The Fitbit Addiction: Will This Disruption Last?

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Fitbit Inc. disrupted the way people monitor exercise. With a successful IPO in 2015, Fitbit has become a market leader in the global wearables industry. However, competition is fierce and new entrants are bringing new ideas, products and technological advances to the wearables market. How can Fitbit increase customer engagement and avoid becoming a fad that is gone in a few years?

INTRODUCTION

It began in 2007 after James Park purchased a Nintendo Wii and was amazed by its sophisticated sensors and simple interface. James called Eric Friedman (a partner from a previous startup) and said, "I've got an idea" (Olsen, 2016) for a sophisticated pedometer. James and Eric went to Japan to study and survey how people used their exercise devices. At the time, pedometers and on-the-job exercising was common in Japan. Eric developed a prototype in 2008 and soon after they launched the Fitbit Tracker. Although the first website was awkward, the graphs and data it provided started to attract attention.

Fast forward to June 2015 and a successful IPO, and by mid-2016 Fitbit, Inc. is a market leader in the global wearables industry with a 29.5% market share on May 2016 (Rogers, May 2016). The wearables market grew 67% in the first quarter of 2016 (Bennett, 2016) and companies are eyeing the market as a new entry opportunity.

Fitbit Inc. disrupted the way people monitor exercise. It uses sensor technology to track movement and provide exercise, calorie, and sleep data (Hobbs, 2016). Clayton Christensen introduced the idea of disruptive innovation in 1995 when he described the term as being new innovations that create new markets by discovering new categories of customers (A.W. 2015). Using new available technology, Park and Friedman developed a new 'pedometer' with a product that was not overly expensive but was easy to use ((Lambert, 2014), thus delivering more suitable functionality (Christensen, et al, 2015). As the Fitbit products caught the attention of the everyday user and as the website, technology, and data analytics improved, Fitbit products caught on with consumers considered active users and performance users. Where does Fitbit go from here? Will Fitbit become the incumbent firm as new entrants bring new ideas, products and technological advances to the wearables market?

A big issue in the 'activity trackers' market is that the product gets boring quickly and after two or three months of use the customers put the product away because they have grown tired of the daily step count (Olsen, 2015). How can Fitbit avoid this pitfall? What should the company do to maintain customer interest? How can the company maintain the value of the "Fitbit" brand?

Another key question is what type of innovation is Fitbit causing and what might be the competitors' response? A strict following of Christensen, Raynor and McDonald's (2015) theory would argue that if it is a disruptive innovation then the incumbents will ignore it. If it is a sustaining innovation, then incumbents will react vigorously. If it is a reverse innovation or a cost innovation, then incumbents might also ignore it. How can an understanding of what type of innovation it created help Fitbit outthink its competitors and keep the concept from becoming boring or replaced? If competitors react vigorously, would proper branding also help?

Does Fitbit have a strong enough identity to allow it to compete in the marketplace? According to Aaker (1996), the brand identity model is what the organization wishes that the brand represents. It is a group of associations that the brand strategist aspires to create and maintain. Brand identity should help establish a relationship between the brand and the customer by generating a value proposition involving functional, emotional, or self-expressive benefits. The brand identity structure includes: the brand essence, the core identity, and the extended identity. The essence is the heart of the brand, or what the brand wants to be represented as in the consumer's minds. The core identity is the characteristics or associations that the majority of the consumers share in common. The extended identity is what the brand represents to different segments of consumers. If someone analyzes Fitbit's identity model will they be able to understand how Fitbit has positioned itself in the market?

Positioning is a particular target market's perception of the competitiveness of a company, brand or product. Positioning is based on perception, competitiveness, company, brand or product, and the target public. Positioning is not based on objective characteristics but on actual consumer perceptions. Therefore, in positioning we do not value the physical attributes of products, brands or companies, but how consumers perceive them. Positioning is about identifying the optimal place for a brand and its competitors in the target customer's mind in order to maximize the firm's potential benefit. A good positioning guides the marketing strategy by clarifying what is the brand, how it is different or similar to competitor brands, and why consumers should buy and use the brand (Keller, 1993). Does Fitbit have a solid positioning that will allow it to continue to compete in the marketplace?

COMPANY OPERATIONS

In 2007, Fitbit founders James Park and Eric Friedman revolutionized the way people achieve their health fitness goals through its wearable devices that combine software, services, data analytics, and motivational tools. Fitbit's mission is to "help people lead healthier, more active lives by empowering them with data, inspiration, and guidance to reach their goals" (10-K, 2015).

The company has developed some major competitive strengths (10-K, 2015). Fitbit focuses on a connected health and fitness platform offering products that are lightweight, durable, and easy to use. It incorporates industry standard technologies, such as Bluetooth, along with its proprietary technologies, such as PurePulse, to measure and analyze health and fitness metrics. Broad mobile compatibility and the open API allow users to sync Fitbit devices with computers and over 200 mobile devices. A broad marketing strategy encompasses 50,000 retail stores in 63 countries along with the online store at Fitbit.com. The connectivity of its devices allows Fitbit to stay in touch with users throughout the day by communicating advice, content, and data analysis.

