet. We'll stream to your phone, just on audio if you're outside going for a run and you want one of our instructors and our great music coaching you through your outdoor workout.

We also call it interactive media where it's a little bit like performance theater, where you're on the bike and the instructor might, through their interface see that Bob Safian, it's your 500th ride, and you're going to get a shout out. And, "Bob in Westchester,

everyone stand up and congratulate Bob in 3, 2, 1. Great stuff." And you're brought into the class in kind of a very engaging, interactive way that doesn't exist in the old world media platforms. Ours is integrated with our software, integrated with our hardware in some cases. And it's really special. And it's something that we're proud of.

**SAFIAN:** Before the break, we heard Peloton CEO John Foley talk about the safety recall of the company's Tread+ product and how supply chain challenges have impacted finances and operations.

We also learned how Peloton's vertical business model has kept the company thriving despite rising costs, based on the lifetime value of digital subscriptions.

Now John talks about Peloton's role in society, from *Dancing With The Stars* to Black Lives Matter, and what he calls "the third rail" in the membership community. He also talks about the New York tech scene versus Silicon Valley, and his aspirations to eventually go into public office. Ultimately, John says, "how" a company conducts itself matters more than any business metric, that caring has to come first.

Peloton has become part of pop culture. One of your instructors is on network TV, *Dancing With the Stars*, Cody Rigsby. I have a family member who's a big Peloton fan who wants to say, "Tell John, I love Leanne." But is this something you saw happening? Star making, culture making out of Peloton?

**FOLEY:** We did. We saw it from day one. And the instructors who joined us see it as clear as we do. They know that they are going to be a big global celebrity based on our growth and our platform. And they're ready for it. They're deserving of it. Robin Arzón, or Cody Rigsby, or Ally Love, or Alex Toussaint, or Leanne, or Ben. These people are incredibly magnanimous and inspiring human beings. And just meeting them and talking to them at a bar, Bob, you kind of get intimidated because they're just so larger than life and such powerful presences.

And I joke when I'm at work and Alex T, comes to my desk. I'm like, "I can't wait for him to leave because I'm so nervous when I'm around him." They're just incredible human beings. And obviously we're building the platform and in small ways coach them, and we give them tools to make great playlists and everything. But it's largely just the power of their own personalities and their own will to be fantastic instructors.

**SAFIAN:** Cultural pressures on CEOs have grown. You committed Peloton to contributing \$100 million over four years to fight racial injustice after George Floyd's murder, a plan that encompasses internal wage increases and mobility efforts and partnerships with nonprofits, as well as content like the "Breathe In Speak Out" series. I'm told you kind of mapped out this plan on your own and presented. Can you tell us how that happened? Were you at home just making notes?

**FOLEY:** Let me say that no one does anything individually. It's always a team effort, and I have a fantastic team around me. And it might have been a smaller group than usual over the weekend because I'm sensitive to calling people on their cell phone on the weekend. But there were lots of people involved that weekend.

To your question, Bob, I do have a lot of heart and time for this subject, which is making sure that the Peloton platform and the way we do things is having a positive impact more broadly than for our shareholders.

And I'll harken back to the business roundtable that you know Jamie Dimon is associated with where, I think it was 10 or 15 years ago, they decided that the role of corporate leaders wasn't just to line the pockets of shareholders anymore.

"No, wait a second. There's more to being an executive at a company. There's more people you're responsible for, your employees and your members and your communities and beyond and the environment and ESG." And we're going to be one of the companies that we think is going to be something that other companies can point to and say, "Peloton's doing it the right way."

And recently, we've been saying this term, Bob, is "how matters." And we do think "how matters." It's not profits at all cost and destroy the environment and not care about your communities. It's the opposite. It's how do you build something great in parallel to elevating all members of our communities and helping the environment.

