FitBit: Guardians of Data and Providers of Wellness

- Privatization and security of user data and China-oriented strategy to pave the way to become a service provider.

Introduction

Privacy & Security

Asian Growth

Corp. Wellness

Conclusion

Big Data comes with Big Responsibility

- Massive incoming data
- Opportunity to surpass our competitors in the pursuit of data privacy and security.

Data Privacy & Security Concerns

Privacy concerns
- Legal
  - Country specific and changing legal environment

Security concerns
- Data Theft
  - Insufficient protection

- Societal
  - Different approach to importance of Health-data privacy

How are we implementing and communicating differentiating Privacy and Security measures?

How to sustain growth in the Asia-Pacific Market?

How to leverage our competences in the move to becoming a service provider?
**Introduction**

**Privacy & Security**

**Asian Growth**

**Corp. Wellness**

**Conclusion**

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**LEGAL: Privacy concerns**

- Key features
  - Limited privacy laws and regulations
  - Fragmented laws

- Adaption on voluntary basis
- Difficult to maintain privacy & data control

**Need for high Privacy standard to comply with EU regulations**

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**SOCIETAL: Privacy concerns**

**Consumers are more concerned with health privacy in the EU than USA**

**Amount consumers would pay to protect their data**

- Public concern with health data protection is LOW
- Public concern with health data protection is HIGH

**Source: Harvard Business review**

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**Key Takeaway**

**Focus Privacy protection plan on Europe**

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**Addressing Consumer Privacy Concerns in EU**

**Deploying the CATE approach**

**“The success of providers to develop new services and products using big data is linked to their capacity to build and maintain consumer trust”** [European Commission]

1. **Control**
   - Customer in control of their data

2. **Accessibility**
   - Customer access to stored and used data

3. **Transparency**
   - how & what the data is used

4. **Educating**
   - Easy to understand policies
**Control:** The customer decides
Deploying the CATE approach towards trust

1. **Non Data Collection default**
   - No data will be tracked or stored by default

2. **Customer privacy Selection menu**
   - Choice options of which data should be tracked
   - Choice of selected parties that are allowed to view the data

3. **Right to be forgotten**
   - Customer can at any time decide to delete track records and modify initial choices

   Source: AUCDD wearables report

**Accessibility:** the customer receives
Deploying the CATE approach towards trust

**Provide Access**
Give the customer the opportunity to download all collected data...

- ...at any time.
- ...in comprehensible fashion (Excel, PDF).

**Transparency:** the customer knows
Deploying the CATE approach towards trust

**Fitness and Health data information**

1. **Full disclosure**
   - What data is collected?
   - How long is the data stored?

2. **Accessibility**
   - Who are the partners that customers can provide data access to?
   - How are these partners screened and selected?

   1. Full disclosure
   2. Accessibility

**Educating:** the customer understands
Deploying the CATE approach towards trust

- "I don't understand the privacy and security policies"
- "I never know what I agree to when I accept the privacy policies of companies"
- "I never read the privacy policies because they are so long and complicated"

**Customer complaints**

- New Policy description
  - Use simple and easy language
  - Clearly state key agreement terms
  - Give a summary of the legal Privacy Policy
**Data Privacy & Security Concerns**

<table>
<thead>
<tr>
<th>Privacy concerns</th>
<th>Security concerns</th>
</tr>
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<tr>
<td><strong>Legal</strong></td>
<td><strong>Data Theft</strong></td>
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<td><strong>Societal</strong></td>
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<tr>
<td>Different approach to importance of Health-data privacy</td>
<td></td>
</tr>
</tbody>
</table>

**Security concerns place our legitimacy and brand perception at risk**

**Concerns**

1. Interception and tampering by unwanted 3rd parties
2. Reliability and validity of data
3. Commercial or malicious purposes

**Consequences**

1. Reputational loss
2. Lawsuits in negligence
3. Compromised competitive stance

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**Aligning Fitbit organizational structure with mindfulness of security**

1. **Appointing Chief Information Security Officer (CISO)**
   - To send signal to the market of increased commitment to data security

2. **Information security team**
   - Dedicated IT task force to uphold control of Fitbit products and service security

3. **Monitoring new security measures & standards**
   - Periodically and update accordingly

**Implementing lock-down strategy to secure user data**

**Partner lock-down**

- Screen cloud computing services (BAA)
- Audit app-providers periodically and enforce measures

**Hardware lock-down**

- Randomization of Bluetooth identifier (LE)
- End-to-End Encryption and HTTPS

**Network lock down**

- Detecting Breaches of Data (IDS)
- Notifying customer of breach or loss of data
- Tracking file history and making this available
HOW DO WE COMMUNICATE THIS?