Customers

Fitbit has identified 3 categories of users (10-K, 2016): 1) The everyday user wants to incorporate everyday activities, such as walking, into their lives. 2) Active users exercise on a regular basis through activities such as running, cardio workouts and sports and are most interested in tracking heart rate activities and exercise intensity. 3) Performance users engage in endurance activities such as distance

running and cycling. Personal improvement and competition is important and they track speed and distance along with heart rates and daily activities.

Fitness Devices

Fitbit products (10-K, 2015) track the following measures: steps, calories burned, distance traveled, heart rate, floors climbed, sleep duration & quality, and active minutes. The GPS capability provides information on speed, distance and exercise routes. The Aria scale is wi-fi connected and provides users measures on weight, body fat, and BMI. The FDA and state regulatory agencies regulate the scale as a medical device. Mobile apps provide a database of over 300,000 food items to allow users to track calorie intake. In addition, Fitbit connects to other apps such as MyFitnessPal, Nudge, and MdRevUp (Duffy, 2015).

Fitbit offers 6 wristband monitors, one clippable wireless tracker, 2 smart fitness watches, a Wi-Fi connected scale, and accessories. The variety of styles and price points has been developed to meet the needs of the 3 categories of users.

In addition to products, Fitbit provides additional services to customers. The online dashboard and mobile apps sync automatically with the Fitbit devices. Users are provided charts and graphs of their activities and data analysis of activities. Users are motivated through the use of virtual badges and social features such as leaderboards and challenges. The Fitbit Premium membership, which is an annual subscription, provides a 24/7 personal trainer to users and offers 12-week fitness programs. In March 2015, Fitbit acquired FitStar, a company specializing in video-based exercise experiences which can provide customized workouts for individual users.

Research and Development

The company believes its future is dependent on its ability to offer new products and features (10-K, 2015) in order to keep customers engaged. In 2015, $150 million was allocated to R&D, up from $27.9M in 2013. The global R&D team is comprised of a variety of engineers and mobile app developers.
As of December 2015, Fitbit had 128 issued patents and 151 pending patents. The company uses patents, copyrights, trademark laws, and contractual agreements to protect its intellectual property.

Suppliers

Fitbit relies solely on Flextronics as a primary contract manufacturer and as its manufacturer for a majority of its devices (10-K, 2015). Flextronics meets the design specifications, quality, and standards that are set by Fitbit. Fitbit has a one-year contract agreement with Flextronics that automatically renews each year for an additional year. Contract manufacturing facilities are in Asia. Component parts are purchased from approved suppliers worldwide. Third party fulfillment companies deliver products from worldwide locations, which provide Fitbit with greater inventory control and reduced shipping costs.

Sales and Marketing

Fitbit sells its product through 50,000 retail stores and in 63 countries (10-K, 2015). Retail companies include Best Buy, Costco, Macy's, Walmart, Dick's Sporting Goods, REI, Sport's Authority, AT&T, Sprint, and Verizon. Products are also sold through e-commerce company Amazon.com, at the Fitbit website (fitbit.com), and in April 2016 Fitbit and Alibaba of China signed an MOU (memorandum of understanding) entering into a strategic partnership in which Fitbit will sell products on Alibaba's online shopping mall Tmall.com. Tmall.com will feature Fitbit products on its May 18, 2016, Super Brand Day in which consumers are directly contacted through Tmall.com's portal and mobile app (Fitbit press release, 4/28/16).

Fitbit uses traditional advertising outlets (television, print magazines, and cinema) along with sponsorships, digital marketing, channel marketing, and athlete & celebrity endorsements. Advertising campaigns focus on building global brand awareness. The company also uses in-store point of purchase displays.

For the first time, Fitbit will be a sponsor for the BBC's Sports Relief Fund. The company will donate a percentage of sales from the ChargeHR, Flex, and Blaze devices (Hobbs, February 2016).

Fitbit is building its Corporate Wellness program in which Fitbit devices are provided to company employees. Employers purchase the devices at a quantity discount. Fitbit provides numerous services to companies to aid in the success of the wellness program: employee leaderboards, webinars, real-time group reporting, and employee insight into their progress in achieving program fitness goals. In 2015, less than 10% of Fitbit's revenue was derived from the Corporate Wellness program, however ABI research predicts over 13 million trackers will be used in corporate wellness program by 2018 (Farr, 2016). The corporate wellness industry in the US is expected to grow from $7.4 billion in 2014 to $10.4 billion in 2018 (Forbes.com, 2015). Obesity costs U.S. business $73.1 billion annually in medical expenses and lost productivity. Health care related expenses for morbidly obese employees are twice the cost of normal weight employees. About 80% of US employers encourage employees to be healthy through gym membership subsidies or activity challenges. In September 2015, Fitbit became compliant with the US Health Insurance Portability and Accountability Act (HIPPA) to curb fears about privacy and security of employees' health information.