**SAFIAN:** Sometimes these issues can, though, complicate your business when you're making choices about what things you're going to do in a different kind of way. I mean, I'm just thinking back even to SoulCycle facing a backlash because of connections to Donald Trump, that the CEO had to leave in the wake of that. How much do you worry about putting off some customers or potential customers by the decisions you're making about the how?

**FOLEY:** Yeah, that's a great question, Bob, and that is something we spend a lot of time on. We deeply do not want to politicize our brand. You're absolutely right. We want everyone in any political walk of life to feel like Peloton is a place for them.

And I'll remind you, I grew up in Texas and in Florida. I went to high school in the Florida Keys, and then I worked in Waco, Texas. And I was born in Houston, and I went to Georgia Tech. Right now I live in New York City, so I deeply understand the Northeastern elite liberalness. Not that I'm one of them, but I understand that. But I also understand the Waco conservative. And I've got a lot of love for both of those people.

And at Peloton, we're trying to make sure that we are a platform that everybody gets on and feels like that there's something for them. But you're right, with the social justice



stuff, we made the decision that certainly Black lives matter, and the systemic racism that we've seen in the States for decades and decades is not a political issue. That is a social issue that I believe every Republican and Democrat with a heart can appreciate.

So in the same way we celebrate Pride Month, and we don't think that gay rights is a political issue. Beyond that, there are some situations, to your question, Bob, where it starts to get a little more gray, and we are issue-by-issue, day-by-day trying to walk the right line.

**SAFIAN:** Yeah. I heard that you've gotten emails from some members of the Peloton community who are in law enforcement complaining about lyrics in some of the songs played during the classes, that those lyrics may not have been as supportive of law enforcement. How do you deal with that level of scrutiny?

**FOLEY:** Yeah. I mean, there's an NWA song, "F Tha Police" from 30 years ago that I think a lot of people know if you're in that hip hop world. And, obviously, that's really hurtful if you're in law enforcement, and you're a man or woman in blue, as they say. You might think that we shouldn't have that song on our platform, and I get it.

That said, trying to suppress creative freedoms of musicians and of our instructors if they wanted to play that, it's also tricky to say, "Okay, what gets censored when you're talking about the arts?" So you're right, Bob. You're right on the third rail where some of this stuff happens and where these decisions get made.

But where I've gotten comfortable with is trying to figure out how we can be transparent. Because when you're in the middle of a class, and all of a sudden, a really offensive song that just doesn't feel good to maybe your mother, who is on the bike. I don't know why I'm picking mothers. But my mother does not listen to hardcore hip hop, let's just go there. And she doesn't want that in her Peloton workout.

And I get that, and we do get emails of, "Hey, I heard this terrible song," or the words in it where we're trying to get comfortable with this. Transparency for our riders and our runners and our members broadly, is if you're going to hear a song with a particular message or a particular language, we want to make sure that you elected into that, that you're comfortable with that, that you know it's going to happen. You know this instructor's going to play that type of music. You know whatever messages might be there. As much transparency as possible is what we would shoot for in that situation, Bob.

**SAFIAN:** What's at stake for Peloton right now?

**FOLEY:** Well, to your point about our history of people not believing, we're still on that trajectory. We still have a lot of shade being thrown at us because people don't understand us.

But we see that what's at stake is the health of the nations that we operate in and the nations that we aspire to go into. Last quarter, we talked about 2.3 million subscribers, but that translated into close to 6 million members because you and your wife, Bob, might be both riding the Peloton bike or the Peloton tread.

6 million people that we're touching their lives, and they're living better, healthier lives because of Peloton. What's at stake is taking that to 60 million, and then eventually to 600 million, where more and more people are getting fit, and they're looking forward to working out in the morning, through the entertainment and the engagement and the inspiration that takes place on our platforms.

We, just this summer, launched Australia, and the market reception in Australia is probably our best market reception yet. And so, the Australian communities are saying, "Wow, yes, we want the Peloton bike. We want the Peloton tread. We want the yoga. We want the Pilates. We want the strength training and all that."

