



MEMO

TO: SoulCycle Chief Technology Officer
FROM: Kiersten Gonzalez
DATE: April 10, 2017
RE: Technology & Innovation Analysis

Executive Summary

SoulCycle is an indoor cycling studio that was co-founded by Julie Rice and Elizabeth Cutler in 2005. What started in New York as a single studio with a mission to serve as a sanctuary, foster community, and inspire “souls” has exploded into a multi-million dollar chain with a “cult” of loyal customers across 74 studios. The company sees about 17,000 riders a day and currently is focusing on expansion in new markets. This luxury business has paved the way for the “boutique fitness industry” to compete in serving a niche market of customers who will buy into a brand. With competition quickly expanding into uncharted markets, and innovative technologies persuading customers to forgo cycling studios for an “in-home” experience, SoulCycle will need to consider innovative strategies to engage and retain customers while keeping up with market trends.

This memo will analyze the SoulCycle brand, operations, and market to identify areas for technological and innovative growth to sustain future operation and maintain competitive advantage.

Studio Operations

Upon walking into a studio (most likely in a prime commercial area) riders are greeted by staff in yellow tees, immaculate white facilities, with a grapefruit candle aroma. Every studio is designed to be almost identical with a front facing desk canvased by a Polaroid photo collage bearing the SoulCycle signage. Each facility has one studio with 60 bikes and hosts classes anywhere from 5- 11 classes a day depending on the weekday and location. Riders can sign up for the 45-minute spin class online, upon walk-in, or often add themselves to a waitlist. Class reservations for the week open online every Monday at noon. 30% of bikes are booked at this time and remain available to book up until 30 minutes before class. Bikes can only be reserved once a class has been purchased and added into the rider's account.

Product and Pricing

While many factors set apart SoulCycle from other fitness studios, their "no- membership" approach is by far one of the most differentiating. Instead, the spinning chain follows a "class-by-class" pricing model ranging from \$30-\$34 per bike. Prices vary by region and are non transferrable amongst studios. There are also class pack options that range from 5, 10, 20, 30 classes and may knock the per class price, but only by a few dollars. In addition to the bike reservation, SoulCycle sells Smart water for \$2, rents cycling shoes for \$3, or offers soul-branded ones for \$150. While many initial reactions scoff at the astronomical prices, so-called SoulCycle regulars often remark, "it's cheaper than therapy".

The Studio

The sound proof studio typically has no more than two doors which staff members close at the beginning of each cycling session. The lights are dimmed and often off while four candles flicker near the instructor podium. All sixty bikes are numbered and fairly close together-- designed for riders to learn to synch with each other and the beat of the music. The room creates a space where riders can focus on themselves and feed off the energy of others to form a "collective whole" rather than competition. Outside of the cycling room, the facilities include: a community locker room to keep personal belongings and a rest room with showers, toilettes, and a towel service. These amenities make it easy for people to get their work out in and move on quickly to their day of jobs, school, etc. or hang around a little longer to refresh and reset.

Check-in Process

Once a bike has been booked, the check-in period begins 30 minutes before the class begins. Every rider must complete a physical waiver form upon their first ride, and initial next to their bike number each time thereafter to confirm their attendance. Anyone who fail's to manually sign off for their bike four minutes *before* class are subject to loosing their reservation to any one on the waitlist.

Late and Cancellation Policy

A late policy is set in place to secure the bikes for those who cannot make the four minute cut-off as long as the following steps are taken 1) calling the studio and confirming attendance 2) making it to class before 10 minutes after. The late policy allows for riders to enter the room up until 10 minutes after the class has begun. Anything after that window is

considered too dangerous due to level of intensity of the class. Many of the times, the staff will allow you to rebook your reservation if you missed the 10-minute window frame.

As mentioned earlier, reservations for the week begin Monday at noon and every rider has until 5pm the day before their reservation to cancel or switch out of a class. There are no same day cancellations or switches into other classes. Failing to make the 5pm cancellation period may result in a loss of the entire reservation. With such a policy in place, there's even more motivation to get to your class (if loosing \$30 in the first place wasn't enough).