Who are the companies using Fitbit devices in their corporate wellness programs? IBM has provided Fitbit devices to over 40,000 employees. Sixty-three percent of their employees continued to wear their Fitbit after the company challenge (reaching an average of 8,800 steps per day) was achieved. Appirio bought devices for over 400 employees and is able to save $280,000 from its annual health costs. BP America had 23,000 employees enroll in its corporate challenge and almost 2,000 achieved the 2 million steps within its one-year challenge. In its three-month challenge, 40% of Indiana University Health's 4,000 employees who accepted the challenge decreased their BMI. At Kimberly-Clark employees were challenged to take 10,000 steps per day and 47% of the participants increased their cardiovascular fitness and 50% lost weight (Farr, 2016). In September 2015, Target gave Fitbit Zips to over 300,000 employees as part of its wellness campaign. Target established a $1 million challenge fund that provides cash gifts to local wellness non-profits. Target employees on winning teams designate the organizations that funds will be given to (Todd, 2015). Tokyo Electron pays $11,800 per employee for health care costs and estimates that it would be paying $15,000 per employee without the Fitbit-focused wellness program. By February 2016, over 70 large US employers have purchased Fitbit devices for employees (Olsen, 2016).

To further its Corporate Wellness program, Fitbit held its first annual Captivate Summit in June 2016. The program discussed designing a corporate wellness program, employee engagement, and advancements in the digital health industry.

Finances (Fitbit press release 2/22/16; 10-K, 2015)

TABLE 1

FITBIT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except for per share amounts)

(unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2014	**2015**	**2014**	**2015**
Revenue	$370,184	$711,570	$745,433	$ 1,857,998
Cost of revenue	199,290	363,271	387,776	956,935
Gross profit	170,894	348,299	357,657	901,063
Operating expenses:				
Research and development	18,325	54,227	54,167	150,035
Sales and marketing	69,882	154,069	112,005	332,741
General and administrative	9,647	29,466	33,556	77,793
Change in contingent consideration	—	—	—	(7,704)
Total operating expenses	97,854	237,762	199,728	552,865
Operating income	73,040	110,537	157,929	348,198
Interest income (expense), net	(681)	43	(2,222)	(1,019)
Other expense, net	(8,212)	(101)	(15,934)	(59,230)
Income before income taxes	64,147	110,479	139,773	287,949
Income tax expense	24,907	46,314	7,996	112,272
Net income	$ 39,240	$ 64,165	$131,777	$ 175,677
Less: noncumulative dividends to preferred stockholders	(1,343)	—	(5,326)	(2,526)
Less: undistributed earnings attributable to participating securities	(29,358)	—	(98,103)	(59,133)
Net income attributable to common stockholders—basic	8,539	64,165	28,348	114,018
Add: undistributed earnings to dilutive participating securities	3,326	—	10,175	8,821
Net income attributable to common stockholders—diluted	$ 11,865	$ 64,165	$ 38,523	$ 122,839

TABLE 2

FITBIT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 195,626	$ 535,846
Marketable securities	—	128,632
Accounts receivable, net	238,859	469,260
Inventories	115,072	178,146
Prepaid expenses and other current assets	13,614	43,530
Total current assets	563,171	1,355,414
Property and equipment, net	26,435	44,501
Goodwill	—	22,157
Intangible assets, net	—	12,216
Deferred tax assets	42,001	83,020
Other assets	1,444	1,758
Total assets	$ 633,051	$ 1,519,066
Liabilities, Redeemable Convertible Preferred Stock, and Stockholders' Equity		
Current liabilities:		
Fitbit Force recall reserve	$ 22,476	$ 5,122
Accounts payable	195,666	260,842
Accrued liabilities	70,940	194,977
Deferred revenue	9,009	44,448
Income taxes payable	30,631	2,868
Long-term debt, current portion	132,589	—
Total current liabilities	461,311	508,257
Redeemable convertible preferred stock warrant liability	15,797	—
Other liabilities	12,867	29,358
Total liabilities	489,975	537,615
Redeemable convertible preferred stock	67,814	—
Stockholders' equity		
Common stock and additional paid-in capital	7,983	737,841
Accumulated other comprehensive income	37	691
Retained earnings	67,242	242,919
Total stockholders' equity	75,262	981,451
Total liabilities, redeemable convertible preferred stock, and stockholders' equity	$ 633,051	$ 1,519,066

(Fitbit.com)

At fiscal yearend 2015, Fitbit had sold 21.4 million devices and its 2015 revenue increased 149% from 2014. Total revenue for 2015 was $1.858 billion compared to $745 million in 2014. Revenues from the US market accounted for 74% of revenue; Europe/Middle East/Africa revenue was 11%; Asia/Pacifica was 10% of revenue; and Central/South America was 5% of revenue.

The company expects 2016 revenues to be between $2.4B and $2.5B with much of the increase coming from new products and geographic expansion. In the first quarter 2016, Fitbit successfully launched the Fitbit Blaze (fitness watch combining features of a smartwatch with a tracking device) and Fitbit Alta (customizable wristband for everyday users) selling 1 million units of each product (Fitbit press release 5/4/16).