So what's at stake is we see our responsibility, one, as impacting the lives of our members, people who are paying for a subscription to Peloton. And then, two, we do think that the media company, we do like the idea that we can be a place where you can meet people.

And you can learn things, and you can expand the way you think beyond what other media companies are. And coming out of the Fairness Act of 1987 when media companies can just give you one voice from one side of the aisle. And I think that's largely unhealthy beyond fitness, we do think that over time, over the next 10 to 20 years, we will have an uplifting and integrating and more bringing communities together through understanding and through shared experiences. We think it's important and it's just one of the things we do, and it gets us out of bed in the morning.

**SAFIAN:** You've expressed a lot of heart for the New York tech corridor, for entrepreneurship in New York. I'm curious how the scene in New York is different than in Silicon Valley in your perspective, and what you think it's going to take to get New York to be on the trajectory it could be?

**FOLEY:** I think we're there, Bob. I read something that there were more tech startups in New York City last year than in Silicon Valley. One of the reasons why I'm proud to be a New Yorker is just the people and the energy and the pride of New York that we all have. And I think if we just continue doing what New Yorkers do, we are going to be out in front of the Valley over time. I think it's a better place to live, and we have just as sexy of

technology companies and just as great software engineering roles. And you can live in New York City, where it's multi-faceted, and you've got the arts and culture and food and diversity and all the things that I think young folks care about these days.

**SAFIAN:** You and I talked a while ago about your own potential political aspirations. Has your perspective on that shifted at all, given the state of the world and of politics and going into public office being so fractured and so fraught?

**FOLEY:** It hasn't changed much, Bob. It is fractured and fraught, and a lot of our great leaders aren't going into politics. And I do struggle, back to the fact that I'm a Texan and Floridian, and I spent 10 years in California in Los Angeles where I met my wife, and my mom's from Iowa where I spent my summers, and my dad went to the Naval academy and fought in the war. And I think I'm as much of an American as anyone I know, and I'm also a moderate. So I do struggle with the polarization, the nastiness on the far left and the far right. And it's not good for America. I also spend time in China and Taiwan, and there's drawbacks to the planned economy of China. Obviously, I'm not saying we should become that type of state. But I do struggle with the efficiency of the U.S. government when it's become so polarized.

I think we need more leadership that's pragmatic and not polarizing and reaches across the aisle. And the leadership of yesteryear that I romanticize, the great, great leaders that are consensus builders and bridge builders and bring everyone along. And it's not about the rich or the poor, the left or the right, or the gay or the straight, or the men or women, north and south. It's about America, and it's America first. And I do care a lot about it.

Obviously, I'm focused on running Peloton at this point. But in the coming years, I do hope that I'm able to serve the country in some meaningful way. And who knows where that will take us or take me, but I do want to give back.

**SAFIAN:** You mentioned the great consensus builders. There's an irony that the motivation and the leaders who are talking about consensus today seem to come from the business world, and the government leaders seem to be okay with driving us to the edges.

**FOLEY:** I think society, all of us, need to figure out how to be better as a country because it's not great right now, and it's headed in a worse way on both sides, and America is suffering.

**SAFIAN:** And as a business leader, you can have impact over your community and over your workforce and your outreach. But you don't have the same kind of reach or leverage or influence that you would have if you were in government?

**FOLEY:** I'm not sure, Bob. That's a good question, and I debate that with my friends about how I spend my days on earth is, "If Peloton becomes big enough and you lock arms with the Jamie Dimons and the Marc Benioffs and the other leaders who care, who are moderate, and want to make a difference, maybe the path forward is through business." And I don't know, it would be unique and unusual because I think historically governments have been able to have more impact on more people. But you're right. In some small cases over the last five years in areas where the governments are failing us, business is stepping in, and you're seeing green shoots of success. So who knows?

**SAFIAN:** Well, this has been a terrific discussion, as always, John.

**FOLEY:** It's always a pleasure, Bob. I will always make time for you and for Reid, two of my favorite people. So thanks for what you do.