Retail Collection

SoulCycle is not only in the business of luxury, but hospitality. Every studio sells high end retail (including Nike and Lulu-lemon brands), cycling shoes, includes amenity filled showers, and offers complimentary earplugs, gum, and even hair ties. From an outsider, the cycling studio often appears to bystanders as a retail store. This is due mainly to the updated monthly collections of soul-branded athletic retail the business displays upon entrance. The founders initially incorporated retail because they wanted people to walk around wearing and talking about the brand. According to the IPO Filings of 2015: \$18m of the company's \$112m worth of revenue came from purchases other than studio fees. The retail business sees 20-30% growth year over year and in 2016 sales were bigger than growth of ridership. Between SoulCycle's well-established Vice President of retail Bob Colquhoun (former Urban Outfitters, Abercrombie & Fitch), collaborations with brands like Target, and artists like Gregory Siff, the company is determined to capitalize on the new athleisure market.

Target Market

"Pack. Tribe. Cult"—these are often the words branded by the company to describe their ridership. SoulCycle prices are non-attainable by the average family household income. Their pricing model supports their aim to attract a niche market of customers who seek (and can afford the luxury of) exclusivity, a spiritual experience, and a non-competitive judge free zone. People who often prioritize these values tend to have disposable income, work in high stress positions (doctors, nurses), decisions making roles (CEO's, attorney's) are high profile (celebrities, TV or public figures) and even long hours (consultants, accountants). It's no surprise that individuals ranging from Michelle Obama to Khloe Kardashian are seen leaving SoulCycle studios. High profile and public figures are not paid to promote the brand, rather seek sanctuary provided by the class. While a large customer base consists of millennial women (aged 20s to mid 30s), there are also men and senior customers who have become loyal to the brand. SoulCycle's mission to seek collectiveness rather than competition is the primary reason a membership isn't needed to define a sense of belonging. The SoulCycle culture attracts riders for the sense of community and "pack mentality" that keeps people coming back.

Corporate Strategy

Acquisition

In 2011, the global fitness brand Equinox bought a majority stake in SoulCycle. This strategic acquisition was a step towards helping SoulCycle expansion into different markets although the company continues to operate separately as a stand-alone market. Earlier in 2016, the company bought out the owners Rice and Cutler for \$90 million each, and SoulCycle now operates as a subsidiary of the fitness brand. Equinox now holds a 97% stake in the company, as the two founders are now pursuing other project but serve as members of the board. The two companies have a similar brand image, both are considered to be higher quality and have an “exclusivity” component to them. There is synergy between the two companies, selling more than just fitness but rather a lifestyle. Equinox is known for the experience it creates for its members, as told by its tag line: “it’s not just fitness, it’s life.” The fitness club provides a fitness experience at a luxury location, but with a premium price.

IPO Filing

In early 2015, SoulCycle filed for a \$100 million IPO with the SEC. Figure 2 (appendix) breaks down SoulCycle’s profitable growth expense from 2012-2014. The company never went public and claimed that the stock market was too volatile to make the decision. As of 2016, the company sat at a \$900 million valuation. The company continues to be privately owned with no updated financial statements. Given the company’s growth trajectory, its studios must be capital efficient and reach profitability quickly. Per the company’s S-1: “we target an investment of approximately \$2.3 million per studio, annual revenue in the year of maturity of approximately \$3.5 million, Studio Contribution Margin in the year of maturity of approximately 46% and payback periods of approximately two years.”

Growth and Expansion

SoulCycle continues to experience domestic growth and has begun to enter the international scene. In 2016 the company expanded its domestic markets into Texas and Philadelphia, as well as opening more studios within existing markets. 95% of this revenue is generated from the metropolitan areas such as Los Angeles, San Francisco, and New York (see Figure 3). The first international studio was opened in Toronto, Canada and will open the second in Vancouver. This first transition into an international market was a direct result of the Equinox acquisition due to the company’s existing operations in Toronto, Yorkville, and Vancouver. As the company continues to scale, one the largest challenges the organization will face is staying to its hyper-successful class experience and loyal customers.