TABLE 3
Competitor Comparison

	FITBIT	GARMIN	APPLE	GOOGLE	INDUSTRY
Employees	1,306	11,651	110,000	64,115	
Revenue	$2.03B	$2.86B	$227.54B	$77.99B	
Gross Margin	0.48	0.54	0.40	0.62	0.44
Operating Margin	0.13	0.19	0.29	0.26	0.05

(Yahoo Finance.com May 2016)

2016 and Beyond

In order to avoid the 'boring' factor, founder James Park said that customer engagement has higher "with new devices than with previous generations of products due to factors like more advanced sensors and general purpose features like caller ID" (Olsen, December 2015). What is Fitbit planning in 2016 and the future to maintain customer engagement?

When Fitbit introduced the new Alta it included new tracking and fashion features. For the fashion conscious, the Alta has interchangeable bands including leather and silver bangle. The tracker has a satin finish and stainless steel body. A gold finish will be released soon (Johnston, 2/11/16). The Alta band was developed by famed designer Tory Burch. CEO James Park remarks, "Fitbit Alta will turn heads as our most fashionable device yet. The attractive, versatile design of this new fitness tracker fits seamlessly into daily life – from the gym to the office, to a night out." Lucy Sheehan, EMEA Marketing Manager states, "We know if you bring health and fitness into your life, you have to feel good about it and the better you feel about it, the more likely you are to wear it and more [activity] you want to do. Bringing in the interchangeable strap and finding more ways to integrate Fitbit into everyday life is definitely the key strategy we now have. We want to create a shift in the wearables market; Alta has to be seen as beautiful and something that fits with our outfits – not just as a niche fitness accessory." (Hobbs, February 2016). Other Alta features include data that can be viewed in landscape or portrait mode; vibrating alarms; the ability to set a reminder to move; and call, text, and calendar notifications. A SmartTrack feature automatically recognizes and records continuous movement activities (Johnston, 2/11/16). In September 2016, Fitbit launched a Flex 2 and Charge HR 2 that offer a swim-proof feature, allowing Fitbit to compete at a higher level in the market.

The company continues to increase its R&D budget and in the future a great portion of these funds will be directed toward developing sensors that are more advanced than those currently used in its devices (Bercovici, April 2016).

COMPETITIVE ENVIRONMENT

The wearables market grew by 67% in the first quarter of 2016 and competition is fierce in this industry. About 19.7 million units were shipped in the first quarter 2016 which is up from 11.8 million units shipped in the first quarter 2015 (Bennett, 5/16/16). The smartwatch market grew 100.2% with a total of 3.2 million units shipped, which is up from the 1.6 million units shipped in the first quarter of 2015 (Seitz, 5/16/16). The first quarter 2015 recorded a 200% growth in the industry over the first quarter 2014 (forbes.com, 6/15/15).

In this fast-growing market who are the major competitors and how are they doing? In 2016 Fitbit remains the market leader of wearable fitness devices while Apple remains the market leader in smartwatches.

Fitbit shipped 4.8 million devices in the first quarter 2016, has about a 30% market share in the wearable devices segments and shipments grew 25.4% year over year. The Chinese firm, Xiaomi, has 22.8% market share. It shipped 3.7 million units the first quarter 2016-- growing 42%. Other start-ups in the wearable devices sector include Jawbone and Misfit (Olsen, February 2016) however many start-up are reporting job cuts or are shutting down operations. Industry reports also include the smartwatch sector of wearables. Apple shipped 1.5 million watches giving it a 46% market share in the smartwatch industry, but a 3rd place in market share in the wearables devices industry. Samsung shipped 700,000 smartwatches and Motorola shipped 400,000 units. Chinese based Huawei (specializing in children's smartwatches) shipped 200,000 units and has a 4.7% market share. Garmin shipped 100,000 smartwatches and has 3% market share in the smartwatch segment, and has a 5% market share in the wearable devices segment (Bennett, 5/16/16; Seitz, 5/16/16). Nokia may be re-entering the market with its plans to acquire Withings, a European company specializing in the connected health revolution business segment (Rogers, 5/17/16). Competitor, Jawbone, has file lawsuits against Fitbit alleging that Fitbit poached employees who took its intellectual property with them and that Fitbit is infringing on Jawbone's patent on how health-tracking apps take data from a wearable band (Forbes.com, June 2015). New competitor Samsung galaxy has just introduced a wearable device (not smartwatch) that pairs with their technology as well.

CONCLUSION

Industry experts suggest that Fitbit's Surge (its version of a smartwatch) is not nearly as advanced as Apple's smartwatch or Samsung's Gear. Adding additional watch-like features in an effort to increase customer engagement may pit Fitbit head-to-head with Apple (Olsen, February 2016 & December 2015). Is this what Fitbit wants to do? Is adding fashion to fitness enough to keep customers engaged? How can Fitbit increase customer engagement and avoid becoming a fad that is gone in a few years?

TEACHING NOTE

Case Summary

Fitbit was founded in 2007 by James Park and Eric Friedman when they combined current technology in sophisticated motion sensors in a simple interface, or wearable. The company attracted consumers, gained brand reputation, grew revenues and went public in 2015.