Marketing CATE to the consumer
Positioning Fitbit as more secure and private

Marketing campaign
- Website: promotion of new security & privacy standards
- Social media: produce an informational video
- POS: product representation and informational talks

Customer direct experience
- Customer can try the new privacy experience
- Can test the utility of the new Privacy platform (CATE)

3 Questions to Answer

1. How are we implementing and communicating differentiating Privacy and Security measures?

2. How to sustain growth in the Asia-Pacific Market?

3. How to leverage our competences in the move to becoming a service provider?

What market in Asia?
China – By Far Largest Market of Tracking Devices since 2015

Source: CCS Insight 2015
**Competitive Landscape in Chinese Fitness Tracker Market**

- Lifesense
- Xiaomi
- Oki
- Others (including Fitbit)

**Key Takeaway Market analysis**

"Pursue a **Focused Differentiation** Strategy in China"

**Competitive action towards **Focused Differentiation**

1. **Inability to compete** with Xiaomi on cost-leadership, in their home market.
2. **Excessive competition** and available substitutes in differentiation segment.
3. **Incongruence** of Chinese privacy and security laws to share big data and new company security and privacy stance.

**Targeting high-end customers in China**

**Affluent Chinese Households:**
- Market will triple by 2022
- Everyday users
- Revenue contribution to Fitbit

<table>
<thead>
<tr>
<th>Wealth held by segment</th>
<th>Affluent Households</th>
<th>3%</th>
<th>9%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td></td>
<td>35%</td>
<td>50%</td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Affluent Chinese Market: Customer Characteristics

| 1 | Less Price sensitive |
| 2 | More respondent to digital marketing (60%) |
| 3 | Require physical purchasing experience |
| 4 | Affinity for fashionable products and individual style |

## Key Takeaway from Customer Analysis

“Target **High-end** customer with **affinity for fashionable healthcare products**”

## Tapping into this lucrative market

- **Fitbit Creative Lab China**
- **Market tailored Product**
- **Digital Marketing Campaign**
- **Fashion and health experience**

## Establishing Fitbit Creative Lab-China

- Expanding **Creative-Lab initiative**
- Creating a **US based team** hiring **China-experts**
- **Gather intelligence** on design requirements
- **R&D collaboration**
**Introduction**

- Personalize Chinese Product line
  - Fitbit Creative Lab China
  - Market tailored Product

- Continuing high technical and quality standard
- Distinct Chinese product line
- Customizable bracelet

**Market product via Digital marketing campaign**

- Strategy
  - Establishing Brand recognition and creating value by targeted digital marketing campaign
  - Through a Fitbit Marketing Team specialized in the Asian market dynamics.

- Message
  - Wearing Fitbit needs to be a statement. You are part of a community that cares about its own well being without sacrificing your style and fashion aspiration.
  - Capturing the world-wide trend towards sport, healthy nutrition and individuality.

- Channel
  - Contracting local celebrities and trend-setters
  - Gaining support from fashion bloggers
  - Advertising on social media

**Key takeaway of Marketing Campaign**

- Buying a Fitbit is a statement: "I can be both healthy and stylish"
Flagship Stores

Selecting the most suitable location for FitBit Experience

GDP per Capita

Source: China Internet Watch

Opening “Fitbit fashion and health experience”

Stores in Hong Kong and Shenzhen

Goal:
• Increasing market presence and effective communicating values
• Higher control over customer relations
• Creation of brand value and recognition

• Flagship-stores in main shopping streets next to high-end fashion brands

Designing Fitbit fashion and health experience

Colors
Energetic music
Fashion

NYC Casual fashion store
Sport&Health TV Spots

Expansion Summary

Cost Estimation, $ millions

Expansion Budget, $ millions

Source: Fitbit 10-K Form 2016

Introduction
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Asian Growth
Corp. Wellness
Conclusion
Result of Expansion

Conquering a solid position in Chinese market
of fitness & activity trackers by 2020

Source: CCS Insight; Fitbit 10-K Form 2016

3 Questions to Answer

1. How are we implementing and communicating differentiating Privacy and Security measures?

2. How to sustain growth in the Asia-Pacific Market?

3. How to leverage our competences in the move to becoming a service provider?

Embracing trends of preventive healthcare through real-time medical advice

- Developing algorithm
- Real-time biometrics
- Advising customer

- Medical assistance that responds to readings.
- Using real-time data to detect & signal abnormalities
- “Your heart rate seems to be irregular. Visit a professional.”

- Using newly developed Privacy and security Plan as market advantage

Capitalizing on the trend of corporate wellness

- Healthcare spending for employers are rising
- Increased use of corporate wellness programs:
- 15% of this spending preventable (Knapper, 2017)

Application to Corporations

- Jobs with largely stressful tasks
- Financial advisers
- Truck drivers subject to regulations

Introduction Privacy & Security Asian Growth Corp. Wellness Conclusion
Leveraging strong privacy and security stance to approach the corporate wellness market as a health consultant.

Conclusion: Moving to being a service provider as a health consultant.

Recapping it all...

1. How to implement and communicate differentiating security/privacy measures?
   - GATE
   - Infusing importance of data management in Fitbit
   - Reconsider partner relations, and network and hardware features

2. How to sustain growth in the Asia-Pacific market?
   - Target Chinese high-end sport wearables market
   - Enter with aggressive digital marketing and store channels

3. How to leverage our competences in the move to becoming a service provider?
   - Developing preventive health competences
   - Leveraging our newly-legitimate position by approaching corporate wellness market
   - Moving to being a health consultancy

FitBit: Guardians of Data and Providers of Wellness

Privatization and security of user data and China-oriented strategy to pave the way to become a service provider.