Competition

SoulCycle is known to be the trailblazer in the boutique fitness industry when it comes to cycling. Now multiple cycling chains exist such as Flywheel, Cycle House, Cycle Bar, Zengo Cycle and many more. In addition to independent cycling studios, many fitness studios and gyms that provide cycling membership pose competition to the chain as well. In home technologies such as the Peloton are “cutting edge indoor bikes” designed with touchscreens for customers to stream indoor cycling classes from the comfort of their own

homes. In an article comparing the two brands, riders note that SoulCycle has a “less efficient check-in compared with Flywheel”. While each company maintains their own unique value proposition and provide different cycling experiences, SoulCycle should be concerned only where operations can be improved.

Technology and Innovation

SoulCycle introduced an app for their riders on April 13, 2015. The app was designed so that accessing user accounts and signing up for bikes could be more accessible. The app introduced the following new features that did not exist on the desktop:

- Prioritize and reorder your bookmarks for quicker sign-ups.
- Share classes you are taking via text message with friends.
- Save classes to your personal calendar with one simple click.
- Optional built-in push notification to you let you know when sign-ups are 10 minutes away!

Making a move to provide a user-friendly interface may have been another result of recent acquisition with Equinox. In Fall 2013, Equinox developed a multi-year technology transformation roadmap focused on elevating the member experience. Thanks to health and fitness apps and the explosion of wearable technology, the technological evolution is fundamentally changing the way individuals approach their health and fitness goals. In 2013 Equinox made a major redesign to their website to enhance functionality to members, created an app for members to curate and personalize their workouts in and outside of the club, and revamped their Customer-Relationship Management (CRM) applications utilized by the front line through iPads.

After 10 years, SoulCycle decided to retire their original bike model developed with the Villency Design Group and renovate the next one. Their new bike is designed to be lighter, more adjustable to personal settings and essentially rust free. These new machines will be rolled out to studios in phases, beginning in Canada, their newest market.

(See Following page for Recommendations)

Recommendations

SoulCycle's competitive advantage remains being the trailblazer in the boutique fitness cycling industry while maintaining the integrity of the brand through brand loyalty. With more competitors entering the industry, the best way for SoulCycle to retain rider's brand loyalty is by introducing a system to minimize operational blocks that may strain staff from providing utmost hospitality and integrate a process to better improve the SoulCycle check-in system. Like Equinox in 2013, I believe that SoulCycle should better improve their CRM to improve studio operations and enhance rider check-in efficiency.

❖ Digital Check-In System

SoulCycle made the initial effort to improve customer engagement with the company by providing an app to make bike reservations easier. Two years later, the company has seen enormous growth in existing markets and while a lot of energy is focused on expanding in new markets, I believe that an improvement should also be made within existing operations going forward. A digital check-in scanner should be integrated into the app features as well as the front-lines desk routine. The implementation of this operation is two-fold.

Rider Check-in efficiency

Currently the physical pen and paper sign in sheet poses a hassle for riders who typically want an "in-and-out" experience. Many times riders try to avoid the lines at the desk and end up forgetting to sign in, only to find out their bike has been given away. Another set back from the physical sign in sheet is the four-minute window before class to claim a reservation. Many times when riders are late, they are in a situation where they are frazzled, forget to call the studio, and walk in to find that their bike was released. This situation occurs all too often and many times the front desk staff has to deal with the wrath of upset or disappointed customers.

Front Desk Check-In Efficiency

The current use of hard copy sign-in sheets and waiver forms become a tedious task from the back end as much as it is inefficient from the customer perspective. The staff is required to reconcile, or add up, the number of riders who physically signed in, were first-timers, and those who did not show. Those in the room assisting with bike set up often find riders moving to what appears to be "open bikes". Many times the staff has to run to and from the desk to get an updated check on what bikes are open and what bikes are claimed. This is because the room map printed at the beginning of the check-in is often not up to date with the changes made at the desk by the start of the class.