Today Fitbit offers a wide range of products. The Fitbit One is a clippable wireless tracker. They also offer 5 wearable wristband devices, and 2 smartwatches along with the Aria Wi-Fi connected scale and numerous accessories. What has really attracted customers to the Fitbit products is its online dashboard and data analytics. Devices track steps, heart rate, activities, calories burned, floors climbed, and other data. The data is easily accessible on Fitbit's Dashboard or mobile apps. Customers can obtain real-time feedback and earn virtual badges. Fitbit Premium provides customers with a 24/7 virtual personal trainer for a yearly subscription fee. In March 2015, Fitbit acquired FitStar, a company that provides interactive exercise experiences. Fitbit is increasing its presence in the corporate wellness sector and is working with over 70 companies by providing Fitbit devices to employees that the companies have purchased with a quantity discount as part of a corporate wellness program.

The wearable devices industry is very competitive, is growing, and is drawing new entrants. In 2016, Fitbit remains the market leader, but Chinese firm Xiaomi is growing quickly. Garmin, Jawbone, and Misfit are other major competitors in the wearable devices segment. Apple, Samsung, and BBK (A Chinese firm) are offering smartwatches with some health-related features.

In order to increase customer engagement, Fitbit has expanded into the Smartwatch segment and is offering fashionable alternatives to its basic wristband device. Will this be sufficient for Fitbit to continue to grow revenues, attract new customers, and keep from becoming a fad?

Suggestions For Using the Case

This case focuses on creating a new market through disruptive innovation, gaining customers for a new product, building brand awareness, and maintaining customer interest in the product. It would be appropriate for a Management, Strategic Management, or Marketing class. Students can apply disruptive innovation theory, brand identity model, and brand positioning to make recommendations for future courses of action.

Learning Objectives

1. Analyze company actions by applying the Disruptive Innovation theory.
2. Evaluate Fitbit's success in creating brand awareness and a customer market by analyzing Fitbit's brand identity model.
3. Propose recommendations for future courses of action that the company should take in order for Fitbit to maintain customer interest and its market leadership positioning.

Suggested Assignment Questions

1. Is Fitbit one of Christensen's types of innovation- cost, sustaining, or disruptive, why or why not? Conversely does it fit either of Schmidt's four types or Utterback's?
2. Explain what Fitbit's brand identity model looks like.
3. Has Fitbit successfully created a market that can last by positioning itself correctly?
4. Prepare a SWOT analysis. What are the ramifications of this analysis?
5. Prepare a Porter's Five Forces Analysis. What are your conclusions about the competitive environment?
6. What recommendation would you make to the co-founders of Fitbit? Analyze the recommendation by identifying an issue that it will address and providing pros and cons to the course of action.

Answers to question one: Is Fitbit a disruptive innovation?

Does Fitbit meet the criteria for Christen's Disruptive Innovation?

An innovation meets Christensen, Raynor and McDonald's (2015) first definition when an entrant provides an offering to lower end or less sophisticated consumers and then uses sustaining innovation to slowly improve quality to entice mainstream customers. A strict following of this first definition would conclude no- Fitbit's customers are not at the low end or unsophisticated.

Fitbit may fall into Christensen's et al (2015) second definition that the entrant targeted new customers and created a new market of wearable fitness technology. The difficulty is that this portion of his theory is not well developed. Christensen's only help is: "Put simply they (new entrants) find a way to turn non-consumers into consumers" (Christensen, et al, p 47). This gets the students into a gray area. There were no wearable activity trackers until Fitbit and its competitors. However, many people have worn wristbands of some type either jewelry for a cause (Livestrong etc.) that did not track fitness.

Does Fitbit fall into one of Schmidt's and Druehl's disruptors?

Schmidt and Druehl (2008) have a new market category but both subsets of their new market are low end. So, the answer is no- Fitbit does not meet their descriptions.

Does Fitbit fall into one of Utterback's and Acee's (2005) categories?

If Fitbit is a higher evolution of wrist band technology than it would fit into one of their last four categories specifically higher cost, higher traditional performance and higher ancillary performance than wrist bands.

Summary and Implications

Enterprising students could argue that Fitbit does not "fit" into any of Christensen's Utterback's or Schmidt's definitions. It is a sophisticated product aimed at a moderate to expensive portion of the market to middle and upper disposable income users. It created a new market of wearable fitness technology. It is not an evolution of a wristband nor a dumbed down version of a watch (many users wear both). It is a unique product aimed at a new and unique market. It did not "disrupt" any existing market. No firms closed and no jobs were lost – but both new firms and new jobs were created. The only disruption is the creation of a new desire or to Fitbit addicts a new need.

Fitbit does not fall into reverse innovation or cost innovations. While the concept was incubated with a trip to a foreign country, Japan is a developed country. Fitbit was not created by a MNC's LGT (local growth team), s spin-off, or a company from an emerging county with a product exported to developed countries.

According to the theory most incumbents would ignore the lower end customers (the first definition) or new markets (the second definition) and continue their success by focusing on their core competencies and their mainstream, profitable and existing customers with improved quality and innovations.

The authors argue that this will not be the case with Fitbit because their main competitors, Apple, Google, and others will quickly respond by adding fitness tracking to their existing products. Thus, they will probably use sustaining innovations and enter this new market created by Fitbit by including these applications to their existing products. Because competitors will compete with sustaining innovation the authors argue that the theory does not help with the subsequent strategy question - what will the competitors do and what should Fitbit do in anticipation? Fitbit must also use sustaining innovation to continue its momentum or branding. Fitbit does not easily fit into disruption theory and the theory is not helpful in answering what to do.