Back-up Slides
Current Financial Analysis

Key Findings

- Revenue increase = 17%
- Increase in R&D = over 100%
- Increase in S&M = 50%
- No Long-Term Liabilities
- Major Cash Assets
- Positive Adjusted EBITDA
- Growth-Oriented Investments

- Net Loss = 102.7 million
- Low GPM = 39% (2015 – 49%)
- Inability to Bear Long-Term Debt
- Share Price Down by 62%
- Adjusted ROS = 1.5%
Current Financial Analysis

Underlying reasons of performance
• Failure of Fitbit Blaze
• Losing Market Share to Competitors
• Dramatic Increase in R&D
• “Stuck in the Middle”
• Very High Expectations
• Litigation Payments to Jawbone
• Operations Inefficiencies

Source: Fitbit 10-K Form 2016

Operations Analysis

Difficulties Keeping Customers Satisfied
• +++
• Secured Market Leadership
• New Registered Users = 42%
• Growth of Sales (units) = 4.4%
• Active Users = 46% (2015 – 58%)
• Paid Subscriptions (est.) ≤ 8%
• Short Period of Exploitation

Source: Fitbit 10-K Form 2016

Existing Retail Channels

Differentiation or Overdependence

Source: intelligence.slice.com

Mission Statement

Highlighting Key Values

• “Fitbit helps people lead healthier, more active lives by empowering them with data, inspiration, and guidance to reach their goals”

Source: Fitbit 10-K Form 2016
Risk Mitigation

<table>
<thead>
<tr>
<th>Risk</th>
<th>Degree</th>
<th>Measures to minimize/prevent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stagnation of sales</td>
<td>High</td>
<td>Chinese expansion</td>
</tr>
<tr>
<td>Unable to communicate the changes to customers</td>
<td>Medium-High</td>
<td>Marketing campaign</td>
</tr>
<tr>
<td>Redundancy of activity trackers</td>
<td>Medium</td>
<td>Corporate Wellness expansion</td>
</tr>
<tr>
<td>Unable to anticipate/satisfy consumer preferences</td>
<td>Medium</td>
<td>Hire external experts</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Medium-Low</td>
<td>Financial derivatives</td>
</tr>
<tr>
<td>Economic downturn effects</td>
<td>Low</td>
<td>Sales in luxury segment</td>
</tr>
</tbody>
</table>

Source: Fitbit 10-K Form 2016

Competitor Analysis

Ways to Excel in a Highly Competitive Environment

- Competitive Strengths:
  - Leading market position
  - Broad Product Mix
  - Broad Compatibility
  - Large, Growing Community

Product Line Comparison

Stuck in the middle

<table>
<thead>
<tr>
<th>Product</th>
<th>Functionality</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xiaomi Mi Band</td>
<td>-</td>
<td>From $24.99</td>
</tr>
<tr>
<td>Fitbit Zip</td>
<td>-</td>
<td>From $59.99</td>
</tr>
<tr>
<td>Fitbit One/Fitbit Flex 2</td>
<td>+/-</td>
<td>From $99.99</td>
</tr>
<tr>
<td>Fitbit Alta/Fitbit Charge</td>
<td>+</td>
<td>From $129.99</td>
</tr>
<tr>
<td>Samsung GearFit2</td>
<td>++</td>
<td>From $179.99</td>
</tr>
<tr>
<td>Fitbit Blaze</td>
<td>++</td>
<td>From $199.99</td>
</tr>
<tr>
<td>Fitbit Surge</td>
<td>++</td>
<td>From $249.99</td>
</tr>
<tr>
<td>Apple Watch</td>
<td>+++</td>
<td>From $269.99</td>
</tr>
</tbody>
</table>

Sources: fitbit.com; apple.com; samsung.cm

Product Functionality

Parameters Tracked

- Steps
- Calories Burned
- Distance Traveled
- Heart Rate
- Floors Climbed
- Sleep Duration/Quality
- Active Minutes
- GPS-Based Tracking (Surge):
  - Speed; Distance; Exercise Routes
- Weight; Body Fat; BMI (Aria)
- Caloric intake

Source: Fitbit 10-K Form 2016
Timeline

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Today</td>
<td>Information Security Team Created</td>
<td>Developing Technical Competencies</td>
</tr>
<tr>
<td>2017</td>
<td>Exploring the CATE approach</td>
<td>Target Companies with New Value Proposition</td>
</tr>
<tr>
<td>2018</td>
<td>Product Launch</td>
<td>* Partners Hardware Network</td>
</tr>
<tr>
<td>2019</td>
<td>English-&gt;Chinese</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>English-&gt;Japanese</td>
<td></td>
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</tbody>
</table>

Annual Health Spending Growth

*Sources: estimates differ from actual for the purposes of illustration. *2016 data from California Health Care Foundation. (NHRI).