The sign in sheets, sales log, room map, and waitlist are all printed at each check-in. By the end of each check-in everything must be input manually into the computer system and then scanned to a file. This process typically takes up most of the period between preparing for the next class. Many times there are inaccuracies of rider counts based on who might actually be on a bike in the room. These estimates are sent to corporate HQ in a daily wrap up each night.

Although there are many preventative measures riders can take I propose that SoulCycle incorporates a technology aspect that improves operations for the front lines and riders.

- Introduce a scanner code to the app that allows riders the option to check in from one of four scanner codes that can be placed at the front desk. This allows regulars and brand loyalists to surpass crowded lines, secure their bike and return to the desk to retrieve shoes/water later if they wish.
- Optional built-in push notification that allows you to place your bike on hold as the 4-minute late window approaches. For riders who are in a rush, caught in traffic, or are finding parking, this feature would allow them to forgo a studio call and secure their bike from release via the app.
- Revamp the SoulCycle CRM application that allows the front desk to conduct digital check-in, provide an updating room map, and integrate the use of iPads at the desk and studio floor. This would allow for staff on the studio floor and at the desk to have an accurate count of what bikes are reserved, and can in turn make last minute bike switches for riders.



Figure 1: See appendix

To implement a digital check-in system I propose that Mindstream Media (the company who led Equinox digital revamp in 2013), work with SoulCycle’s Chief Technology Officer to create a comprehensive and efficient digital check-in strategy to improve studio operations as well as customer engagement and retention. Implementing a process like this truly puts customer satisfaction first. This proposal directly impacts the company’s relationship with brand loyalists by providing an improved system to secure their bikes, or move to a desire bike for the preferred SoulCycle experience. One concern about a digital check-in approach might be the fear of less person-to-person interaction. As a response I step aside and ask SoulCycle executives to observe the digital system that Equinox implemented that improved their customer relations and engagement.

Technology is not only the future of companies, but it is becoming their competitor as well. In 2013, Fast Company voted SoulCycle as the World’s Top 10 Most Innovative Companies in fitness. As new and innovative technologies persuade cyclists to forgo the in-studio experience, and newer studios begin to enter the market, SoulCycle will have to eventually adapt and expand their technological efforts to engage and retain their loyal riders.

Figure 1: I have created a mock up of what a digital scanning feature would look like. This mock up was created using my own gym membership scanner code for demonstration purposes.

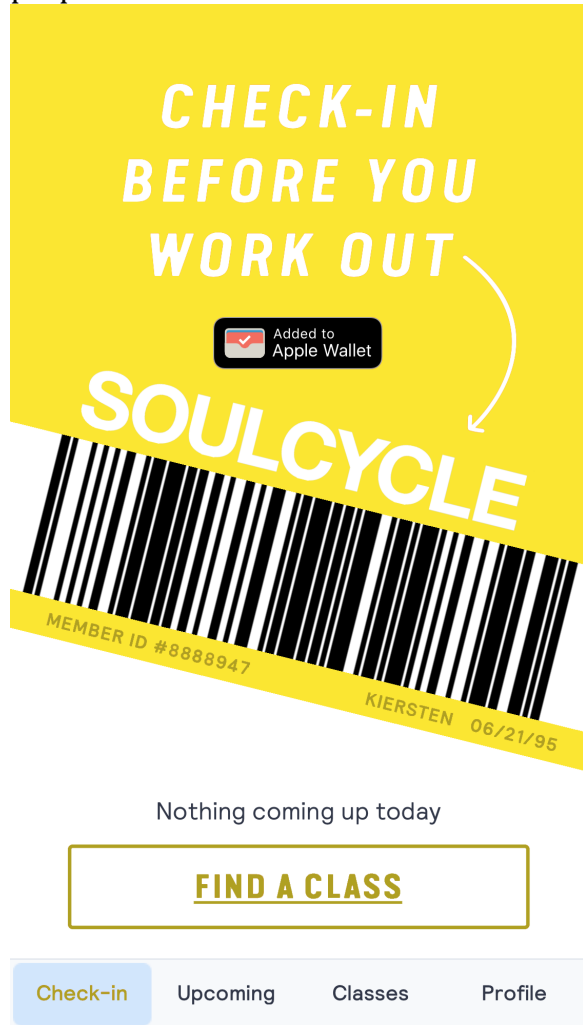


Figure 2: Revenue has grown over 200% from 2012 to 2014, from \$36.2million to \$112 million.