Answer to Question two. Explain what Fitbit's brand identity model looks like.

The brand identity model is what the organization wishes that the brand represents. It is a group of associations that the brand strategist aspires to create and maintain. Brand identity should help establish a relationship between the brand and the customer by generating a value proposition involving functional, emotional, or self-expressive benefits (Aaker, 1996).

The brand identity structure includes: the brand essence, the core identity, and the extended identity. The essence is the heart of the brand, or what the brand wants to be represented as in the consumer's minds. The core identity is the characteristics or associations that the majority of the consumers share in common. The extended identity is what the brand represents to different segments of consumers (Aaker, 1996).

An example of Fitbit's brand identity is:
Brand Essence – transformation
Core identity – health, fitness, fun and entertainment, value for money
Extended identity – empowerment, fun but competent, Fitbit logo and symbols
Value proposition –
Functional benefits – a value offering with quality and extras
Emotional benefits – creating a healthy lifestyle
Self-expressive benefits – individuality and empowerment (with challenges)
Relationship – transform people's lives

Answer to Question three. Has Fitbit successfully created a market that can last by positioning itself correctly?

Positioning is a particular target market's perception of the competitiveness of a company, brand or product. Positioning is based on perception, competitiveness, company, brand or product, and the target public. Positioning is not based on objective characteristics but on actual consumer perceptions. Therefore, in positioning we do not value the physical attributes of products, brands or companies, but how consumers perceive them (Keller, 1993).

Positioning is about identifying the optimal place for a brand and its competitors in the target customer's mind in order to maximize the firm's potential benefit. A good positioning guides the marketing strategy by clarifying what is the brand, how it is different or similar to competitor brands, and why consumers should buy and use the brand. The first step in positioning is to identify the target segment(s). It is important not to forget that positioning is a competitive or comparative perception. It is always shaped in relation to other products, companies or brands. In other words, positioning is dependent on the other offerings available to the consumer. Different publics can have different positionings. Consumers' perceptions and even the attributes which cause them to perceive products, companies and brands differently, may vary for different segments of consumers (Keller, 1993).

From a company perspective, they want to develop a positioning proposal. This allows them to decide how they want a particular target public to perceive their company, product or brand in terms of its competitiveness vis-à-vis all products that satisfy the same needs.

An example positioning proposal for Fitbit would be:
Fitbit empowers and inspires you to live a healthy and active lifestyle.

Answer to Question four. Prepare a SWOT analysis and discuss its implications

Strengths

Fitbit's innovative product has provided it first mover advantages and strong market share. Its product easily syncs with other devices, has found developed loyal customers in three athletic markets- casual users, athletes, serious athletes and in corporate wellness programs. The product has many ancillary

functions including: easy to use, lightweight, durable, GPS, some WI-FI connectivity. The company's financial ratios are very solid with good cash flow, debt to equity, and current assets to current liabilities.

Of these the most important strengths are: its first mover with large market share and its inroads into athletic and corporate wellness use.

Weaknesses

Fitbit has few weaknesses such as its reliance on a sole manufacturing facility in Asia.

Opportunities

More companies are offering wellness programs, there are many weight loss programs, and markets in Asia and other emerging economies have an increasing number of citizens interested in their health. New technologies are becoming available.

Threats

Fitbit's success has not gone unnoticed, consequently, the biggest threat will come from competitors. Smartwatch companies can easily add Fitbit type activities into their existing products. These include big, well established companies such as Apple and Goggle and others. Enterprising students will note that this is not the prediction of disruption theory.

Answer to Question five. Prepare a Porters Five Forces Analysis and its implications.

Power of suppliers

There is little competitive pressure from Fitbit's set of suppliers. Fitbit has a set of loyal suppliers and could find others.

Substitute products

There is little pressure from substitute products because this product has created new markets. The other forces below will be a greater concern to Fitbit. Could consider machines (ie treadmills) that track steps and calories, etc.

Buyers/Customers

Fitbit has developed a large market share of casual, moderate, and serious athletes and corporate wellness customers. They exert little pressure on Fitbit with respect to price. However, these consumers may be extremely fickle and will quickly abandon Fitbit for new devices that provide other ancillary services or new technology.

Competitors and High Probability of New Entrants

It is extremely likely that competitors have noticed the interest in wearable fitness technology and add these functions to smartphones or smart watches. Therefore, competition to retain these consumers will be intense in the future.

Implications

While three of these environmental forces add little competition to Fitbit it is the authors' argument that this will be a very competitive future environment.

Answer to question six - What recommendations would you make to the co-founders of Fitbit? Analyze the recommendations by identifying an issue that it will address and provide pros and cons to the course of action.

As one of the first movers Fitbit has some great strengths. It has created a new market of customers excited about wearable fitness technology. It has the internal resources to increase R&D and continue adding new services and technology. To stay competitive, it must continue a steady flow of new products and services in the future external environment as this environment will become very competitive. Therefore, Fitbit should add sustaining innovations to keep its customers.