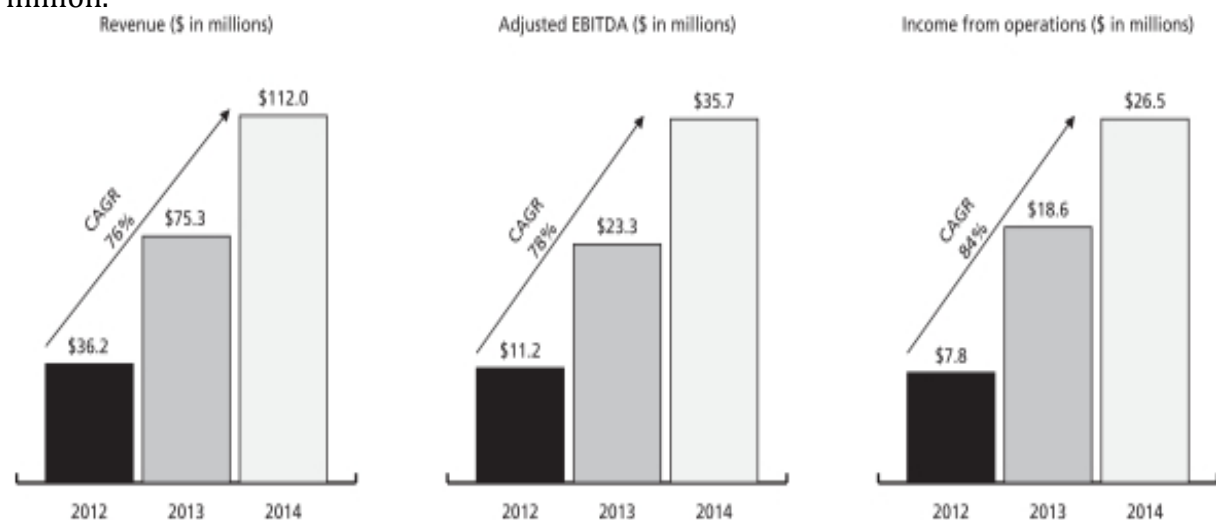


Figure 3: From 2012-2014, on average studio income accounted for 83% of revenue, operating expenses remained 76% of expenses, and net income has been a stable 22% of revenues.

	For the three months ended March 31,		For the year ended December 31,		
	2015 (unaudited)	2014	2014	2013	2012
Revenue:					
Studio fees	85.5%	84.5%	83.8%	83.3%	85.2%
Other revenue	14.5	15.5	16.2	16.7	14.8
Total revenue	100.0	100.0	100.0	100.0	100.0
Expenses:					
Compensation and related	36.7	38.8	37.7	37.5	41.4
General and administrative	17.7	17.5	18.6	19.9	20.4
Rent and occupancy	9.2	7.7	8.1	8.0	7.8
Depreciation and amortization	6.9	6.1	6.2	4.4	3.2
Retail cost of sales	4.9	4.9	5.8	5.5	5.5
Total operating expenses, net	75.4	75.0	76.3	75.3	78.3
Income from operations	24.6	25.0	23.7	24.7	21.7
Interest expense, net	0.2	0.3	0.3	0.2	0.0
Income before income taxes	24.4	24.7	23.4	24.5	21.7
Provision for income taxes	1.1	0.8	0.8	0.8	0.6
Net income	23.3%	23.9%	22.6%	23.7%	21.1%

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