To accomplish this Fitbit must continue to develop its "first order dynamic capabilities" which is the ability to change, adapt, and enhance its existing resource base (Karimi and Walter, 2016). These authors found that improving first order dynamic capabilities improved digital revenues in the newspaper industry. This capability led to increased ability to add non-core products in the future (Karimi and Walter, 2015). Applied to Fitbit these might include services enhancing corporate wellness or obesity.
As fast as digital technology has improved in other industries, Karimi and Walter (2015) also suggest the development of second order dynamic capabilities, which are the ability to make very fast changes to their products, processes, and strategy. If competitors add new features to their competing wearable technology, Fitbit must be able to respond very quickly and add similar or better products with a quicker product cycle than their adversaries.

Expansion into Asia countries and other developing economies.

Another strategy is to use branding to defend their existing product line while they increase their dynamic capabilities. Brand and product line extensions help a brand position to target different segments of consumers while still maintaining their brand identity.

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APPENDIX

APPENDIX 1
A Short Primer on
Disruptive, Cost, and Sustaining Innovations
And Refinements to Disruption Theory and The Resource Based View of the Firm

History

The term disruptive innovation grew from Bower and Christensen's 1995 article in the *Harvard Business Review* and has been widely used, researched and misused since. Christensen, Raynor, and McDonald (2015) added refinements and definitional distinctions in their 2015 article. These authors present two different definitions of disruptive innovation (Chrisentsen, Raynor, and McDonald, 2015).

Their first definition describes a market where the incumbents are focused on "their most demanding and profitable customers" by continually providing "sustaining innovations" that improve quality or amenities. They sometimes even exceed the needs of this segment while overlooking the less profitable consumers who might prefer lower end offerings. Then an entrant provides products or services to the neglected segments. As these entrants become successful and improve their quality they eventually move up the market and entice the incumbents' mainstream customers. When mainstream customers abandon the incumbents, then Christensen et al (2015) argue that "disruption" has occurred.

An example of this disruption occurred when Xerox targeted higher end and larger customers. When cheaper copiers were available, a new market of lower end users including smaller firms, home offices, libraries, and schools was created. These entrants' products eventually became more widespread and moved up the market.

Their second definition of disruption occurs when new entrants create new markets. As quality and amenities improve these entrants become more successful in their newly created markets.

The authors argue that disruption is a process not a point in time phenomena. They also suggest that disruptors sometimes create new business models (Christensen et al 2015).

Examples of changes that were not disruptive.

The authors (Christensen et al 2015) argue that Uber's success was not a disruptive innovation. Their position is based on two arguments. First UBER started in San Francisco competing with taxi companies who served that market well. Their entrance into the market was not aimed at low end or less sophisticated consumers. Therefore, it did not move from lower end to higher end users. In fact, their business model was better for mobile device users who could order a ride with a couple of clicks.

Similarly, the authors argue that Telsa is not a disrupter because its cars (except for the latest model) were aimed at high end sophisticated users (Christensen et al 2015).

Other non-disruptive examples were the addition of a fifth blade to razors, clearer TVs, or better mobile phones. They argue that these are examples of sustaining innovations (Christensen et al 2015).

Do these definitional distinctions matter? Are their Refinements Helpful?

Some readers may argue that these distinctions do not really matter, what happens is an industry is significantly changed. New innovations and products "disrupt" existing incumbents, change markets, destroy successful companies, and create lost jobs.

Christensen et al (2015) vigorously defend their definitions and argue that their precision has enabled empirical research and other insights. In this refinement to their theory they believe that disruption is a process that may happen relatively rapidly or take decades. Another refinement is that often the disruption is a different business model. They cite Apple's IPhone as an example because the different business model changed how consumers connected to the internet not with laptops but with their mobile devices.

A subsequent research insight is that incumbents are more successful using sustaining innovation where they easily defeat smaller entrants. Conversely, they are less successful in a fully disruptive

environment because they are too focused on their existing customers or do not want to cannibalize their existing products (Christensen eta al 2015).

Another refinement was added by Carlo, Gaski, Lyytinen and Rose (2014) who use the term disruptive information technology innovation. They examined the impact of adoption timing on innovation outcomes with software development organizations during a disruptive innovation cycle. Interestingly they found significant differences between the success of early and later adopters for base technologies, services provided, and processes adopted. However, they discovered that it is easier to "catch up" than in the past.

Criticisms of Disruptive theory

The theory has created significant research including criticism and criticism of the criticism. Jill Lepore (2014) began the debate by attempting to debunk the theory, questioned the use of case analysis, accused Christensen of handpicking cases that matched his "preconceptions", and criticized him for mislabeling the iPhone as a sustaining innovation. Other criticisms are that the theory is vague about the unit of analysis- is it the firm, the industry, or management (Weeks, 2015), its vague definitions where "if everything is disruptive then nothing is" (Gobble, 2015), and its current lack of predictive power without refinements (Utterback and Acee, 2005: Schmidt and Druehl, 2008: De Jong and van Dijk, 2015). The most objective overview was by Weeks (2015) who exposed the weaknesses in Lepore's attack, explained the gaps in the theory that have been completed, and argued that the definitions and unit of analysis need precision. Schmidt and Druehl's (2008) refinement has four different disruptions (see Appendix 2 for a summary). The first, sustaining innovation, agrees with Christensen and is high end encroachment where the new product aims at higher end customers. Second is Christensen's disruptive innovation where the attack is a low-end encroachment aimed first at the lower priced-lower end market. Third is their addition to the theory termed "new market development" where the entrance is at the low end or fringe market." They define this as a new market where the new product meets lower end customer needs. They divide this into two subsets – fringe market where the new product only incrementally meets low end customer needs and detached market where the product significantly adds customer value. Their fourth, and new addition to the theory, is "low end disruption" where the new product attacks at the low end of the market. Their example is discount stores relative to department stores.

Utterbeck and Acee (2005) propose eight different scenarios with high to low of cost, traditional performance, and ancillary performance (see Appendix 3 for their table). Their version includes these variables ending in more types of cases.

Disruptive and Reverse Innovation

A current phenomenon compared to disruptive innovation is reverse innovation or innovation from the bottom of the pyramid. Carlo et al (2014) argue that reverse innovation occurs when an entrant in an emerging economy develops a product or service that gains success in that market and then is "exported" back to developed countries. They describe this as "reverse innovation," "innovation form the bottom of the pyramid," or "cost innovation."

The entrant's challenge is how to serve a less affluent population in an emerging market. In addition, they add cost innovations to compete with the multinational corporations (MNCs) competing in their domestic markets (Corsi and Minin, 2014).

These authors also argue that this is not the same phenomena that occur when a MNC develops a product in a developing country and brings it back to developed countries. For this most MNCs use "spin-offs" or local growth teams (LGTs). The only difference is that in many of these situations the MNC targets the more affluent portions of the developing countries and ignores the less affluent where entrants using cost innovation can create products for their home and their foreign markets.

However, Corsi and Minin (2014) believe that while neither theory totally compasses the other, the two together provide useful insights if Christensen's definitions add geography as another variable connecting the two theories. The finish by hypothesizing that both phenomena will increase with decreased trade barriers and increased intellectual property protection.

Further Refinements- First and Second Order Dynamic Capabilities

Karimi and Walter (2015)'s exhaustive examination of the newspaper industry's digital disruption added the concepts of first and second order dynamic capabilities. They enhance the Resource Based View of the firm which visualizes firms as bundles of resources (Candy and Gordan, 2011). First order dynamic capabilities focus on "ordinary innovation" and "operational innovation" by increasing the ability of these to change, adapt, and extend their existing resources, processes, and technology (Karimi and Walter, 2015).

They found that in the newspaper industry's disruption, increases in first order dynamic capabilities provided higher revenues, improvements in digital platforms response to digital disruption, and increases in the number of non-core products (Karimi and Walter, 2015).

Their other refinement to Resource Based View is that firms should develop "second order dynamic capabilities" which are the ability to make quick responses to environment events (Karimi and Walter, 2015).

APPENDIX 2

Schmidt and Druehl's(2008) Mapping of the Type of Innovation to the Type of Disruption.

(Note: This is an exact replica of the authors' table for student analysis only.)

Type of Innovation	Type of Diffusion	Description	Example
Sustaining Innovation	High-end encroachment	The new product first encroaches on the high end of the existing market and then diffuses downward.	Pentium IV relative to Pentium III
Disruptive Innovation	Low-end encroachment	The new product first encroaches on the low end of the existing market and then diffuses upward.	
New-Market Disruption	Fringe-market low-end encroachment	Before encroachment begins, the new product opens up a fringe market (where customer needs are incrementally different from those of current low end customers).	5.25. inch drive relative to 8 inch drive
	Detached-market low end encroachment	Before encroachment begins, the new product opens up a detached market (where customer needs are dramatically different from those of current low-end customers).	Cell phone relative to land line.
Low-end disruption	Immediate low-end encroachment	Low-end encroachment begins immediately upon introduction of the new product	Discount relative to department stores

Source: Schmidt, G.M. and Druehl,C.T. (2008). When is a disruptive innovation disruptive? *Product Development and Innovation Management 25* 347-360.

APPENDIX 3

Utterback and Acee (2005). A map of possibilities of competitive advantage due to technological change.

(Note: this is an exact replica of the authors' table for student analysis only).

Cost	Traditional Performance	Ancillary Performance	Examples
Lower	Lower	Higher	Christensen case Hard disc drives
Lower	Higher	Higher	Compact disc/ vinyl album
Lower	Lower	Lower	Wafer board/plywood
Lower	Higher	Lower	Oriented strand board/plywood
Higher	Lower	Higher	Digital/film camera
Higher	Higher	Higher	Fuel injection/carburetor
Higher	Lower	Lower	Wartime substitutes
Higher	Higher	Lower	Electronic calculator/slide rule

Source: Utterback, J.M. and Acee, H.J. (2015). Is disruption theory wearing new clothes or just naked? Analyzing recent critiques of disruptive innovation theory. *Innovation 17* (4) 417-428. DOH: 10.1080/14479338.2015.1061896